Review of the Financial Plan of the City of New York

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I. Executive Summary

On January 29, 2013, Mayor Bloomberg released his executive budget for FY 2014 and the associated four-year financial plan ("the January Plan"). The January Plan (see Figure 1) reflects the City's failure to reach agreement with the United Federation of Teachers on a new teacher evaluation system, which may result in the loss of $250 million in State education aid and cuts in educational services. The January Plan also reflects the estimated cost of Superstorm Sandy.

Superstorm Sandy caused serious damage to public infrastructure, and hardship for thousands of New York City residents and businesses. The City estimates that storm preparations, emergency repairs, cleanup and damages totaled $4.5 billion. The federal government recently approved a $60 billion relief package for areas affected by Superstorm Sandy, and the January Plan assumes that federal funds will cover all of the costs incurred by the City.

While revenue collections have not yet shown any discernible impact from the storm, there was a sharp drop in employment in October and November 2012 (24,800 jobs), although all of the jobs were regained during the following two months. Since the economic recovery began in 2009, New York City has added jobs at a much faster pace than the nation and has gained 175 percent of the jobs lost during the recession.

Despite the strong job growth, the local economy remains an area of concern. More than three-quarters of the jobs created during the recovery have been in sectors, such as tourism, that pay less than the citywide average salary, and the unemployment rate remains stubbornly high at 9.1 percent. In addition, federal budget cuts will reduce the flow of federal funds into New York City, and the global economy still faces serious challenges.

Wall Street recently reported that its broker/dealer operations earned $23.9 billion in 2012, among the most profitable years on record. In addition, the Office of the State Comptroller estimates that the cash bonus pool for securities employees in New York City rose by 8 percent in 2012, driven in part by deferred compensation. Nevertheless, revised employment data indicate that job losses on Wall Street were greater than first reported. Over the past 17 months, the industry has lost 5,400 jobs, more than half of the jobs regained during the first half of the recovery. So far, the industry has regained only 15 percent of the jobs lost during recession, half the share previously reported.

The New York City real estate market continues to improve, especially for commercial and large residential properties such as apartment buildings, cooperatives and condominiums. The January Plan assumes that real property tax collections will be $2 billion higher during the financial plan period than forecast in June 2012.

In recent years, the City's capital program has benefited from historically low interest rates. In FY 2014, debt service is $480 million less than projected one year ago as a result of continued low interest rates. The Office of the State Comptroller estimates that the City has saved nearly $1.5 billion from debt refinancings since FY 2008.

The Governor's proposed budget benefits the City by $258 million in FY 2014 and by even larger amounts in subsequent years, mostly from increases in education aid. The additional education aid is contingent, just like last year, on the implementation of a new teacher evaluation system. The City's failure to reach agreement with the teachers' union by the January 2013 deadline may cost the City $250 million, but the loss of aid will depend on the outcome of litigation and the State budget process. The Governor has proposed legislation that would authorize the State Education Commissioner to develop a teacher evaluation system for the City to prevent the loss of future education aid if the City remains unable to reach agreement with the union.

The City developed a surplus of nearly $1 billion during FY 2013, mostly from a drawdown in reserves, another round of agency cost-reduction actions and marginally higher revenue forecasts. The City intends to transfer the surplus to FY 2014 to help balance that year's budget.

The January Plan shows a balanced budget for FY 2014 and out-year budget gaps of $2.4 billion in FY 2015 and $1.9 billion in each of fiscal years 2016 and 2017. Ordinarily, gaps of this magnitude would be manageable, but the City faces a number of significant budget risks, including federal budget cuts, further delays in the sale of taxi medallions and the potential cost of future labor agreements (see Figure 2).

All of the contracts with the City's major unions have expired. For many municipal employees, it is among the longest durations they have gone without a contract since the fiscal crisis of the 1970s. The January Plan assumes that municipal employees will not be compensated for wage freezes unilaterally imposed by the City during the recession, and that they will agree to annual wage increases of 1.25 percent during the current financial plan period, which is less than the projected inflation rate.

While nondiscretionary costs (e.g., debt service and fringe benefits) are projected to grow more slowly in FY 2014 than in recent years, these costs are still projected to consume a larger share (57 percent) of City fund revenues. Another concern is the City's heavy reliance on nonrecurring resources (including reserves built up during the previous economic expansion) to help balance the budget ($2.8 billion in FY 2013 and $3.2 billion in FY 2014), which will not further structural budget balance.

New York City has demonstrated its ability to manage the budget through crises, such as the Great Recession, but it will have less flexibility in the future because of the growth in nondiscretionary costs and because it has exhausted most of the reserves built up during the prior economic expansion, including those that were allocated to help fund the future cost of post-employment benefits other than pensions.

Figure 1
New York City Financial Plan
(in millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
REVENUES					
Taxes					
General Property Tax	$ 18,440	$ 19,356	$ 20,176	$ 21,105	$ 21,870
Other Taxes	24,793	25,368	26,639	27,773	29,015
Tax Audit Revenue	838	709	709	709	709
Subtotal: Taxes	$ 44,071	$ 45,433	$ 47,524	$ 49,587	$ 51,594
Miscellaneous Revenues	6,586	6,875	6,758	6,715	6,458
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,777)	(1,608)	(1,611)	(1,616)	(1,613)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 48,865	$ 50,685	$ 52,656	$ 54,671	$ 56,424
Other Categorical Grants	981	940	907	895	891
Inter-Fund Revenues	571	518	517	517	517
Federal Categorical Grants	8,655	6,543	6,361	6,349	6,346
State Categorical Grants	11,301	11,365	11,685	12,147	12,275
Total Revenues	**$ 70,373**	**$ 70,051**	**$ 72,126**	**$ 74,579**	**$ 76,453**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 22,031	$ 21,744	$ 21,902	$ 22,206	$ 22,533
Pensions	8,062	8,212	8,203	8,399	8,652
Fringe Benefits	8,500	8,765	9,400	10,111	10,796
Retiree Health Benefits Trust	(1,000)	(1,000)	- - -	- - -	- - -
Subtotal: Personal Service	$ 37,593	$ 37,721	$ 39,505	$ 40,716	$ 41,981
Other Than Personal Service					
Medical Assistance	$ 6,314	$ 6,366	$ 6,447	$ 6,415	$ 6,415
Public Assistance	1,274	1,275	1,273	1,273	1,279
All Other[1]	22,205	20,788	21,402	21,865	22,235
Subtotal: Other Than Personal Service	$ 29,793	$ 28,429	$ 29,122	$ 29,553	$ 29,929
General Obligation, Lease and TFA Debt Service[1,2]	$ 6,010	$ 6,325	$ 7,183	$ 7,502	$ 7,710
FY 2012 Budget Stabilization & Discretionary Transfers[1]	(2,431)	(31)	- - -	- - -	- - -
FY 2013 Budget Stabilization[2]	1,085	(1,085)	- - -	- - -	- - -
General Reserve	100	300	300	300	300
Subtotal	$ 72,150	$ 71,659	$ 76,110	$ 78,071	$ 79,920
Less: Intra – City Expenses	(1,777)	(1,608)	(1,611)	(1,616)	(1,613)
Total Expenditures	**$ 70,373**	**$ 70,051**	**$ 74,499**	**$ 76,455**	**$ 78,307**
Gap To Be Closed	**$ - - -**	**- - -**	**$ (2,373)**	**$ (1,876)**	**$ (1,854)**

Source: New York City Office of Management and Budget

[1] Fiscal Year 2012 Budget Stabilization and Discretionary Transfers total $2.462 billion, including GO of $1.340 billion, TFA of $879 million, lease debt service of $156 million, net equity contribution in bond refunding of $23 million and subsidies of $64 million.

[2] Fiscal Year 2013 Budget Stabilization totals $1.085 billion.

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

	Better/(Worse)				
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**	**FY 2017**
Surplus/(Gaps) per January Plan	**$ - - -**	**$ - - -**	**$ (2,373)**	**$ (1,876)**	**$ (1,854)**
Tax Revenue	100	- - -	- - -	- - -	- - -
Debt Service	100	- - -	- - -	- - -	- - -
Agency Actions	(59)	(137)	(125)	(125)	(125)
Taxi Medallion Sale	- - -	(600)	(497)	(363)	- - -
OSDC Risk Assessment	**141**	**(737)**	**(622)**	**(488)**	**(125)**
Remaining Gap to be Closed per OSDC[3]	**$ 141**	**$ (737)**	**$ (2,995)**	**$ (2,364)**	**$ (1,979)**
Additional Risks and Offsets[4]					
Wage Increases at the Projected Local Inflation Rate[5]	$ (14)	$ (82)	$ (194)	$ (336)	$ (513)
Federal Budget Reductions[6]	- - -	(300)	(200)	(200)	(200)

[3] The January Plan includes a general reserve of $100 million in FY 2013 and $300 million in each of fiscal years 2014 through 2017. 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.

[4] The January Plan also assumes that the 14 percent personal income tax surcharge (valued at more than $1 billion annually), which is scheduled to expire on December 31, 2014, will be extended as it has been every two to three years since it was enacted in 1991.

[5] 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 January 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 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.

[6] The City estimates that federal sequestration will reduce funding to the City's budget by about $200 million in federal fiscal year 2013, with most of the cuts concentrated in education and social services. Since the timing of the cuts is not yet known, our analysis assumes that sequestration will primarily affect FY 2014. These estimates also assume that cuts scheduled to take effect beginning in federal fiscal year 2014, primarily in discretionary spending, will reduce funding to the City by a similar amount. The City will have to decide whether to substitute City funds for any loss of federal funding to maintain services at existing levels or to permit a reduction in services. While Congress and the President may negotiate alternative actions, there is no assurance that those actions would have a smaller impact on the City's budget and economy.

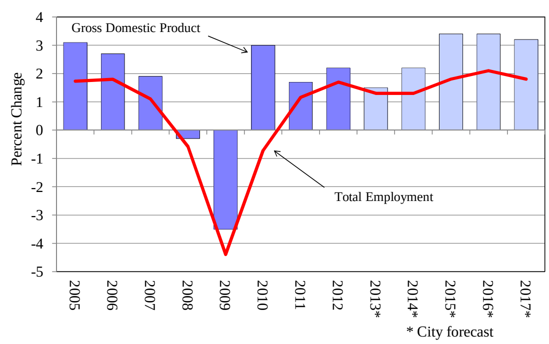
II. Economic Trends

National economic growth came to a virtual halt in the fourth quarter of 2012, in large part due to a sharp fall in defense spending, highlighting the vulnerability of the economy to reductions in government spending. Although the economy sidestepped the feared impact of the fiscal cliff (i.e., the automatic spending reductions and expiration of tax rates intended to reduce the federal budget deficit that were scheduled to take effect on January 1, 2013), the budget cuts were only delayed until March 1, 2013.

IHS Global Insight and other economists forecast that the federal budget cuts will reduce national economic growth. A slowdown at the national level will affect the City's economy. In addition, New York City residents will feel the effects of lower federal spending across a broad range of programs and services (including medical care, education and social services), some of which will also have an impact on the City's budget. The January Plan assumes that automatic spending cuts take effect on March 1, 2013, but that Congress will subsequently reach an agreement to reduce the federal budget deficit that averts severe spending cuts and sets a new debt ceiling.

Figure 3

Change in National Economic Growth



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

The national economy showed modest growth in 2012, although the pause in the fourth quarter held the annual increase in the Gross Domestic Product (GDP) to 2.2 percent. The January Plan assumes that GDP growth will slow to 1.5 percent in 2013 but then rise back to 2.2 percent in 2014 (see Figure 3). Growth is expected to slow in 2013 because the expiration of the temporary payroll tax cut will reduce consumers' disposable income and therefore their spending (consumer spending accounts for about two-thirds of economic activity).

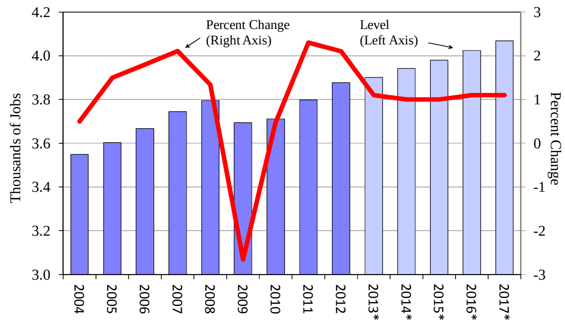
Since the end of the Great Recession, the nation has added 5.7 million jobs (a gain of 4.4 percent), recovering two-thirds of the jobs lost during the recession. The private sector has added 6.4 million jobs, but the government sector continues to contract, shedding 627,000 jobs. Despite some weaknesses this past summer, total employment grew by 1.4 percent in 2012, the largest increase since 2006 (see Figure 3). The January Plan projects that national employment will continue to grow modestly, by 1.3 percent in each of 2013 and 2014.

The City's economy grew at a strong rate in 2012, as job levels reached a record high, Wall Street profits rebounded, tourism remained strong, commercial real estate continued to improve and the residential housing market stabilized. The January Plan assumes that the City's economy will slow in 2013 in response to the national slowdown and a reduction in Wall Street profits, although tourism is expected to remain strong.

Overall, total employment in New York City rose by 2.1 percent in 2012 to a record 3.9 million jobs (see Figure 4). Since employment began to rise three years ago, it has grown at an average annual rate of 1.6 percent, which was slightly faster than at this point in the mid-2000s expansion. The City has now recovered more jobs (175 percent) than it lost during the recession, a much stronger recovery than for the nation, which has regained about two-thirds of the jobs it lost.

Figure 4

New York City Employment



*City forecast

Sources: NYS Department of Labor; NYC Office of Management and Budget

Job creation in the City, however, has been uneven. While employment declined between August 2008 and November 2009, some sectors (such as finance) had losses over a longer period of time while others had shorter periods of loss, or no losses at all (such as health care). Among the major sectors, finance has yet to recover all the jobs it lost, while manufacturing, construction and government have lost jobs during both the downturn and the recovery. The trade, information, business services, tourism-related and personal services sectors have all recovered more jobs than were lost in the recession.

This mix of job growth has also shifted toward lower-paying positions. More than three-quarters of the jobs created in the City were in sectors that paid less than the Citywide average, e.g., tourism-related industries (leisure and hospitality), retail trade, health care and personal services. Many of the higher-paying jobs that have been created were in business services. In the past three years, the average salary of the sectors in which jobs were created has averaged $62,310, compared to the Citywide average salary of $79,970. (During the recession, the average salary of sectors that lost jobs was higher than the Citywide average).

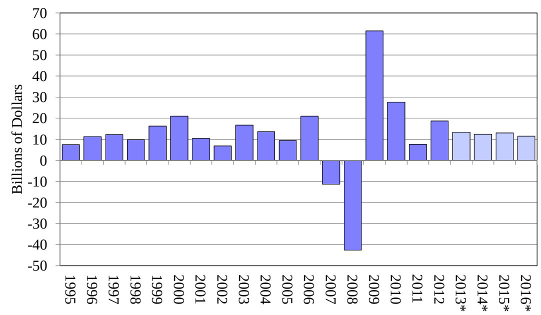
The January Plan assumes that the pace of job growth will slow to 1.1 percent in 2013 and then stay at about that rate during the remainder of the financial plan period. This pace of job creation would be slower than projected for the nation, as the City is expected to benefit less from a rebound in home construction and manufacturing than the rest of the nation. The projected slowdown in the pace of local job creation occurs across most sectors, but business services, tourism-related industries and health care

are still expected to provide more than two-thirds of the net job gains in 2013. While construction shows a return to growth, boosted by rebuilding efforts for Superstorm Sandy, manufacturing and transportation are expected to continue losing jobs.

Wall Street continues to restructure as it works through the fallout from the financial crisis and a new regulatory environment. Profits at the broker/dealer operations of New York Stock Exchange member firms (the industry's traditional measure of profitability) rebounded in 2012, with the firms reporting profits of $23.9 billion, three times larger than last year and higher than the $18.6 billion forecast in the January Plan. Although broker/dealer profits were strong in 2012, other banking activities were less profitable than last year, holding down the overall growth in industry profitability. The Office of the State Comptroller (OSC) estimates that Wall Street cash bonuses for the 2012 bonus season rose by 8 percent (consistent with the January Plan forecast of 5 percent growth), driven in part by bonuses deferred from prior years. In subsequent years, the January Plan assumes that profits will fall to $13.4 billion in 2013 as the industry continues to face a challenging economic and regulatory environment (see Figure 5).

Figure 5

Wall Street Profits



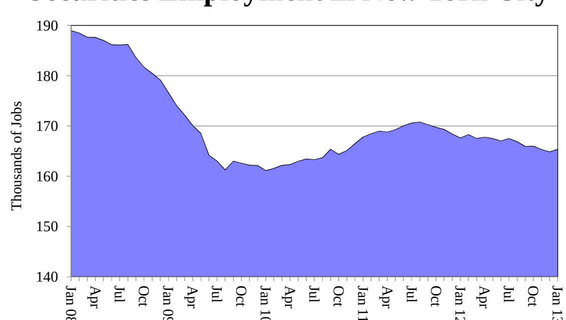
* City forecast

Sources: NYSE Euronext; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

Unlike in past recoveries, Wall Street has not been the driving force in the City's current recovery. The securities industry has accounted for only 1.3 percent of the jobs added in the past three years, only a small fraction of its average contribution at this point in the last two recoveries. After job gains during 2010 and the first half of 2011, employment in the securities industry in New York City began to decline. Over the past 17 months, the industry has lost 5,400 jobs as the industry resumed downsizing (see Figure 6). Overall, OSC estimates that the securities industry has recovered about 15 percent of the jobs it lost during the downturn. The January Plan assumes that Wall Street will shed 2,200 jobs in 2013.

Figure 6

Securities Employment in New York City



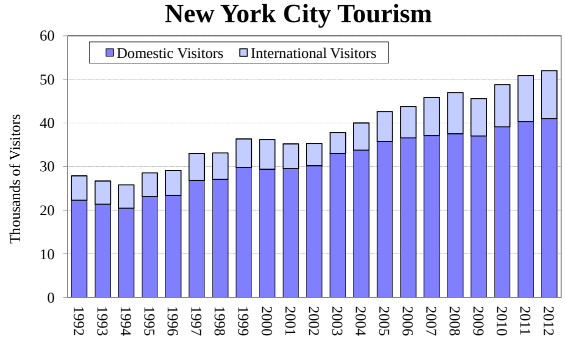
Note: Data have been seasonally adjusted.

Sources: NYS Department of Labor; OSC analysis

Tourism has been a strong component of the City's economy for the past several years, and continues to grow despite the impact of recessions in Europe and Superstorm Sandy (see Figure 7). NYC & Company, the City's tourism agency, estimated that in 2012 both the number of visitors (52 million) and their spending ($36.9 billion) reached record levels. Broadway also enjoyed a strong year for attendance (12.2 million) and record revenues ($1.2 billion). Meanwhile, the City's hotel occupancy rate rose to 87.9 percent (2.5 percentage points higher than in 2011), while the average daily room rate rose to $278.51 (less than $25 below the record high set in 2008).

Figure 7

New York City Tourism



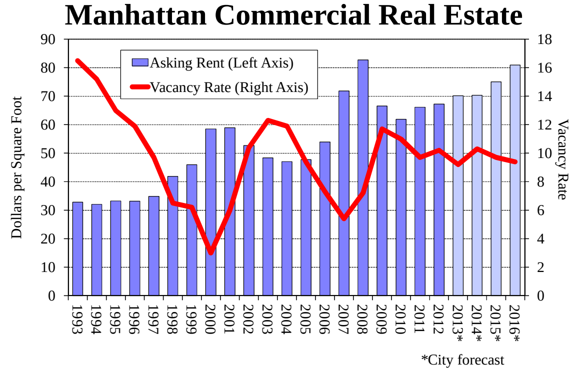
Note: Data for 2012 are preliminary.
Source: NYC & Company

The City's housing market appears to have stabilized. The Federal Housing Finance Agency's House Price Index shows that home prices in the New York City metropolitan area rose by 1.2 percent in the third quarter of 2012, after declining by 17.5 percent between the first quarter of 2007 and the second quarter of 2012. According to Douglas Elliman, a major real estate firm, the number of Manhattan apartment sales grew by 3.4 percent in 2012 to reach a five-year high. The median sales price fell, however, by 1.8 percent to $835,000, as falling mortgage rates have helped shift the composition of sales toward smaller, more affordable apartments.

The recovery in the City's commercial real estate market continues, helping to fuel growth in the City's property tax revenues. Cassidy Turley, another major real estate firm, reported that in December 2012, the vacancy rate in Manhattan's primary office market reached 9.8 percent, down slightly from one year earlier, while average asking rents rose by 7.9 percent to $69.18 per square foot. The January Plan assumes that the vacancy rate will fall to 9.2 percent in 2013, then rise to 10.3 percent in 2014 with the completion of more than 4 million square feet of office space in the World Trade Center, and then fall gradually through 2017 as that space is absorbed (see Figure 8). The average asking rent is expected to reach $70.16 per square foot in 2013 and continue to rise through 2017.

Figure 8

Manhattan Commercial Real Estate



Sources: Cushman & Wakefield; NYC Office of Management and Budget

III. Changes Since the June 2012 Plan

In June 2012, the City projected a balanced budget for FY 2013 and budget gaps of $2.5 billion in FY 2014 and about $3 billion in each of fiscal years 2015 and 2016. Since then, the City has revised its four-year financial plan twice to account for a delay in proceeds anticipated from the sale of additional taxi medallions; in addition, the City has proposed agency actions to mitigate the impact of the delayed sale and to help reduce the out-year budget gaps, drawn down reserves and recognized other revenue and expenditure changes (see Figure 9). As a result of these changes, the City now projects a surplus of $961 million in FY 2013, a balanced budget for FY 2014, and smaller out-year gaps ($2.4 billion in FY 2015 and $1.9 billion in FY 2016).

Legal challenges continue to delay the sale of 2,000 additional taxi medallions, which the June 2012 financial plan assumed would generate $1.5 billion over three years beginning in FY 2013. In November 2012, the City acknowledged that it would not realize any proceeds in the current fiscal year, and it proposed additional agency cost-reduction actions to mitigate the loss and help narrow the out-year budget gaps. The agency program, which has changed little since first proposed in November, is discussed in greater detail in Section IV, “The Agency Program.”

Revenues are forecast to be modestly higher during the financial plan period ($1.6 billion) than projected in June 2012, driven by higher estimates of real property tax collections ($1.8 billion) and taxes on real estate transactions ($200 million). The higher forecasts reflect the improving market for commercial real estate and large residential properties, such as apartment buildings, cooperatives and condominiums.

Health insurance premiums will rise much more slowly than previously forecast because the New York State Department of Financial Services (DFS) approved a 5.2 percent rate increase for the Health Insurance Plan of Greater New York for active employees, nearly half the size of the increase assumed in the June Plan (9.5 percent). The savings are mostly offset during the financial plan period, however, by an increase in pension contributions due to a shortfall in investment earnings in FY 2012.

The City’s capital plan has benefited from historically low interest rates. Low rates have generated savings from refinancing outstanding debt and from lower-than-expected interest rates on new debt issuances and variable rate debt. In total, the City realized debt service savings of $85 million in FY 2013 and $430 million in FY 2014.

The FY 2013 surplus ($961 million) results largely from savings in overestimating prior years’ expenses ($500 million) and a reduction in the general reserve ($200 million). The City will use the resources to help balance the FY 2014 budget.[7]

[7] The FY 2014 budget will benefit from $961 million in surplus resources that were generated during FY 2013 and another $124 million generated in FY 2012. These resources, which total nearly $1.1 billion, will be deposited in the City’s FY 2013 Budget Stabilization Account and used to help balance the FY 2014 budget.

Figure 9
Financial Plan Reconciliation–City Funds
January 2013 Plan vs. June 2012 Plan
(in millions)

	Better/(Worse)			
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
Gaps Per June 2012 Plan	**$ - - -**	**$ (2,508)**	**$ (3,117)**	**$ (3,070)**
Taxi Medallion Sale	**(635)**	**235**	**37**	**363**
Agency Actions	**510**	**770**	**508**	**521**
Drawdown of Reserves				
Prior Payables	500	- - -	- - -	- - -
General Reserve	200	- - -	- - -	- - -
Total	**700**	- - -	- - -	- - -
Revenue Reestimates				
Real Estate Transaction Taxes	145	67	21	(21)
Business Taxes	131	(111)	(54)	(79)
Real Property Tax	15	395	557	848
Personal Income Tax	12	(27)	(99)	(89)
Other Taxes	(3)	(14)	(40)	(77)
Audits	113	- - -	- - -	- - -
All Other	36	(54)	(29)	(40)
Total	**449**	**256**	**356**	**542**
Expenditure Reestimates				
Debt Service	85	430	16	(24)
Health Insurance	11	191	210	232
Pension Contributions	- - -	(98)	(197)	(295)
Uniformed Agencies	(72)	(113)	(88)	(87)
Homeless Services	(47)	(42)	(42)	(42)
Other	(40)	(82)	(56)	(16)
Total	**(63)**	**286**	**(157)**	**(232)**
Surplus/(Gap)	**961**	**(961)**	**$ (2,373)**	**$ (1,876)**
Surplus Roll	**(961)**	**961**	- - -	- - -
Gaps Per January Plan	**$ - - -**	**$ - - -**	**$ (2,373)**	**$ (1,876)**

Sources: NYC Office of Management and Budget; OSC analysis

IV. The Agency Program

The January Plan continues the agency program proposed by the Mayor in November with some minor adjustments. The program is expected to generate resources of $2.8 billion during the financial plan period, and would reduce planned staffing by 1,338 positions by the end of FY 2014 (see Figure 10). Most of the resources would come from actions that are not expected to affect services (e.g., cost reestimates, management initiatives and cost-shifts to other levels of government), but some initiatives would reduce services (e.g., cuts to mental health and school health programs) and raise fees.

Figure 10
Agency Program
(in millions)

	Positions	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Health and Social Services	499	$ 144.5	$ 142.8	$ 86.9	$ 104.4	$ 106.8
Dept. of Education	- - -	122.3	298.0	266.0	266.0	266.0
Uniformed Agencies						
Correction	393	28.1	41.4	16.4	16.6	16.9
Police	- - -	22.3	21.3	- - -	- - -	- - -
Fire	(24)	13.8	9.7	5.0	5.0	2.3
Sanitation	124	0.9	75.7	- - -	- - -	- - -
Transportation	147	25.5	45.4	30.0	26.3	26.3
Dept. of Information Tech.	21	18.4	23.4	9.9	7.8	7.8
Law	- - -	17.7	1.0	- - -	- - -	- - -
Dept. of Citywide Admin. Svcs.	75	17.1	16.6	2.7	2.7	2.7
Finance	- - -	16.7	19.1	20.1	21.2	21.7
Mayoralty	23	15.4	2.2	2.2	2.2	2.3
Fin. Information Svcs. Agency	- - -	11.3	2.2	1.8	1.8	1.8
Cultural Institutions	- - -	6.0	8.1	8.1	8.1	8.1
Libraries	- - -	4.1	16.7	16.7	16.7	16.7
All Other Agencies	80	46.3	46.6	42.7	42.0	41.9
Total	**1,338**	**$ 510.4**	**$ 770.2**	**$ 508.5**	**$ 520.8**	**$ 521.3**

Note: Excludes debt service savings.
Sources: NYC Office of Management and Budget; OSC analysis

The January Plan assumes that the Department of Education (DOE) will reduce planned spending by a total of $1.2 billion during the financial plan period. This represents 43 percent of the total value of the agency program, which is greater than the DOE's share of the City-funded budget. The majority of the savings are expected to come from reestimates of the cost of special education ($672 million) and from non-classroom efficiencies ($368 million). The DOE also intends to raise the price of school lunches by $1.00 for students whose families' incomes exceed 185 percent of the poverty level. Although not reflected in the agency program, the Mayor has recently proposed additional reductions in educational services to offset an expected loss in State education aid ($250 million annually) resulting from the City's failure to reach agreement with the teachers' union on a new teacher evaluation system.

Savings from agencies that provide health and social services would generate 21 percent of the total value of the agency program, or nearly $600 million. By our estimate, more than one-third of the resources would come from efficiencies, such as expanding the web-based application process for social services, which will eliminate the need for more than 1,000 employees by FY 2016. The City also intends to maximize federal reimbursements ($154 million), but some of these initiatives may be jeopardized by looming federal budget cuts. Proposed cuts ($92 million) to child care, mental hygiene and school health programs are in addition to those that were rescinded for FY 2013 but are still scheduled to go into effect in FY 2014.

Savings in the uniformed agencies would generate $276 million by FY 2017, but the proposed actions are not expected to affect basic municipal services. The Department of Correction would reduce planned spending by canceling the reopening of the Queens Detention Center Complex, eliminating funding for 100 vacant civilian positions and by revising inmate recreation and visitation schedules, an action that requires approval from the New York City Board of Correction. The Department of Sanitation has identified surplus funds in its waste export program, and savings due to delays in opening its marine transfer stations.

The agency program also includes some revenue-enhancement initiatives. The Department of Finance would generate about $100 million during the financial plan period by reviewing commercial and not-for-profit tax exemptions, and by increasing audit and collection efforts. The Department of Transportation would raise $64 million from new and increased parking and permit fees.

Our review of the January Plan has identified agency initiatives that may not achieve their targets because they have failed in the past or require outside approval that may not be forthcoming; these are valued at $59 million in FY 2013, $137 million in FY 2014 and $125 million in each subsequent year. For example, the City anticipates annual savings of $50 million in police overtime and additional federal Medicaid reimbursement for special education services ($50 million annually beginning in FY 2015), but similar initiatives in the past have failed to meet their targets.

In addition, the January Plan includes cuts to programs that have been rescinded by the City Council in the past during the budget adoption process. These initiatives have an estimated value of $230 million in FY 2014, including a 36 percent reduction in funding to libraries and cultural programs, the closure of 20 fire companies, the loss of more than 20,000 after-school slots and the closure of seven school-based community centers. The Speaker of the City Council has also expressed concerns about the cuts in educational services proposed by the Mayor to offset an expected loss in State education aid.

V. State Budget Impact

On January 22, 2013, the Governor released his Executive Budget for State Fiscal Year (SFY) 2013-2014. According to the State Division of the Budget (DOB), the SFY 2013-14 Executive Budget benefits New York City by $258 million in City FY 2014, mostly as a result of a planned increase in education aid (see Figure 11).[8] The DOB estimates that future increases in education aid, which are tied to the growth in personal income, will increase the benefit to the City to nearly $522 million in FY 2015 and $901 million in FY 2016.

Figure 11
Impact of the Governor's Executive Budget for SFY 2013-2014 on New York City
(in millions)

	FY 2014	FY 2015	FY 2016
Annual Increases in Education Aid			
SFY 2013-14	$ 224.0	$ 224.0	$ 224.0
SFY 2014-15	- - -	255.0	255.0
SFY 2015-16	- - -	- - -	376.0
All Other Actions	33.5	42.5	46.1
Total Impact	**$ 257.5**	**$ 521.5**	**$ 901.1**

Sources: NYS Division of the Budget; OSC analysis

Under State law, the increases in education aid are contingent upon the full implementation of a new teacher evaluation system. The City and the United Federation of Teachers (UFT) were unable to reach agreement on a new system by January 17, 2013, as required in last year's enacted budget, for the receipt of $250 million in annual State aid beginning in FY 2013. The Governor has stated that the aid will be withheld from the City, but a State supreme court has issued a preliminary injunction preventing the State from moving forward pending the resolution of a lawsuit challenging the legality of the State law under the State Constitution. The January Plan assumes that the State education aid will be withheld and that, in response, educational services will be reduced.

8 The State Executive Budget also includes $203 million to be allocated to school districts experiencing fiscal stress, and $125 million in education grants for which the City may apply.

In an effort to resolve the impasse between the City and the UFT, the Governor has proposed legislation that would authorize the State Education Commissioner to develop a teacher evaluation system for the City. If the City fails to negotiate its own agreement with the UFT, the Commissioner would act, by June 1, 2013, to impose an evaluation system that would become effective for the next school year. This proposal would eliminate the risk of the City forfeiting any future increases in state education aid from not implementing an acceptable teacher evaluation system.

A series of audits by the Office of the State Comptroller found numerous instances of fraud and improprieties in the delivery of educational services to preschool students with disabilities. The Governor has proposed a number of initiatives that would enhance oversight and reduce costs, including allowing the City to select providers and set provider reimbursement rates, subject to future State regulations.

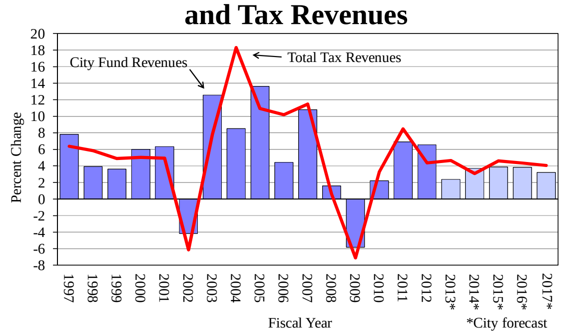
The State Executive Budget provides the Metropolitan Transportation Authority (MTA) with an increase of $295 million in State assistance from the SFY 2012-2013 level. The increase reflects improving economic conditions that are expected to boost dedicated transit tax revenues. The level of assistance is consistent with assumptions made in the MTA’s current financial plan. In December 2011, the MTA Payroll Mobility Tax (PMT) was eliminated for most small businesses, all private schools and all public school districts. The Executive Budget includes $307 million for the MTA to offset the revenue lost from changes to the PMT.

VI. Revenue Trends

The revenue forecasts in the January Plan are based upon an assumption of slow economic growth, and are only slightly changed from those in the City's November 2012 financial plan. The largest change reflects the new tentative property tax roll, which shows stronger growth in property values. The January Plan also reflects an acceleration of income into 2012 (from 2013 and later years), as some upper-income taxpayers acted to avoid higher federal income tax rates (including on capital gains) that took effect on January 1, 2013. While Superstorm Sandy does not appear to have had a significant impact on City tax revenues, the January Plan does reflect an increase in federal aid to offset City costs that were incurred as a result of the storm.

In FY 2013, City fund revenues are forecast to grow by 2.4 percent, the slowest rate of growth since FY 2010, when revenues began to recover from the effects of the Great Recession (see Figure 12). The slowdown primarily reflects the loss of one-time resources that had boosted receipts in FY 2012 (e.g., the settlements for the CityTime project and with ING Bank, valued at a total of $619 million). City fund revenue growth is forecast to rise by 3.7 percent in FY 2014, with growth boosted by proceeds anticipated from the sale of new taxi medallions ($600 million).

Figure 12
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; OSC analysis

Growth in tax collections, the largest component of City fund revenues, had rebounded after the recession, with the rate of increase reaching 8.5 percent in FY 2011, but weaker Wall Street profits and a falloff in audit collections held growth to 4.4 percent in FY 2012. Collections are forecast to increase by 4.7 percent in FY 2013, helped by stronger Wall Street profits and the shift of capital gains income, but growth is then projected to slow to 3.1 percent in FY 2014. Although the rate of growth in property tax revenues is projected to be stronger in FY 2014, total tax growth is weaker because growth in other tax revenues is projected to decelerate as the economy slows, Wall Street becomes less profitable and some of the revenue that was shifted in response to federal tax rate changes is not replaced.

Details of the City's revenue forecast are shown in Figure 13 and discussed below. Our analysis suggests that tax collections could be $100 million higher in FY 2013, reflecting our higher forecasts for personal income and real estate transaction tax collections, partly offset by our lower estimate for business tax collections.

Figure 13
City Fund Revenues
(in millions)

	FY 2013	FY 2014	Annual Growth	FY 2015	FY 2016	FY 2017	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 18,440	$ 19,356	5.0%	$ 20,176	$ 21,105	$ 21,870	4.2%
Personal Income Tax	8,488	8,494	0.1%	9,030	9,408	9,775	4.8%
Sales Tax	6,061	6,336	4.5%	6,594	6,808	7,065	3.7%
Business Taxes	5,617	5,715	1.7%	5,973	6,284	6,614	5.0%
Real Estate Transaction Taxes	1,692	1,808	6.9%	1,962	2,127	2,368	9.4%
Other Taxes	2,935	3,015	2.7%	3,080	3,146	3,193	1.9%
Audits	838	709	-15.4%	709	709	709	0.0%
Subtotal	**44,071**	**45,433**	**3.1%**	**47,524**	**49,587**	**51,594**	**4.3%**
Miscellaneous Revenues	4,883	5,341	9.4%	5,221	5,173	4,919	-2.7%
Unrestricted Intergovernmental Aid	- - -	- - -	NA	- - -	- - -	- - -	NA
Grant Disallowances	(15)	(15)	NA	(15)	(15)	(15)	NA
Total	**$ 48,939**	**$50,759**	**3.7%**	**$ 52,730**	**$ 54,745**	**$ 56,498**	**3.6%**

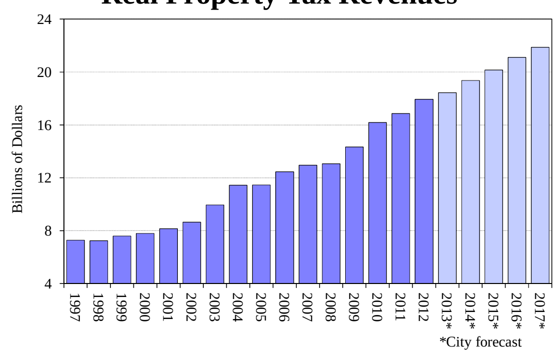
Note: Miscellaneous revenues include debt service on tobacco bonds.
Sources: NYC Office of Management and Budget; OSC analysis

A. Real Property Taxes

In January 2013, the City released its tentative property tax roll for FY 2014, which showed that the total market value for all properties rose by 4.3 percent, driven by strong gains for commercial properties and moderate growth for large residential properties (apartment buildings, cooperatives and condominiums). Market values for one-, two- and three-family homes grew by less than 1 percent.

Assessed values are projected to rise by 6.9 percent because provisions of State law that phase in property tax changes over several years continue to contribute gains from prior years. The tentative roll, however, does not fully reflect the impact of Superstorm Sandy, as the City continues to evaluate affected properties. The City expects that the effects of the storm, combined with taxpayer challenges to assessments, will lower the growth in assessed values to 4.7 percent when the final roll is released in May 2013.

Figure 14
Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

Overall, the January Plan assumes that property tax collections will rise by 5 percent in FY 2014, almost twice the rate of growth in the current year, to reach $19.4 billion (see Figure 14). In subsequent years, property tax revenues are assumed to grow at an average annual rate of 4.2 percent as weak market value growth is supplemented by the continued phase-in of increases from prior years.

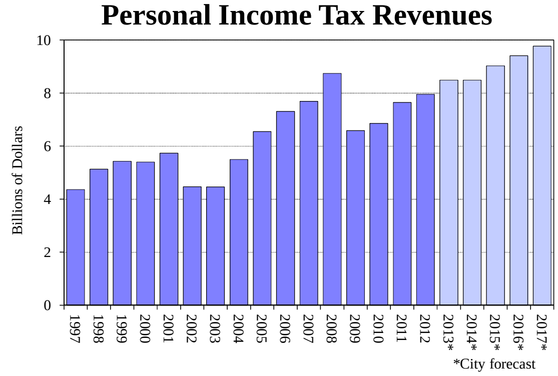
Commercial properties have driven the growth in assessed values and revenues in recent years. Between fiscal years 2009 and 2013, commercial properties have accounted for 56 percent of the growth in citywide assessments. Apartment buildings, cooperatives and condominiums contributed about one-third of the growth in total assessments. One-, two- and three-family homes, which constitute more than two-thirds of all properties in the City, have accounted for about 6 percent of the growth in total assessments.

B. Personal Income Taxes

The January Plan assumes that personal income tax collections, which grew by 4 percent in FY 2012, will grow by 6.7 percent in FY 2013 but then show virtually no growth in FY 2014, when they reach $8.5 billion (see Figure 15). This level would still be slightly lower than the peak in collections reached in FY 2008 at the start of the recession.

Figure 15

Personal Income Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

The City projects virtually no growth in personal income tax collections for FY 2014 because capital gains income that was accelerated into 2012 will not be replaced, job and wage growth is expected to slow and Wall Street bonuses for 2013 are expected to decline as a result of lower industry profits that year.

The strong growth in collections during FY 2013 has been driven by continued robust job gains (although the shift in the mix of jobs being created toward lower-paying positions yields less total income growth than in the past), as well as the acceleration of income into the end of calendar year 2012, most notably for capital gains realizations, as taxpayers sought to avoid higher federal income tax rates in 2013. Although Wall Street profitability improved in 2012, OSC estimates that Wall Street bonus income rose by 8 percent (consistent with the January Plan projection of 5 percent growth) as the industry continues to restructure, downsize and defer a greater portion of compensation to future years.

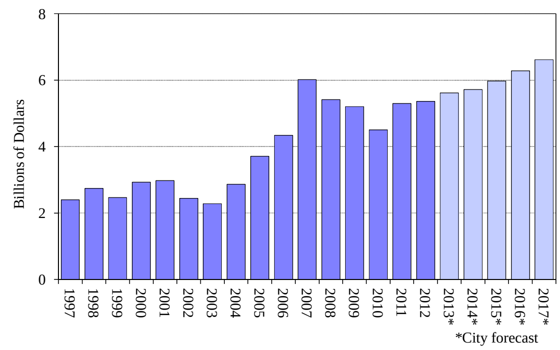
C. Business Taxes

Collections for business taxes are forecast to rise by 4.8 percent in FY 2013, but growth is then expected to slow to 1.7 percent in FY 2014, with collections reaching $5.7 billion, still slightly below the prerecession peak (see Figure 16). While bank and unincorporated business tax collections have rebounded from declines in FY 2012, helped by improved profitability in the financial sector, some financial firms are using credits (created when losses in the financial sector during the second half of calendar year 2011 caused firms to overpay their estimated tax liability) that are holding down the growth in collections.

The slowdown in collections projected for FY 2014 reflects the forecast of slower economic growth in 2013 and an expected reduction in Wall Street profits (from $23.9 billion in 2012 to $13.4 billion in 2013).

Figure 16

Business Tax Revenues



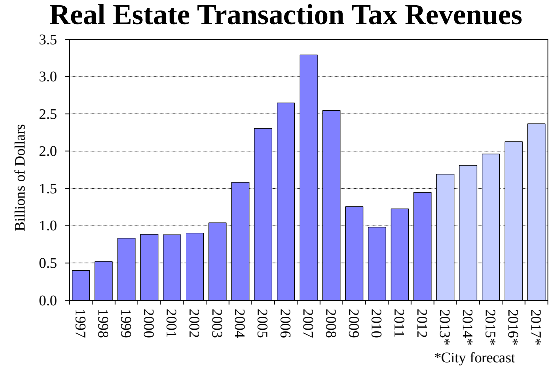
Sources: NYC Comptroller; NYC Office of Management and Budget

D. Real Estate Transaction Taxes

The January Plan forecasts that collections from the real estate transaction taxes will rise by nearly 17 percent in FY 2013 (only slightly less than the rate in FY 2012), but growth is then expected to slow to nearly 7 percent in FY 2014. Although collections next year are expected to reach $1.8 billion, that level is only slightly more than half the peak reached before the recession (see Figure 17).

Figure 17

Real Estate Transaction Tax Revenues



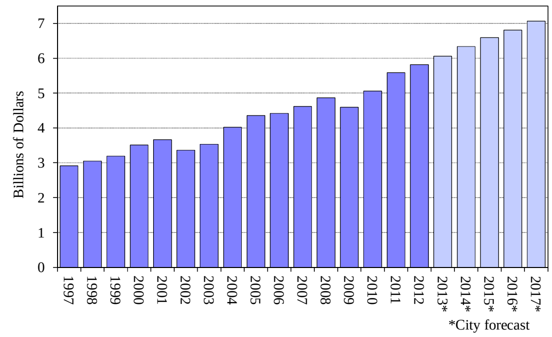
Sources: NYC Comptroller; NYC Office of Management and Budget

Transaction activity (including for large commercial deals) has been strong during the first half of FY 2013, boosted by sellers looking to close their transactions before federal capital gains tax rates increased in January 2013. Refinancing activity has also been strong, helped by low interest rates and banks' increased willingness to make loans. Although refinancing and commercial and residential sales activity are expected to grow in FY 2014, the accelerated activity due to the increase in federal tax rates will not be replaced, thereby holding down overall growth that year.

E. Sales Tax

Throughout the economic recovery, sales tax collections have been bolstered by the strength in the City's tourism sector, even as consumers have been cautious in their spending and as wages have shown only modest growth. After a 4.1 percent gain in FY 2012, sales tax collections are forecast to rise by 4.3 percent in FY 2013 and 4.5 percent in FY 2014 to $6.3 billion (see Figure 18) as these wage and tourism trends are expected to continue.

Figure 18
Sales Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

Unlike the income and transaction taxes, the sales tax is not expected to be affected by the changes in the federal tax code. While Superstorm Sandy did disrupt spending patterns, it also led consumers and businesses to purchase alternate goods and services during the storm and its aftermath, and has since generated spending for reconstruction.

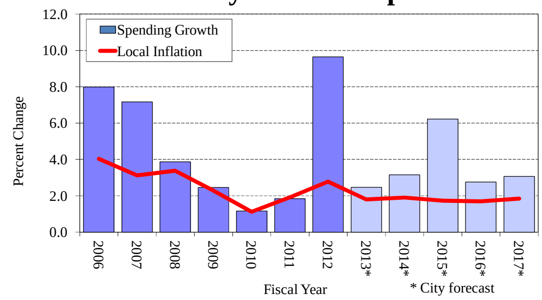
VII. Expenditure Trends

The January Plan assumes that City-funded spending will rise by 3.2 percent ($1.6 billion) in FY 2014 to $51.9 billion, slightly faster than the growth rate forecast for the current year (see Figure 19). Spending will be driven mostly by continued growth in the cost of employee fringe benefits and debt service. Spending is projected to rise by 6.2 percent in FY 2015 (nearly three times the projected local inflation rate).

In recent years, the City has diverted resources from the Retiree Health Benefits Trust to help pay retiree benefits other than pensions. This held down the growth in City-funded spending during those years, but the trust will be virtually depleted by the end of FY 2014.

Figure 19

Growth in City-Funded Expenditures



Note: City-funded expenditures grew by 9.6 percent in FY 2012 because the City replaced expiring federal stimulus aid ($1.8 billion) and a cut in State education aid ($812 million) with City funds.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

City-funded spending may grow faster than projected in the January Plan. The City assumes that no financial liability will arise from the wage freeze imposed on municipal workers during the recession, even though the City has not reached new labor agreements that cover this period. The January Plan includes an annual reserve that is sufficient to increase wages by only 1.25 percent beginning in FY 2013. In addition, the January Plan does not reflect the impact of proposed federal budget cuts, which could require the City to find offsetting resources.

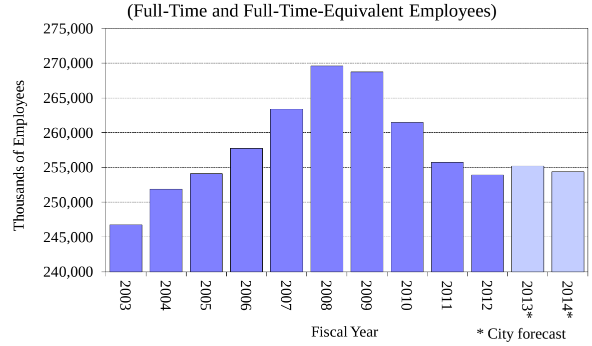
Although City-funded spending is projected to exceed City fund revenues by $1.1 billion in FY 2014, the budget will be balanced with surplus resources primarily generated in FY 2013. In recent years, the City has relied heavily on surplus resources generated in prior years and on other nonrecurring resources to balance the operating budget. By our estimate, the FY 2013 budget includes $2.8 billion in nonrecurring resources, and the FY 2014 budget includes $3.2 billion in nonrecurring resources (for more information, see Appendix A).

From FY 2008 through FY 2012, the City's workforce (full-time and full-time-equivalent employees) declined by 15,666 positions (see Figure 20). Despite a hiring freeze, the January Plan assumes that staffing will rise in FY 2013 before declining in FY 2014 (see Appendix B).

Figure 20

City-Funded Staffing Levels

(Full-Time and Full-Time-Equivalent Employees)



Note: Staffing levels are as of June 30 of each fiscal year.
Sources: NYC Office of Management and Budget; OSC analysis

The January Plan is based on the trends shown in Figure 21 and discussed below.

Figure 21
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC)
(in millions)

	FY 2013	FY 2014	Annual Growth	FY 2015	FY 2016	FY 2017	Average Three-Year Growth Rate
Salaries and Wages	$ 12,762	$ 12,810	0.4%	$ 13,285	$ 13,444	$ 13,773	2.4%
Pension Contributions	7,905	8,055	1.9%	8,047	8,242	8,495	1.8%
Medicaid	6,190	6,272	1.3%	6,353	6,322	6,322	0.3%
Debt Service	5,718	6,095	6.6%	6,953	7,274	7,486	7.2%
Health Insurance	4,566	4,831	5.8%	5,462	6,073	6,664	11.3%
Other Fringe Benefits	2,798	2,940	5.1%	3,022	3,122	3,218	3.1%
Energy	975	1,043	7.0%	1,058	1,046	1,059	0.5%
Judgments and Claims	735	768	4.5%	779	815	851	3.5%
Public Assistance	528	529	0.2%	528	528	532	0.2%
General Reserve	100	300	NA	300	300	300	NA
Drawdown Retiree Health Benefits Trust	(1,000)	(1,000)	NA	0	0	0	NA
Prior Year's Expenses	(500)	0	NA	0	0	0	NA
Other	9,508	9,232	-2.9%	9,316	9,455	9,652	1.5%
Total	**$50,285**	**$51,875**	**3.2%**	**$55,103**	**$56,621**	**$58,352**	**4.0%**

Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

All of the labor agreements with the unions that represent the municipal workforce have expired. Most of the agreements expired more than three years ago, making this period among the longest durations that many City employees have worked without an agreement since the fiscal crisis of the 1970s. The January Plan assumes that the municipal unions will agree to annual wage increases of 1.25 percent during fiscal years 2013 through 2017, which is lower than the projected inflation rate, and which would follow a three-year period in which the City effectively imposed a unilateral wage freeze through FY 2012. Each annual percentage-point increase in wages above what is assumed in the January Plan would raise costs by $300 million annually.[9]

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

9 If wages were to rise at the projected inflation rate without any offsetting savings, costs would increase by $14 million in FY 2013, $82 million in FY 2014, $194 million in FY 2015, $336 million in FY 2016 and $513 million in FY 2017.

but the mediation was unsuccessful. In the fall of 2012, PERB established a fact-finding panel to determine the underlying causes of the impasse, although the panel is not expected to begin meetings for months. The panel could issue recommendations in an attempt to resolve the impasse, and although panel recommendations are nonbinding they could serve as a framework for a new labor agreement. 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.

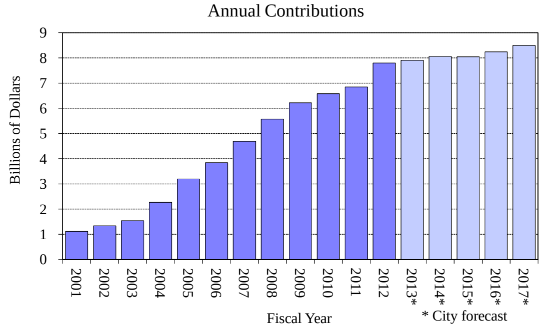
2. Pension Contributions

After rising rapidly over the past decade, City-funded pension contributions are expected to rise more slowly during the financial plan period (see Figure 22). The January Plan assumes that pension contributions will average about $8 billion during fiscal years 2012 through 2014 before rising to $8.5 billion by FY 2017. These estimates reflect changes in the assumptions and methodologies used to calculate City pension contributions, which were recommended by the City Actuary and approved by the boards of trustees of the City's five pension systems and the State.[10]

Figure 22

New York City Pension Systems

Annual Contributions



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

The changes include a reduction in the investment earnings assumption from 8 percent to 7 percent; a different cost methodology to determine the projected cost of future pension benefits; and a longer amortization period, which will help free up nearly $3 billion during the financial plan period but also will result in higher costs in the longer term.[11] The City has engaged the services of an independent actuarial consultant to conduct two consecutive charter-mandated biennial audits of the pension systems. The results of these audits are expected to be released during FY 2014.

Although the City's pension funds fell short of their investment earnings target last year, the funds are on track to meet the target in FY 2013.

[10] The City Budget Director recently testified to the City Council that contributions to the City's pension funds could be higher by $130 million in FY 2013 and by $120 million in FY 2014 based on a revised valuation by the City Actuary.

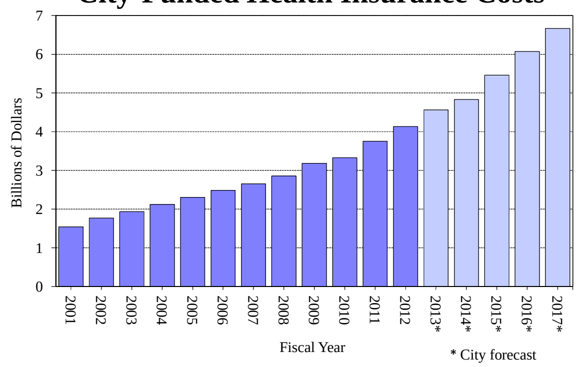
[11] The staff of the New York State Financial Control Board estimates that the longer amortization period deferred the payment of $1.7 billion in pension contributions planned for FY 2012.

3. Health Insurance

City-funded health insurance costs are expected to grow at a slower pace in FY 2014 (5.8 percent) than the average annual rate of growth in the past decade (9 percent), to reach $4.8 billion (see Figure 23). Growth in FY 2014 reflects State approval of the smallest increase (5.2 percent) in health insurance premiums for active City employees since FY 1999. In October 2012, the State Department of Financial Services (DFS) rejected an application from the Health Insurance Plan of Greater New York to increase premiums for active City employees by 10.1 percent in FY 2014 because of concerns regarding its management practices. The approved increase of 5.2 percent is still greater than the projected growth in City fund revenues (3.7 percent).

Figure 23

City-Funded Health Insurance Costs



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

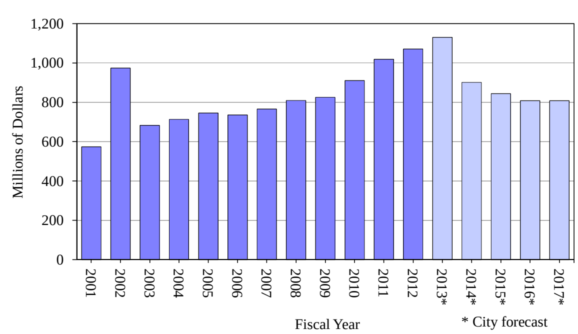
The January Plan assumes that spending on City-funded health insurance costs will grow more rapidly over the balance of the financial plan period, from $4.8 billion in FY 2014 to $6.6 billion by FY 2017, an average of 11 percent annually. The greater pace of growth in these years reflects the City's expectation that the cost of health insurance premiums for active employees will resume growth at 9 percent annually. Premiums for Medicare-eligible retirees are expected to grow by 8 percent annually during the financial plan period. The Congressional Budget Office and others have noted, however, that the growth in health care costs have begun to slow across the nation, although the reasons for this are not well understood.

4. Uniformed Agencies

Overtime in the uniformed agencies (the Police, Fire, Correction and Sanitation departments) has grown by 18 percent since FY 2010 as a result of staff shortages in the Fire and Correction departments, and the effects of severe weather. The January Plan assumes that overtime will total $1.1 billion in FY 2013 (see Figure 24), including $138 million in overtime associated with Superstorm Sandy. Excluding these one-time costs, overtime is projected to decline by $91 million to $901 million in FY 2014.

Figure 24

Uniformed Agencies Overtime Spending



Sources: NYC Office of Management and Budget; OSC analysis

The City believes overtime will be lower in FY 2014 because the federal court order banning the City from hiring firefighters has been lifted, following court approval of the City's revised hiring practices. (In 2010, the federal court found that the City's hiring practices were biased against certain minorities.) In addition, the Department of Correction is scheduled to add 288 officers by the end of FY 2014. The City's estimates assume that the Police Department will implement cost-reduction initiatives for annual savings of $50 million, but such actions have failed in the past.

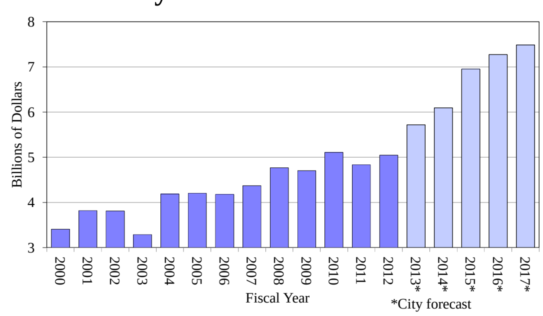
5. Debt Service

In recent years, the City has been taking advantage of historically low interest rates and refinancing outstanding debt. Since FY 2008, the City has refinanced more than $16 billion in debt (one-quarter of all bonds outstanding) for cumulative savings of $1.5 billion through FY 2014. For example, during fiscal years 2013 and 2014 the City will realize about $800 million in savings from refinancing debt. In addition, the City has realized significant savings from lower-than-expected interest rates on new debt issuances and variable rate debt since FY 2008. In fact, our analysis suggests that the City could realize $100 million in additional debt service savings in the current fiscal year as a result of lower-than-planned interest rates on variable rate debt.

The January Plan assumes that City-funded debt service (adjusted for defeasances and surplus transfers) will increase from $5.7 billion in FY 2013 to $7.5 billion by FY 2017 (see Figure 25), an increase of 31 percent over four years. These estimates, however, do not anticipate any future debt refinancings and are based on relatively high interest rates given current Federal Reserve policies. If interest rates stay low, the City will realize significant debt service savings during the financial plan period.

Figure 25

City-Funded Debt Service



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

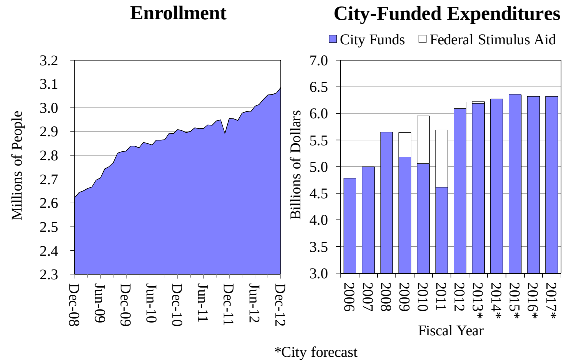
6. Medicaid

Over the past four years, enrollment in the Medicaid program grew by 18 percent to reach 3,084,635 people in December 2012 (see Figure 26), about one of every three New York City residents. Enrollment growth is largely attributed to the recent recession and is expected to continue to grow with the enactment of federal health reform legislation, but costs will remain flat because of recent actions taken by the State.

The City-funded cost of this program declined 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 (see Figure 26). The City's share of Medicaid reached $6.1 billion in FY 2012, and the January Plan assumes that it will reach $6.3 billion in FY 2014 and then remain at that level. In January 2006, the State capped the growth in the local share of Medicaid to about 3 percent annually. Last year, the State agreed to assume all of the growth in the local share of Medicaid to be phased in over a three-year period.

Figure 26

Medicaid



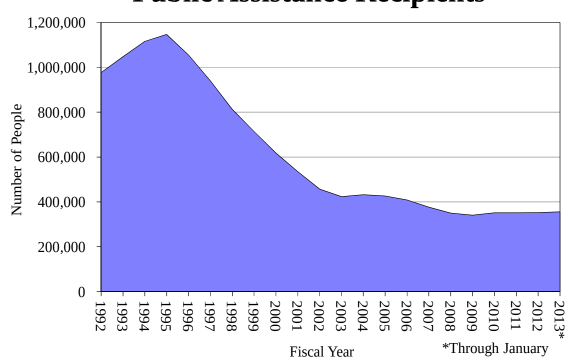
Sources: NYC Human Resources Administration; OSC analysis

7. Public Assistance

The public assistance caseload has grown by 8 percent over the past four years, to total 364,966 recipients in January 2013 (see Figure 27), even though the recent recession was the deepest of the postwar era.[12] In 2011 (the most recent year for which data are available), 21 percent of the City's population lived below the federal poverty line, and about one in every five New York City residents received public assistance or food stamps. City-funded expenditures for public assistance are projected to total $529 million in FY 2014 and remain relatively steady through FY 2017.

Figure 27

Public Assistance Recipients



Sources: NYC Human Resources Administration; OSC analysis

[12] The December caseload is 800,000 lower than the peak in March 1995, largely as a result of federal welfare reform measures implemented in the late 1990s that enforced work requirements.

8. Homeless Services

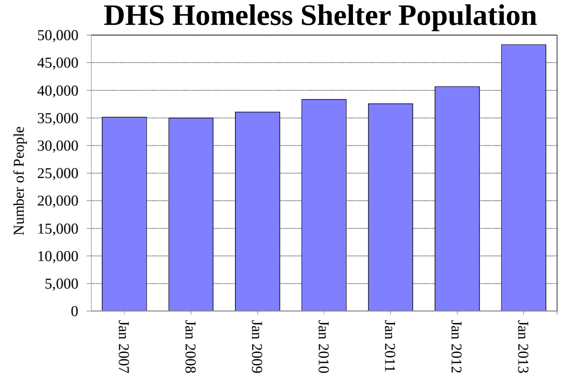
The January Plan assumes that the City-funded cost of providing services to the City's homeless people will total $551 million in FY 2014,[13] which is $34 million less than in the current fiscal year. The City's estimates assume that the City Council will approve an initiative it has rejected in the past to shelter homeless families with fewer than four members in shared living units (for a savings of $9 million annually beginning in FY 2014).[14] In addition, City funding for runaway and homeless youth programs are expected to decline by $7 million, but in the past these funds have been restored at the urging of the City Council during the budget adoption process.

As shown in Figure 28, the shelter population managed by the Department of Homeless Services (DHS) reached 48,264 (including 20,592 children) in January 2013, which was 19 percent higher than one year earlier and the highest level on record. The DHS also provides funding for short-term housing and overnight shelters, which are operated by community-based and faith-based organizations, for about 1,500 single adults in special needs populations. In addition, the Human Resources Administration shelters more than 2,500 people in facilities for victims of domestic violence and another 2,000 people in facilities for homeless HIV/AIDS clients.

The Department of Housing Preservation and Development also provides emergency housing to about 2,000 people who have become homeless as a result of extraordinary circumstances, such as fires. The Department of Youth and Community Development provides funding for 250 shelter beds operated by community-based and faith-based organizations for runaway and homeless youth aged 16 to 21.

Figure 28

DHS Homeless Shelter Population



Sources: NYC Department of Homeless Services; OSC analysis

13 Services are provided through a number of programs and agencies. The Department of Homeless Services, which shelters homeless families and single adults in more than 200 City facilities, accounts for 79 percent of these costs.

14 The City Council's approval is required to amend Local Law 18, which states: "no homeless family shelter shall be established which does not provide a bathroom, a refrigerator, and cooking facilities and an adequate sleeping area within each unit within the shelter…".

VIII. Superstorm Sandy

Superstorm Sandy reached the New York City metropolitan region on October 29, 2012, bringing not just rain and gale-force winds but also a record tidal surge that resulted in extensive flooding throughout the region. In New York City, the storm was responsible for 43 deaths, caused extended electricity outages for millions of people, disrupted the transportation system, and damaged or destroyed thousands of homes and businesses in the coastal regions of Brooklyn, Queens, Staten Island and Lower Manhattan.

The storm occurred too late in October to affect reported employment for that month, but employment in New York City declined by 20,300 jobs in November (seasonally adjusted), the largest monthly job decline since April 2009. The City regained 18,000 jobs in December 2012. Employment is expected to receive a boost in 2013 from reconstruction efforts related to the storm.

Nonproperty tax collections have not shown any impact from the storm, as reductions have been offset by post-storm spending, the rebound in employment and other developments (such as the shifting of income to avoid higher federal tax rates in 2013). The impact on the property tax is likely to be minimal, since the number of affected properties represents a very small share of the City's one million properties. The tentative property tax roll for FY 2014 did not fully reflect the impact of the storm as City assessors are continuing to inspect affected properties. The final tax roll will include a more detailed picture of the storm's impact, including on commercial properties.

The President recommended and Congress approved a relief package of more than $60 billion to help states and localities in the metropolitan region deal with the costs of Superstorm Sandy. The Governor estimates that New York State will benefit from approximately $33 billion; nearly half of that amount would go to public transit and utility systems for repair and upgrading so as to better handle future storms. The State also plans to use federal funds to rebuild and strengthen coastlines, housing and health care facilities. The balance would be allocated among the State and its localities for emergency work, such as debris removal and emergency services that were provided before, during and after the storm, as well as for permanent repair and reconstruction.

The City estimates that Superstorm Sandy resulted in $4.5 billion in costs, including $3.1 billion in capital needs and $1.4 billion in emergency operating expenses. Federal assistance provided through the Federal Emergency Management Agency (FEMA) will cover 90 percent of eligible costs, with the remainder funded by the City or other sources. The City is exploring the use of other federal relief assistance to cover the local share. It is likely that the City's estimates will change as more information becomes available.[15]

[15] Federal sequestration may reduce the size of the federal relief package for the City by $500 million, including nearly $70 million that would benefit the operating budget in FY 2013.

The $1.4 billion in storm-related operating expenses includes emergency repairs, debris removal and overtime (see Figure 29). Rather than funding these costs with City funds, the City has set up a receivable line item for federal funds in its revenue budget, with corresponding budget codes in its expense budget.

Figure 29
Superstorm Sandy
Estimated Expense Budget Impact
(in millions)

Category	**Amount**
Rapid Repairs Program	$ 500
Uniformed Agencies	318
Department of Education	110
Health and Hospitals Corporation	100
Parks and Recreation	73
Emergency Management, Supplies and Equipment	70
Social Services	60
Environmental Protection	52
Transportation	52
All Other	67
Total	**$ 1,402**

Sources: NYC Office of Management and Budget; OSC analysis

- The NYC Rapid Repairs program, which provided emergency repairs (such as the restoration of heat, power and hot water) at no cost to private home owners, accounts for more than one-third of the estimated costs ($500 million).
- The uniformed agencies spent an estimated $318 million (including fringe benefits), of which $138 million is overtime (mostly in the Police and Sanitation departments).
- Public schools in New York City were closed for five days as a result of the storm, and nearly 75,000 students were temporarily relocated because their schools suffered significant damage. The Department of Education incurred an estimated $110 million in operating expenses to restore facilities, as well as the need to replace damaged books, supplies and food.
- The storm forced the evacuation of about 900 patients at 2 of the 11 public hospitals of the New York City Health and Hospitals Corporation (HHC). HHC estimates that it incurred expenses of $100 million for efforts to prepare for the storm and post-storm expenses such as debris removal, pumping water, and the removal of mold, asbestos and other hazardous materials.

The City estimates that it will incur capital costs of more than $3 billion to make permanent repairs to damaged infrastructure (see Figure 30), as discussed below. The City will need to develop a scope of work (i.e., the plan for repair and remediation) for each capital project, which will require approval from FEMA. The January Plan shows the capital commitments as City-funded even though the City expects the federal government to fund the cost of the projects. The January Plan shows no increase in City borrowing or corresponding debt service because it assumes that federal reimbursements will match the flow of capital expenditures, but it remains to be determined whether all of the costs will be funded by the federal government.

Figure 30
Superstorm Sandy
Capital Needs Reflected in January Plan
(in millions)

Category	Amount
Transportation	$ 824
Health & Hospitals Corporation	712
Parks	528
Housing Preservation & Development	477
Schools	200
Uniformed Agencies	144
All Other	198
Total	**$ 3,083**

Sources: NYC Office of Management and Budget; OSC analysis

- **Transportation:** City transportation infrastructure suffered an estimated $824 million in damages, including streets and roads (nearly $600 million), street lights and traffic signals ($100 million), bridges ($42 million), the Battery Park Underpass ($39 million) and ferries ($29 million; mostly for the Staten Island Ferry terminals).
- **Municipal Hospitals:** HHC estimates that it will incur capital costs of $712 million mostly to restore (as well as to mitigate against future storms) the electrical, water, heating, ventilation, information technology and communications systems at Bellevue Hospital Center, Coney Island Hospital and Coler-Goldwater Specialty Hospital and Nursing Facility. Additional capital costs will be incurred to replace or repair medical equipment, ambulances, emergency generators and elevators.
- **Public Parks:** Damage to City parks totaled an estimated $528 million, including more than $300 million for beaches (e.g, at the Rockaways, Coney Island and Staten Island). Projects include beach restoration and boardwalk reconstruction.
- **Housing:** The January Plan allocates $477 million for housing, including for the New York City Housing Authority, but the City is still in the process of determining how these funds would be used. For example, the City is exploring the feasibility of using these funds to support loans to certain storm-damaged buildings that received public subsidies, subject to legal and federal reimbursement restrictions.

- **Public Schools:** The Department of Education estimates that it will require $200 million in capital funds to replace or repair structural damage, boilers, electrical systems and roofs.
- **Uniformed Agencies:** The Department of Correction estimates that it will require $82 million in capital funds, mostly to fix damaged facilities on Rikers Island. The Fire, Police and Sanitation departments also plan capital repairs to various facilities and to replace capital-eligible vehicles.

Superstorm Sandy also had a tremendous impact on the Metropolitan Transportation Authority (MTA). The storm flooded seven East River subway tunnels and two East River railroad tunnels (owned and operated by Amtrak but used by the Long Island Rail Road). In addition, the Hugh L. Carey Tunnel (formerly the Brooklyn-Battery Tunnel) was flooded from end to end (requiring $400 million in repairs), and the Queens-Midtown Tunnel also suffered extensive damage ($350 million). The Rockaway subway line suffered significant damage ($650 million). Other damage included the South Ferry/Whitehall Street subway station, which was flooded to its ceiling and will require an estimated $600 million in repairs. Overall, the MTA estimates that New York City's transit system will require a total of $3.4 billion to restore it to its pre-storm condition. Together, the Long Island Rail Road and Metro-North Railroad sustained damages totaling more than $450 million.

In total, the MTA estimates that its infrastructure suffered $4.8 billion in damage, that expenses to prepare for the storm and restore service amounted to $152 million, and that $93 million in revenues were lost. The MTA anticipates that a combination of insurance and federal reimbursement will fully cover its operating losses. The MTA's February 2013 financial plan expects that it will need to issue short-term notes to provide interim capital funds (at a cost of $48 million annually until reimbursement is received), and that it will ultimately need to issue up to $950 million in long-term debt to cover unreimbursed capital costs, which would cost $62 million annually starting in 2016.[16] The MTA also estimates that it will require an additional $4.1 billion to help protect its system against future storms.

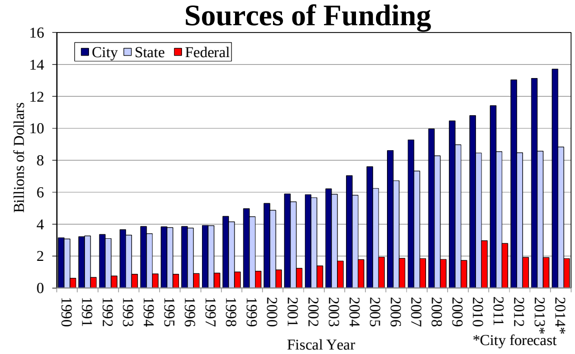
[16] The actual cost could be lower. While the MTA's plan assumes that the federal government would fund 75 percent of eligible costs, the Federal Transit Administration recently announced that it would fund 90 percent.

IX. Other Issues

1. Department of Education

Over the past decade, City funding for education has more than doubled, rising from $6.2 billion in FY 2003 to $13.1 billion in FY 2013 (see Figure 31). State education aid grew by less than half during the same period, rising from $5.9 billion in FY 2003 to $8.6 billion in FY 2013.

Figure 31
Department of Education Sources of Funding



Sources: NYC Office of Management and Budget; OSC analysis

Last year's enacted State budget required school districts to reach agreement with the unions that represent their teachers on a new teacher evaluation system by January 17, 2013, or forfeit increases in State education aid. New York City, which is responsible for more than one-third of the schoolchildren in the State, was unable to reach agreement with the United Federation of Teachers (UFT) by the deadline and now risks the loss of $250 million in education aid beginning in the current school year.[17] A State supreme court recently issued a preliminary injunction preventing the State from withholding the education aid in the current school year pending the resolution of a lawsuit challenging the legality of the State law under the State Constitution, and the court also issued a temporary restraining order against the City prohibiting it from making cuts in educational services in response to the loss of State aid. The Governor's Executive Budget recommends increases in education aid to New York City over the next three years (including $224 million next year), but those increases are also contingent on the implementation of a teacher evaluation system.

In anticipation of the State withholding $250 million in education in the current school year, the Mayor has proposed reallocating surplus resources ($97 million) and reducing educational services ($153 million), including the elimination of 700 teacher and guidance counselor positions through attrition. The Department of Education has since indicated that it realized significant savings from the recent contract school bus strike that could reduce the proposed cut in educational services. To offset the potential loss of $250 million in school aid in subsequent years, the Mayor has proposed reducing school budgets by 4.3 percent, which would result in the loss of an additional 1,800 teachers and guidance counselors, and a large cut in funding for

[17] The City was one of only six school districts in the State that failed to meet the deadline.

school supplies and after-school programs. In testimony before the State Legislature, the Mayor asked that the State Legislature rescind the cut in State education.

In an effort to resolve the impasse between the City and the UFT, the Governor has proposed legislation that would authorize the State Education Commissioner to develop a teacher evaluation system for the City. If the City fails to negotiate its own agreement with the UFT, the Commissioner would act, by June 1, 2013, to impose an evaluation system that would become effective for the next school year. This proposal would eliminate the risk of the City forfeiting any future increases in state education aid from not implementing an acceptable teacher evaluation system.

2. Metropolitan Transportation Authority

The February 2013 financial plan of the Metropolitan Transportation Authority (MTA) shows a budget surplus of $48 million in 2013 and relatively small budget gaps of $77 million in 2014, $21 million in 2015 and $227 million in 2016. These estimates assume fare and toll increases of about 7 percent in 2013 (which became effective at the beginning of March 2013) and 2015; continued implementation of the MTA's cost-reduction program; and the receipt of federal aid and insurance proceeds to cover most of the costs associated with Superstorm Sandy. The financial plan does not include the MTA's share of any storm mitigation projects, which could amount to as much as $400 million. The Governor's Executive Budget for State Fiscal Year 2013-14 provides the MTA with $4.2 billion in operating assistance, which is consistent with MTA estimates. In addition to the effects of the storm, the MTA faces other fiscal challenges including labor negotiations, the pace of the economic recovery and a court decision regarding the constitutionality of the payroll mobility tax, which generates about $1.6 billion annually for the MTA's operating budget.

3. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) is the single-largest provider of health care to uninsured New York City residents, and receives most of its patient revenue from public health plans, of which 65 percent comes from Medicaid.[18] The heavy reliance on Medicaid makes HHC vulnerable to actions taken by the State and federal governments to reduce Medicaid reimbursements.

In FY 2007, HHC ended its fiscal year with a cash balance of more than $1 billion (its highest closing balance ever) as it benefited from large, prior-year, nonrecurring Medicaid reimbursements. Because of a structural imbalance between recurring revenues and expenditures, HHC has been drawing on these reserves to balance its budget. HHC expects that it will close FY 2013 with a cash balance of only

[18] Including supplemental Medicaid payments for providing care to uninsured and Medicaid patients, the HHC realizes approximately 75 percent of its patient revenues from Medicaid.

$140 million, but this estimate assumes that it will recover $183 million in lost revenue related to Superstorm Sandy. The City may be called upon to help balance HHC's budget if HHC is unable to offset the lost revenue through its own actions or other sources. To close the budget gaps projected for subsequent years, HHC relies heavily on the receipt of additional federal and State funds, but the likelihood of such additional funding is diminished in the current budgetary environment.

4. New York City Housing Authority

For years, the New York City Housing Authority (NYCHA), which is dependent on aid from the federal government and rental payments from its low-income residents, has had difficulty balancing its budget and maintaining its housing assets in a state of good repair. New York City provides only a small amount of funding to NYCHA.

Shortfalls in anticipated federal operating aid and rapid growth in the cost of employee fringe benefits have contributed to NYCHA's structural budget imbalance. For example, federal operating subsidies to public housing authorities nationwide fell by $655 million between federal fiscal years 2011 and 2012, and the current federal budget funds public housing authorities at 2012 levels.

While NYCHA has taken steps over the years to restore structural budget balance, it has also taken short-sighted steps, such as redirecting to the operating budget $526 million in federal grants during the 2000-2011 period that was intended for capital repairs. In recent years, the condition of public housing has deteriorated without adequate capital investments and maintenance. The Mayor recently announced a new effort to eliminate NYCHA's current maintenance backlog of 420,000 repairs by the end of 2013.

As part of another effort to restore structural budget balance, NYCHA plans to raise rents on the 47,000 households which devote less than 30 percent of their incomes to rent, and to lease parking lots and playfields surrounding its housing developments to private developers. While controversial, these initiatives would generate recurring resources, which would further NYCHA's efforts to restore structural budget balance. NYCHA would experience another setback if the federal government further reduces assistance to public housing as part of its efforts to reduce the federal deficit.

5. Sale of Taxi Medallions

On August 17, 2012, the New York State Supreme Court ruled that several aspects of the legislation authorizing the sale of 2,000 additional taxi medallions were unconstitutional, thereby invalidating the entire law.[19] The Court found that the State did not have the authority to authorize the sale without a home rule message from the

[19] The law also permits the creation of 18,000 new hail licenses for livery cars to pick up street-hails in Upper Manhattan and the other four boroughs, except the airports.

City, which requires approval from the City Council. In September 2012, the City petitioned the New York State Court of Appeals to bypass the Appellate Division, with a request for an expedited hearing. In December 2012, the Court of Appeals accepted jurisdiction, and oral arguments have been scheduled for April 24, 2013.

The City had initially assumed it would realize $1 billion from the sale in FY 2013, but since then the City has modified its expectations three times in response to legal challenges and other considerations. While the City no longer expects any proceeds in FY 2013, it anticipates the sale will generate $1.5 billion over three years beginning in FY 2014. If the City's appeal is successful, the first sale is planned for October 2013. The January Plan assumes the sales will generate $600 million in FY 2014, $497 million in FY 2015 and $363 million in FY 2016.

6. The Federal Budget

In January 2013, as part of an effort to reduce the federal deficit, Congress increased taxes on individuals who earn more than $400,000 (and couples who earn more than $450,000) and permitted the expiration of a temporary reduction in the Social Security payroll tax of two percentage points. The bill also delayed the implementation of $85 billion in budget cuts for the current federal fiscal year. OSC estimates that the budget cuts, which took effect on March 1, 2013, will reduce federal aid to New York City by about $200 million during federal fiscal year 2013, with most of the cuts concentrated in education and social services.[20] Since the timing of the cuts is not yet known, our analysis assumes that sequestration will primarily affect FY 2014. Our analysis also assumes that cuts scheduled to take effect beginning in federal fiscal year 2014, primarily in discretionary spending, will reduce funding to the City by a similar amount.

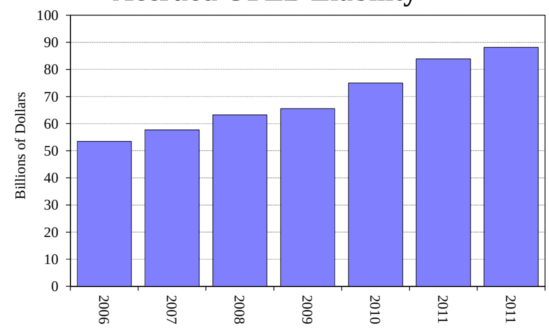
As a result, our analysis finds that federal funding to the City's budget could be reduced by about $300 million in FY 2014 and by about $200 million in each subsequent year. (The New York State Division of the Budget estimates that federal funding to the State could be reduced by $5 billion over nine years, which could put pressure on the State to reduce its funding to localities, including New York City.) The City would have to decide whether to substitute City funds for lost federal funding to maintain services at existing levels or to permit a reduction in services. While the President and congressional leaders may negotiate alternative actions to reduce the federal deficit, at this time it is uncertain whether such actions would have a larger or smaller impact on the City.

[20] These estimates do not include the impact on programs outside of the City's financial plan, such as at the New York City Housing Authority, the Metropolitan Transportation Authority and other organizations that receive federal funding.

7. Other Post-Employment Benefits

Figure 32

Accrued OPEB Liability



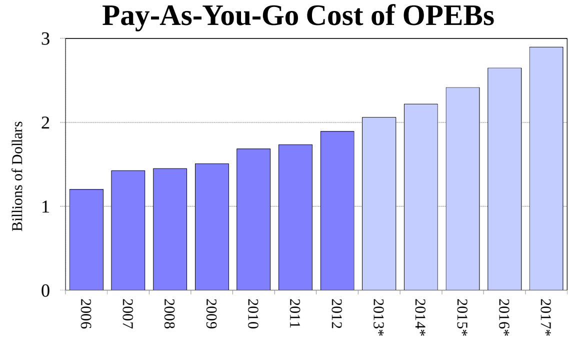
Sources: NYC Actuary; OSC analysis

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. As shown in Figure 32, the City's accrued OPEB liability for past employee service reached $88.2 billion as of FY 2012, an increase of $34.7 billion since FY 2006 (the first OPEB valuation year reported by the City), and $4.3 billion more than in the prior year.

Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share 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.

Figure 33

Pay-As-You-Go Cost of OPEBs



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

In FY 2012, the City paid half of the present value of obligations ($2.8 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring nearly $1.4 billion to future taxpayers. OPEB costs, on a PAYGO basis, are projected to rise from $1.9 billion in FY 2012 to $2.9 billion in FY 2017 (see Figure 33), an increase of nearly 53.2 percent in five years.

The City deposited $2.5 billion in the Retiree Health Benefits Trust during the last economic expansion to help fund these costs. In recent years, however, the City has been drawing on these resources to help balance the budget, leaving future taxpayers to fund the full cost of services provided in past years. 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). OSC estimates that remaining funds in the trust at the end of FY 2014 could total $116 million.

Appendix A: Nonrecurring Resources

In the aggregate, estimated nonrecurring resources of about $3 billion will be used to balance the City's budget in each of fiscal years 2013 and 2014 (see Figure 34).

Figure 34
Nonrecurring Resources
(in millions)

	FY 2013	FY 2014
Surplus Transfers - Net[21]	$ 1,346	$ 1,116
Retiree Health Benefits Trust	1,000	1,000
Debt Refundings and Redemptions - Net	320	473
State Building Aid	143	- - -
Federal Medicaid Assistance	32	- - -
Educational Construction Fund	- - -	32
Taxi Medallion Sales	- - -	600
Total	**$ 2,841**	**$ 3,221**

Sources: NYC Office of Management and Budget; OSC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the budget in fiscal years 2013 and 2014.
- The City plans to nearly deplete the balance of the Retiree Health Benefits Trust by drawing down $1 billion in each of fiscal years 2013 and 2014.
- Debt refundings during fiscal years 2012 and 2013 will reduce debt service by $320 million in FY 2013 and $473 million in FY 2014, but will produce minimal savings in future years.
- The City's budget will benefit by $143 million in FY 2013 from the release of excess State building aid by the TFA.
- Federal stimulus budget relief for Medicaid totals $32 million in FY 2013.
- The Educational Construction Fund will transfer $32 million in surplus funds to the Department of Education in FY 2014.
- The January Plan anticipates $1.5 billion from the sale of additional taxi medallions over a three-year period beginning in FY 2014.

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21 The City transferred FY 2012 surplus resources of $2.4 billion to FY 2013 and $31 million to FY 2014. The January Plan assumes the City will transfer surplus resources of $1.1 billion from FY 2013 to FY 2014.

Appendix B: Staffing Levels

Between June 2008 and June 2012, the City-funded workforce (full-time and full-time-equivalent employees) declined by 15,666 positions (5.8 percent) to 253,932, reflecting agency cost-reduction actions as the City managed its way through the Great Recession. The workforce declined by another 1,327 employees during the first half of FY 2013, and while the January Plan assumes that the workforce will increase (by 2,600 positions) during the second half of the fiscal year (see Figure 35), many of these positions are likely to remain vacant because the Mayor has imposed a hiring freeze. The January Plan assumes that the City-funded workforce will decline by 813 employees during FY 2014. These trends are discussed below.

- The Department of Education plans to reduce staffing levels in the current year by 1,524 employees to offset an expected loss of State education aid[22] and to meet other cost-reduction initiatives. Next year, the department intends to add in a net of 773 employees, reflecting the addition of teachers for the City's special education program and cuts due to cost-reduction actions.
- The size of the police force is projected to hold steady during the financial plan period at about 34,500 officers, which is one of the lowest annual levels in the past 21 years. Despite the relatively small size of the police force, serious crime continues to decline.
- Uniformed staffing at the Fire Department declined by 953 positions from August 2010 through December 2012 (to 10,069 positions), reflecting the impact of a federal court-imposed hiring ban.[23] Now that the ban has been lifted, the Fire Department has resumed hiring in the second half of FY 2013 to increase staffing to 10,274 uniformed positions.
- The Department of Correction is expected to increase its uniformed staffing by 288 positions through the end of FY 2014 to fill posts previously staffed through overtime.
- The Department of Parks and Recreation plans to reduce staffing to 4,826 employees by June 2014, which would be 1,266 fewer than at the end of FY 2012.

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22 The loss of State aid would result from the City's failure to reach an agreement with the United Federation of Teachers on a new teacher evaluation system.

23 The ban was imposed as a result of litigation alleging discrimination in a previous exam for new firefighters. A revised exam was administered during the spring of 2012 and the court approved the results in September 2012. The Fire Department resumed hiring in January 2013.

Figure 35

City-Funded Staffing Levels

(Full-Time and Full-Time-Equivalent Employees)

Additions/(Reductions)

		Actual		City Forecast		Variance		
		June 2012	Dec.2012	June 2013	June 2014	June 2012 to Dec. 2012	June 2012 to June 2013	June 2013 to June 2014
Public Safety		**79,883**	**80,055**	**79,818**	**79,648**	**172**	**(65)**	**(170)**
Police	Uniformed	34,406	34,596	34,379	34,483	190	(27)	104
	Civilian	15,679	15,611	15,774	15,610	(68)	95	(164)
Fire	Uniformed	10,254	10,069	10,274	10,274	(185)	20	0
	Civilian	5,110	5,289	4,971	4,952	179	(139)	(19)
Correction	Uniformed	8,519	8,581	8,941	8,869	62	422	(72)
	Civilian	1,447	1,403	1,625	1,604	(44)	178	(21)
District Attys. & Prosecutors		3,690	3,758	3,132	3,132	68	(558)	0
Probation		766	738	705	707	(28)	(61)	2
Other		12	10	17	17	(2)	5	0
Health & Welfare		**22,598**	**22,533**	**23,934**	**23,421**	**(65)**	**1,336**	**(513)**
Social Services		10,090	10,216	10,569	10,125	126	479	(444)
Children’s Services		6,097	6,022	6,396	6,461	(75)	299	65
Health & Mental Hygiene		4,268	4,169	4,688	4,483	(99)	420	(205)
Homeless Services		1,762	1,756	1,873	1,960	(6)	111	87
Other		381	370	408	392	(11)	27	(16)
Environment & Infrastructure		**17,085**	**15,413**	**16,891**	**16,277**	**(1,672)**	**(194)**	**(614)**
Sanitation	Uniformed	6,882	7,180	7,064	7,154	298	182	90
	Civilian	1,888	1,881	2,025	2,110	(7)	137	85
Transportation		2,005	1,885	1,865	1,966	(120)	(140)	101
Parks & Recreation		6,092	4,260	5,713	4,826	(1,832)	(379)	(887)
Other		218	207	224	221	(11)	6	(3)
General Government		**9,148**	**9,161**	**10,539**	**10,360**	**13**	**1,391**	**(179)**
Finance		1,814	1,778	1,951	1,951	(36)	137	0
Law		1,348	1,314	1,386	1,366	(34)	38	(20)
Citywide Admin. Services		1,397	1,262	1,426	1,412	(135)	29	(14)
Taxi & Limo. Commission		461	495	615	640	34	154	25
Investigations		192	204	232	221	12	40	(11)
Board of Elections		768	881	1,196	1,042	113	428	(154)
Info. Tech. & Telecomm.		963	961	1,059	1,065	(2)	96	6
Other		2,205	2,266	2,674	2,663	61	469	(11)
Housing		**1,522**	**1,508**	**1,603**	**1,610**	**(14)**	**81**	**7**
Buildings		1,067	1,038	1,135	1,135	(29)	68	0
Housing Preservation		455	470	468	475	15	13	7
Department of Education		**113,584**	**113,927**	**112,403**	**113,176**	**343**	**(1,181)**	**773**
Pedagogues		91,841	92,131	90,775	91,296	290	(1,066)	521
Non-Pedagogues		21,743	21,796	21,628	21,880	53	(115)	252
City University of New York		**7,815**	**7,753**	**7,635**	**7,635**	**(62)**	**(180)**	**0**
Pedagogues		5,048	4,769	5,013	5,013	(279)	(35)	0
Non-Pedagogues		2,767	2,984	2,622	2,622	217	(145)	0
Elected Officials		**2,297**	**2,255**	**2,382**	**2,265**	**(42)**	**85**	**(117)**
Total		**253,932**	**252,605**	**255,205**	**254,392**	**(1,327)**	**1,273**	**(813)**

Sources: NYC Office of Management and Budget; OSC analysis