Review of the Financial Plan of the City of New York

December 2012

Report 11-2013

New York State
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I. Executive Summary

On November 9, 2012, Mayor Bloomberg revised New York City's four-year financial plan (the "November Plan") to reflect a delay in the planned sale of additional taxi medallions caused by legal challenges. Previously, the City's financial plan had counted on the receipt of $635 million from the sale in FY 2013, and a total of $1.5 billion over three years. The City no longer anticipates the receipt of any sale proceeds in the current fiscal year, and now expects to realize $1.5 billion during fiscal years 2014 through 2016.

To offset the loss of medallion sale proceeds in FY 2013 and to reduce the size of the out-year budget gaps, the Mayor has proposed a gap-closing program that is valued at $1.5 billion over the next 18 months and about $500 million annually beginning in FY 2015. As a result, the November Plan still projects a balanced budget in FY 2013; next year's budget gap has been cut by more than half, to less than $1.2 billion; and the out-year gaps have been reduced slightly, to about $2.7 billion (see Figure 1).

The City's gap estimates, however, do not reflect the potential budgetary impact of Superstorm Sandy or the rapidly approaching federal fiscal cliff. In addition, all of the City's major unions are working without current contracts (in some cases for years). Each of these issues has the potential to increase the size of the projected budget gaps.

The governors of New York, New Jersey and Connecticut are seeking more than $80 billion in federal aid for costs related to Superstorm Sandy. The City estimates that its agencies incurred costs totaling $4.5 billion, including about $1 billion in operating expenses. The President recently announced that he would request a supplemental appropriation of about $60 billion, but congressional approval for even this lower amount may prove difficult given the focus on reducing the federal deficit. Under the President's plan, states and localities would be expected to fund 10 percent of eligible repair and mitigation costs. Until the federal appropriation is authorized, the potential budgetary impact of the storm cannot be determined.

Many economists believe that the combination of expiring federal tax cuts and automatic spending cuts, scheduled to take effect on January 1, 2013, could bring about a severe fiscal shock that could send the national economy back into recession. The City estimates that federal budget cuts could reduce funding to the City by a total of $300 million in fiscal years 2013 and 2014. A recent report by the State Comptroller estimated that expiring tax provisions could cost New York taxpayers more than $43 billion in 2013. These expiring tax provisions could also have a significant impact on the City's economy. The President and congressional leaders are negotiating alternative actions to reduce the federal deficit, but it remains to be seen whether those actions would have a larger or smaller impact on the City's economy and budget.

Complicating the City's fiscal outlook is the lack of new labor agreements with the City’s unions. The November Plan assumes that municipal employees will not be compensated for wage freezes imposed during the recession, and that they will agree to annual wage increases of 1.25 percent during the plan period, which is less than the projected inflation rate. Also, the receipt of $250 million in State education aid in FY 2013 is contingent upon the City and the teachers’ union reaching agreement on a teacher evaluation program by January 17, 2013.

Another area of concern is the continued growth in nondiscretionary costs. Health insurance costs and debt service are expected to continue to grow rapidly, consuming an increasing share of City revenues. Debt service, for example, is projected to grow by 45 percent from $5 billion in FY 2012 to $7.3 billion in FY 2016. Pension contributions were projected to grow slowly during the plan period, but shortfalls in investment earnings last year will drive up planned contributions faster than expected.

The City’s accrued liability for other post-employment benefits exceeded $88 billion at the end of FY 2012, an increase of nearly $35 billion over six years. The City had set aside resources during the last economic expansion to help fund these costs, but the City has been redirecting these resources ($3.1 billion including interest) to help balance the budget, leaving future taxpayers to fund the full cost of services being provided today. As in prior years, the FY 2013 budget relies heavily on nonrecurring resources ($3.8 billion), which will not advance structural budget balance.

While the City’s economic recovery has been stronger than the nation’s, it remains vulnerable. As of October 2012, the City had gained 154 percent of the jobs lost during the recession, although job growth has been concentrated in lower-paying industries and the unemployment rate remains high at 9.3 percent.

The recent news that Wall Street earned $17.6 billion through the third quarter (the third-highest level of profitability at this point in the year) was an unexpected positive development. Profits are on pace to exceed $20 billion for all of 2012, nearly three times higher than last year and twice the level assumed in the November Plan, which would provide a boost to tax collections. Profitability has been volatile in recent years, however, and adverse developments in the fourth quarter could erode gains.

In conclusion, the FY 2013 budget is balanced and the FY 2014 budget gap has been reduced to a manageable $1.2 billion, but in subsequent years the gaps more than double in size. Moreover, a number of unresolved issues could increase the size of the projected budget gaps, including further delays in the sale of additional taxi medallions, the outcome of collective bargaining, and the economic and budgetary impact of Superstorm Sandy and actions to reduce the federal deficit.

Figure 1
New York City Financial Plan
(in millions)

	FY 2013	FY 2014	FY 2015	FY 2016
REVENUES				
Taxes				
General Property Tax	$ 18,430	$ 18,970	$ 19,632	$ 20,275
Other Taxes	24,571	25,444	26,798	28,021
Tax Audit Revenue	838	709	709	709
Subtotal: Taxes	$ 43,839	$ 45,123	$ 47,139	$ 49,005
Miscellaneous Revenues	6,506	7,105	6,724	6,581
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,704)	(1,606)	(1,609)	(1,614)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 48,626	$ 50,607	$ 52,239	$ 53,957
Other Categorical Grants	978	951	916	902
Inter-Fund Revenues	538	509	508	509
Federal Categorical Grants	7,262	6,588	6,359	6,347
State Categorical Grants	11,566	11,703	12,042	12,521
Total Revenues	**$ 68,970**	**$ 70,358**	**$ 72,064**	**$ 74,236**
EXPENDITURES				
Personal Service				
Salaries and Wages	$ 21,875	$ 21,823	$ 22,004	$ 22,320
Pensions	8,062	8,212	8,203	8,399
Fringe Benefits	8,419	8,797	9,431	10,142
Retiree Health Benefits Trust	(1,000)	(1,000)	- - -	- - -
Subtotal: Personal Service	$ 37,356	$ 37,832	$ 39,638	$ 40,861
Other Than Personal Service				
Medical Assistance	$ 6,282	$ 6,366	$ 6,447	$ 6,415
Public Assistance	1,274	1,275	1,273	1,273
All Other[1]	21,661	20,965	21,569	22,077
Subtotal: Other Than Personal Service	$ 29,217	$ 28,606	$ 29,289	$ 29,765
General Obligation, Lease and TFA Debt Service[1,2]	$ 6,108	$ 6,531	$ 7,233	$ 7,539
FY 2012 Budget Stabilization & Discretionary Transfers[1]	(2,431)	(31)	- - -	- - -
FY 2013 Budget Stabilization[2]	124	(124)	- - -	- - -
General Reserve	300	300	300	300
Subtotal	$ 70,674	$ 73,114	$ 76,460	$ 78,465
Less: Intra – City Expenses	(1,704)	(1,606)	(1,609)	(1,614)
Total Expenditures	**$ 68,970**	**$ 71,508**	**$ 74,851**	**$ 76,851**
Gap To Be Closed	**$ - - -**	**$ (1,150)**	**$ (2,787)**	**$ (2,615)**

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 $124 million.

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

	Better/(Worse)			
	FY 2013	**FY 2014**	**FY 2015**	**FY 2016**
Surplus/(Gaps) per November Plan	**$ - - -**	**$ (1,150)**	**$ (2,787)**	**$ (2,615)**
Business Tax Revenue	100	- - -	- - -	- - -
Debt Refundings	5	175	- - -	- - -
Agency Actions	(105)	(187)	(125)	(125)
Taxi Medallion Sale[3]	- - -	(790)	(447)	(223)
Property Tax Revenues	- - -	100	225	400
OSDC Risk Assessment	**- - -**	**(702)**	**(347)**	**52**
Remaining Gap to be Closed per OSDC[4]	**$ - - -**	**$ (1,852)**	**$ (3,134)**	**$ (2,563)**
Additional Risks and Offsets[5]				
Wage Increases at the Projected Local Inflation Rate[6]	$ (17)	$ (87)	$ (217)	$ (412)
Federal Fiscal Cliff[7]	- - -	(300)	(200)	(200)
State Education Aid[8]	(250)	- - -	- - -	- - -

[3] On August 17, 2012, the New York State Supreme Court ruled that certain aspects of the State law that authorized the sale of taxi medallions (among other provisions) were unconstitutional. The City has appealed this decision directly to the New York State Court of Appeals.

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

[5] The November 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.

[6] 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 November 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.

[7] These estimates reflect the potential loss of federal funding (mostly for education and social services) from budget cuts scheduled to take effect on January 1, 2013. They exclude the potential economic and budgetary impact of expiring tax provisions.

[8] The receipt of about $250 million in State education aid in FY 2013 is contingent on the City and the United Federation of Teachers reaching an agreement on a teacher evaluation program by January 17, 2013.

II. Economic Trends

The impending federal fiscal cliff (i.e., the combination of automatic budget cuts and expiring tax cuts scheduled to take effect on January 1, 2013) poses the most immediate risk to New York City's economy. The City's economic outlook as reflected in the November Plan is built upon forecasts by IHS Global Insight, which assume that the fiscal cliff will be avoided and the national economy will continue to expand. Global Insight has also estimated that if the cliff is not avoided, the national economy could enter a recession in the first half of 2013 as government spending falls sharply and rising taxes reduce consumers' disposable incomes and spending.

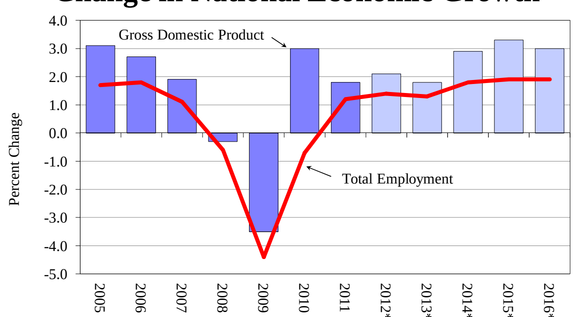
The November Plan also does not reflect the economic impact of Superstorm Sandy. Moody's Analytics estimates that the economic output of the affected area, which has an annual gross product of about $2.1 trillion, was temporarily reduced by $19.9 billion, but Moody's believes that reconstruction will provide an economic boost in coming quarters. The Mayor has estimated that the storm reduced the City's gross city product by $5.7 billion. The Mayor and the Governor have released preliminary estimates of the cost of Superstorm Sandy, which are discussed later in this report (see Section VII, "Other Issues").

Additional sources of uncertainty include the ongoing European sovereign debt crisis, which has driven many European economies into recession, and unrest in the Middle East, which could put upward pressure on the price of oil. Finally, Wall Street continues to restructure as it works through changes in its regulatory and economic environment, creating uncertainty over long-term trends in employment, compensation and profitability.

While the national economy has improved in 2012, the November Plan assumes that the pace of economic growth will remain weak, with the Gross Domestic Product (GDP) increasing by only 2.1 percent in 2012 (see Figure 3). GDP growth is expected to ease to 1.8 percent in 2013, with business spending and exports slowing as a result of global recessions, but then to grow at an average annual rate of 3 percent during calendar years 2014 through 2016, as domestic and global economic conditions improve.

Figure 3

Change in National Economic Growth



* City forecast

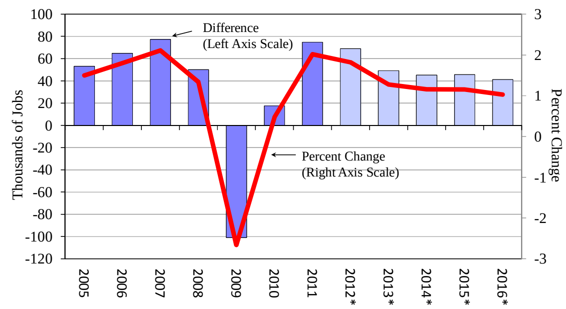
Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; NYC Office of Management and Budget

Since the end of the recession, the nation has created nearly 5.1 million private sector jobs, recovering 58 percent of the jobs it lost during the recession (the government sector has lost 509,000 jobs). Figure 3 also shows that the November Plan assumes that the growth in national employment will reach 1.4 percent in 2012, ease to 1.3 percent in 2013 as the overall economy slows, but then rise at an average annual rate of 1.8 percent during calendar years 2014 through 2016 as GDP improves. The November Plan also assumes that the national unemployment rate will decline from 8.2 percent in 2012 to 6.4 percent in 2016.

Job growth has been much stronger in New York City than in the nation during the economic recovery, growing by 2 percent in the City compared to 1.2 percent nationally in 2011. Between November 2009 and October 2012, the City added nearly 216,200 jobs, or 154 percent of the jobs lost in the recession, and total employment in the City has reached an all-time record of 3.9 million. Nonetheless, the City's unemployment rate remains high, at 9.3 percent in October 2012. In addition, many of the jobs added during the recovery have been in sectors that are relatively low-paying, such as the retail trade, health care and tourism-related sectors.

Figure 4

Change in New York City Employment



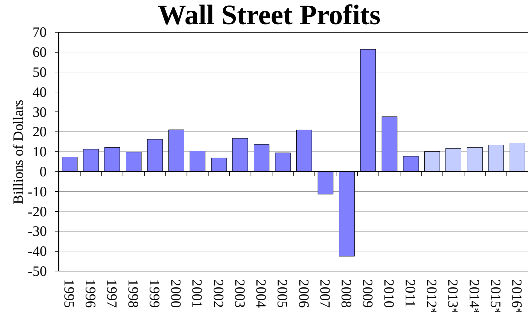
*City forecast
Sources: NYS Department of Labor; NYC Office of Management and Budget

The November Plan assumes that job growth in the City will ease to 1.8 percent in 2012 and then slow to an average annual rate of 1.2 percent during calendar years 2013 through 2016 (see Figure 4), which would be a slower pace than projected for the nation and less than the City's rate of job growth in the 1990s expansion and mid-2000s expansions. The City expects job gains during the financial plan period to be concentrated in the business services, health care and tourism-related industries, while manufacturing and government are expected to decline.

Wall Street continues to work through the fallout from the financial crisis, and the subsequent changes in its regulatory and economic environment. In the first half of 2012, the member firms of the New York Stock Exchange earned $10.5 billion from their broker/dealer operations (the traditional measure of the industry's profitability). An October 2012 report on the securities industry issued by the Office

Figure 5

Wall Street Profits

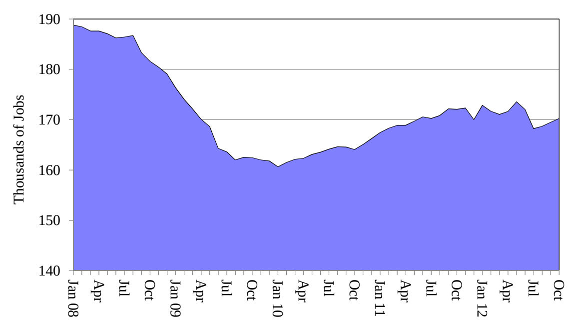


* City forecast
Sources: New York Stock Exchange; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

of the State Comptroller (OSC) estimated that the industry was on pace to earn more than $15 billion in 2012, but cautioned that quarterly profitability has been volatile in recent years, and that adverse developments in the second half of 2012 could quickly erode profitability as it did last year. The New York Stock Exchange recently announced that its member firms earned another $7.1 billion in the third quarter, pushing year-to-date profits to $17.6 billion (the third-highest level of profitability at this point in the year). Absent adverse developments in the fourth quarter, such as the failure to reach agreement on avoiding the fiscal cliff, the securities industry is now on pace for one of its best years. We estimate that profits could exceed $20 billion in 2012, nearly three times more than last year and twice the amount assumed in the November Plan (see Figure 5). Such a level of profitability would be a boost to the local economy and to City and State revenues.

Figure 6

Securities Employment in New York City



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

Even though the securities industry is on track for one of its most profitable years on record, industry employment has weakened in recent months (see Figure 6). While the industry added jobs during the first five months of 2012, those gains have been eroded and the industry shows only a small net gain for the first ten months of the year. As of October 2012, the securities industry in New York City had recovered 9,600 jobs, or one-third of the 28,300 jobs it lost during the financial crisis. OSC expects the industry to lose jobs over the next few years as it continues to restructure, which is consistent with the November Plan's assumption that the industry will lose 3,700 jobs by 2016.

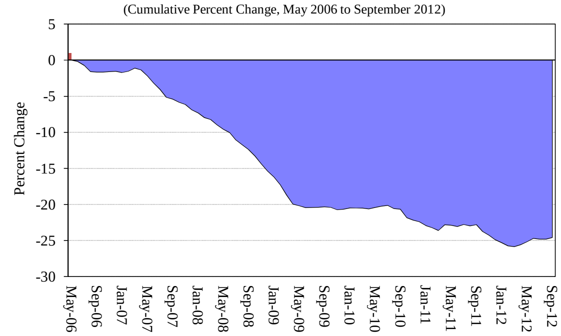
The City also expects cash bonuses in the securities industry to remain unchanged or to decline slightly in 2012 from last year's level. Third-quarter results, however, suggest that bonuses could be slightly higher than last year, but much will depend on the fourth quarter. The City's assumption of lower securities industry bonuses, coupled with job growth in the rest of the City's economy that is weighted toward lower-paying industries, contributes to the November Plan's projection that total wage growth in the City will remain at 2.4 percent in 2013 before rising slightly to an average of 3.5 percent during calendar years 2014 through 2016.

Tourism remains a vibrant part of the City's economy. In 2011, both the number of visitors (50.9 million) and their spending ($34.2 billion) reached record levels, and NYC & Company, the City's tourism agency, projects another record year for 2012, with the number of visitors reaching 51.5 million. Broadway theatres also experienced near-record attendance and record revenues in 2011 (12.1 million and $1.1 billion, respectively), and have continued to grow in the first three quarters of 2012, with attendance and revenues rising (6 percent and 14 percent, respectively) compared to the same period in 2011. Meanwhile, the City's hotel occupancy rate rose by 2.7 percentage points over the same period, to 86.7 percent, while the average daily room rate rose by 2.5 percent to $262.30.

Figure 7

S&P/Case-Shiller New York Metro Home Price Index

(Cumulative Percent Change, May 2006 to September 2012)



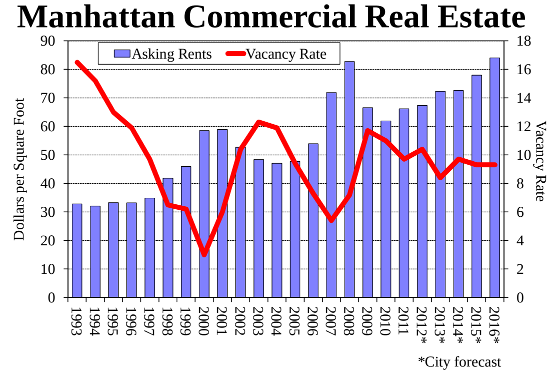
Source: S&P/Case-Shiller National Metro Home Price Index

It appears that housing prices have reached their low point in New York City, and have begun to recover. The S&P/Case-Shiller Home Price Index indicates that single-family home prices in the New York metropolitan area reached an eight-year low in March 2012 (see Figure 7). Since then, prices have risen by 1.7 percent through September 2012. Nonetheless, the average home price in the region is still 24.6 percent below its peak in May 2006 (nationally, the price decline was nearly 31 percent). According to the real estate firm Douglas Elliman, the median sales price for Manhattan cooperative and condominium apartments has been volatile during the recovery. Overall, the median price in the third quarter of 2012 ($890,000) was 13 percent below its peak in the second quarter of 2008.

The City's commercial real estate market continues to improve. Real estate firm Cassidy Turley reported that the vacancy rate in Manhattan's primary office market reached 9.9 percent in November 2012, down slightly from one year earlier, while average asking rents rose by 7.2 percent to $68.68 per square foot. The November Plan assumes that the vacancy rate will fall to 8.4 percent by 2013, but the completion of more than 4 million square feet of office space in the World Trade Center will raise the vacancy rate to 9.7 percent in 2014 and will keep it elevated through 2016 (see Figure 8). The average asking rent, however, is expected to reach $72.29 per square foot in 2013 and to continue to rise through 2016.

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. In November 2012, the City revised its four-year financial plan to account for a delay in the receipt of proceeds anticipated from the sale of additional taxi medallions; a new gap-closing program to mitigate the impact of the delayed sale and to help reduce the out-year budget gaps; and other revenue and expenditure changes (see Figure 9). Despite the delay in the sale of taxi medallions, the November Plan still projects a balanced budget for FY 2013, a FY 2014 budget gap that is less than half the size (\$1.2 billion) of the gap projected in June 2012, and slightly smaller gaps in subsequent years. These estimates do not reflect the potential economic or budgetary impact of Superstorm Sandy or the impending federal fiscal cliff.

Figure 9
Financial Plan Reconciliation–City Funds
November 2012 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 Sales	**(635)**	**425**	**(13)**	**223**
Gap-Closing Program	**555**	**1,001**	**509**	**521**
Revenue Reestimates				
Audits	113	- - -	- - -	- - -
Business Taxes	69	- - -	- - -	- - -
Personal Income Tax	17	- - -	- - -	- - -
Other Taxes	(18)	- - -	- - -	- - -
All Other	24	(12)	(11)	(31)
Total	**205**	**(12)**	**(11)**	**(31)**
Expenditure Reestimates				
Debt Service	- - -	- - -	(31)	(59)
Health Insurance	11	191	210	232
Pension Contributions	- - -	(98)	(197)	(295)
Uniformed Agencies	(60)	(71)	(66)	(66)
Homeless Services	(47)	(42)	(42)	(42)
Other	(29)	(36)	(29)	(28)
Total	**(125)**	**(56)**	**(155)**	**(258)**
Gaps Per November Plan	**\$ - - -**	**\$ (1,150)**	**\$ (2,787)**	**\$ (2,615)**

Sources: NYC Office of Management and Budget; OSDC analysis

Legal issues continue to threaten the City's plan to sell 2,000 taxi medallions to help balance the operating budget. Although the City is no longer counting on the receipt of any proceeds from the sale in the current fiscal year, the November Plan anticipates nearly \$1.5 billion during fiscal years 2014 through 2016. To mitigate the budgetary impact of the delay in FY 2013 ($635 million) and to help narrow the out-year budget gaps, the Mayor has proposed a gap-closing program, which is expected to generate $555 million in FY 2013, $1 billion in FY 2014 and about $500 million annually thereafter. The gap-closing program is composed of savings from debt refundings and lower interest rates ($259 million over fiscal years 2013 and 2014), and agency actions ($526 million in FY 2013, $771 million in FY 2014 and about $500 million annually thereafter), which are discussed in detail in Section IV, "The Agency Program."

In October 2012, the New York State Department of Financial Services (DFS) rejected an application from the Health Insurance Plan of Greater New York (HIP) to increase health insurance premiums for active City employees by 10.1 percent in FY 2014. Instead, the DFS approved an increase of 5.2 percent, nearly half the size of the increase (9.5 percent) assumed in the June Plan. The savings, however, are mostly offset during the financial plan period by a shortfall in pension fund investment earnings in FY 2012, which will require an increase in the City's planned contributions beginning in FY 2014.

The November Plan also allocates additional funding for the uniformed agencies and for homeless services. The City's homeless shelter population reached a record of 46,961 in November 2012 (including 20,035 children), which is 19 percent higher than one year earlier. Spending by the uniformed agencies is now expected to be higher by about $66 million annually.

Although City fund revenues are now expected to be higher than forecast in June 2012 by $205 million in FY 2013 as a result of higher audit revenue and business tax collections, the City's estimates for subsequent years is virtually unchanged from the June Plan.

IV. The Agency Program

The Mayor has proposed an agency program that would generate $2.3 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 the agency program does include initiatives that would reduce some services and raise some fees.

Our review of the November Plan has identified agency initiatives that may not achieve their targets because they have failed in the past or require outside approval. For example, the City anticipates additional federal Medicaid reimbursement for special education services ($50 million) and savings in police overtime ($50 million). In total, the initiatives we identified have a value of $105 million in FY 2013, $187 million in FY 2014 and $125 million in each subsequent year. In addition, the November Plan includes budget cuts to programs that have been rescinded by the City Council in the past during the budget adoption process (e.g., cuts to libraries, cultural institutions, child care and youth programs, and fire companies). These initiatives have a value of $230 million in FY 2014.

Figure 10
Agency Program
(in millions)

	Positions through June 2014	FY 2013	FY 2014	FY 2015	FY 2016
Health and Social Services	499	$ 144.7	$ 142.8	$ 86.9	$ 104.4
Dept. of Education	- - -	126.7	298.0	266.0	266.0
Uniformed Agencies					
Correction	393	28.1	41.4	16.4	16.6
Police	- - -	22.3	21.3	- - -	- - -
Fire	(24)	13.8	9.7	5.0	5.0
Sanitation	124	0.9	75.7	- - -	- - -
Transportation	147	25.5	45.4	30.0	26.3
Dept. of Information Tech.	21	18.4	23.4	9.9	7.8
Law	- - -	17.7	1.0	- - -	- - -
Dept. of Citywide Admin. Svcs.	75	17.1	16.6	2.7	2.7
Finance	- - -	16.7	19.1	20.1	21.2
Mayoralty	23	15.4	2.2	2.2	2.2
FISA	- - -	11.3	2.2	1.8	1.8
Libraries	- - -	10.1	16.7	16.7	16.7
Cultural Institutions	- - -	8.5	8.1	8.1	8.1
All Other Agencies	80	48.7	47.0	43.0	42.4
Total	**1,338**	**$ 525.9**	**$ 770.6**	**$ 508.8**	**$ 521.2**

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

The Department of Education (DOE) plans to reduce planned spending by nearly $1 billion during the financial plan period. This represents 41 percent of the total value of the agency program, which is greater than the DOE's share of the City-funded budget. The budget cut is not expected to affect classroom services since the majority of the savings would come from reestimates of the cost of special education ($530 million) and from non-classroom efficiencies ($280 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. This initiative is expected to save the City $4 million in FY 2013 and $9 million annually thereafter.

Agencies that provide health and social services would generate 21 percent of the total value of the agency program, or nearly $500 million. By our estimate, one-third of the resources would come from efficiencies, such as an expansion in the web-based application process for social services, which would eliminate the need for more than 1,000 employees. The City also intends to maximize federal reimbursements ($151 million), but some of these initiatives could be jeopardized by looming federal budget cuts. The Mayor has also proposed cuts ($70 million) to child care, mental hygiene and school health programs. These cuts would be in addition to those that were rescinded for FY 2013 but are still scheduled to go into effect in FY 2014.

The uniformed agencies will generate savings of $256 million by FY 2016, 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 would stagger the opening of its marine transfer stations through FY 2017.

The agency program would reduce funding to libraries and cultural institutions by $19 million in FY 2013 and by $25 million annually thereafter. However, these cuts exclude reductions that were rescinded during the budget adoption process for FY 2013 but are still scheduled to go into effect for FY 2014. After taking these cuts into account, funding for libraries and cultural institutions would decline by 36 percent during fiscal years 2014 through 2016 (from $443 million in FY 2013 to $284 million in subsequent years).

The agency program also includes some revenue-enhancement initiatives. The Department of Finance would generate $77 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 $49 million from new and increased parking and permit fees.

V. Revenue Trends

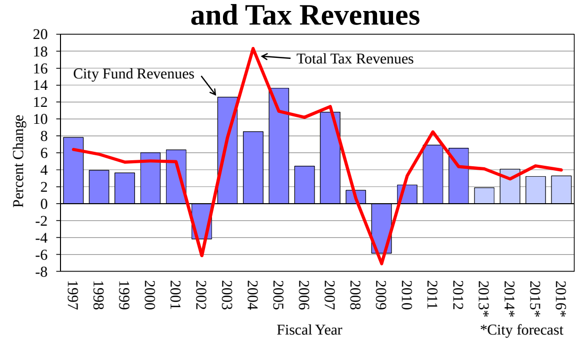
The November Plan does not reflect the potential impact of Superstorm Sandy on revenue collections, although the City estimates that revenue losses could total $250 million. So far, revenue collections have not shown any discernible impact from the storm. In addition, economists have found that rebuilding and remediation can mitigate economic losses caused by large storms. Thus, any tax revenue lost during the storm could be made up over the course of the next few quarters.

While assessed real estate values are likely to be lowered for homes and businesses that have been destroyed or damaged, the impact is likely to be short-term and minimal because the number of affected properties represents a small share of the City's real property tax base. For damaged buildings in Lower Manhattan, however, a prolonged repair period could result in a loss of tenants. The long-term impact on commercial and large residential buildings will depend on changes to earnings potential (such as from higher vacancy rates) and the desirability of waterfront property. Any reduction in value could be offset by increased demand for properties outside of the flood zone. The City is scheduled to release its tentative property tax roll for FY 2014 by the end of January 2013, but the impact of the storm is not likely to be reflected until the final roll is released in May 2013.

City fund revenues grew by 6.5 percent in FY 2012 (see Figure 11). Taxes, the largest component of City fund revenues, rose by 4.4 percent, led by strong growth in the real property tax (6.3 percent). Although tourism set new records, slower economic growth as well as lower Wall Street profits and a reduction in audit revenue held down the rate of growth in personal income, sales and business taxes. City fund revenues were boosted by one-time resources, including settlements for the CityTime project ($469 million) and with ING Bank ($150 million).

Figure 11

Annual Changes in City Fund Revenues and Tax Revenues



Note: Adjusted for debt service on TFA and Tobacco Bonds, and the transfer of TSASC revenues.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

City fund revenues are expected to get a boost in FY 2014 from the anticipated sale of additional taxi medallions. The sale, which has been delayed due to ongoing litigation, is expected to generate $790 million in FY 2014, $447 million in FY 2015 and $223 million in FY 2016. The November Plan assumes that tax revenues will rise by 4.1 percent in FY 2013, but then slow to 2.9 percent in FY 2014 as the economic recovery slows in calendar year 2013. These estimates, however, do not reflect the potential impact of the federal fiscal cliff or alternative actions to reduce the federal budget deficit that are currently under discussion.

The real property tax is the City's single largest revenue source. Collections are projected to increase by 2.7 percent in FY 2013, with growth primarily driven by rising values for commercial and large residential properties. The gradual strengthening of the real estate market is expected to lead to growth of 2.9 percent in FY 2014, and an average gain of 3.4 percent in fiscal years 2015 and 2016.

The November Plan assumes that tax breaks for owners of condominiums and cooperative apartments, which expired on June 30, 2012, will be extended retroactively by the State. The City has announced that the January 2013 property tax bills will reflect the continuation of the program, in anticipation of its extension by the State Legislature. In the unlikely event that this program is not reauthorized, the City would realize an additional $430 million in real property tax revenues in FY 2013.

While the City expects property values to increase throughout the financial plan period, the November Plan assumes that rising interest rates will limit the rate of growth for commercial properties with valuations that are based on building income statements. The Federal Reserve, however, plans to keep interest rates close to zero until mid-2015 to support the economic recovery. Because of a two-year lag in property valuation on the tax roll, any increases in interest rates in late 2015 would not be reflected until the FY 2017 tax roll. OSC believes that the City's rising population and shortage of housing will maintain values for large residential properties, and that the large pipeline of assessment increases waiting to be phased in will further support growth. As a result, we project that revenues from the real property tax could be higher than anticipated in the November Plan by $100 million in FY 2014, $225 million in FY 2015 and $400 million in FY 2016.

The gradual improvement in the real estate market has also brought about a recovery in collections from the real estate transaction taxes. The housing crisis had caused receipts to fall from their peak of $3.3 billion in FY 2007 to a low of $981 million in FY 2010. Helped by the quicker recovery in commercial real estate, collections rose to $1.4 billion in FY 2012, and receipts are forecast to rise to $2.1 billion by FY 2016.

Wall Street is a major driver of the local economy, and securities industry–related activities provide approximately 7 percent of City tax revenues. The industry recently announced strong profits for the third quarter of 2012, and the State Comptroller now estimates that the industry is on pace to earn more than $20 billion this year, which is nearly twice the amount assumed in the November Plan. As a result, business tax collections could exceed the City's forecast by up to $100 million in FY 2013. The City expects the business taxes to grow by about 4.5 percent annually in subsequent years, with Wall Street profits forecast to remain at modest levels, ranging from $11.6 billion in calendar year 2013 to $14.3 billion in calendar year 2016.

While job growth in the City has been very strong in recent years, many of these new jobs have been in relatively low-paying sectors such as health care or the tourism-related industries. Wall Street, the highest-paying major industry in the City, has only recovered one-third of the jobs it shed during the financial crisis, and more job losses are expected. In addition, Wall Street has been restructuring its compensation practices since the crisis, with a greater share of year-end bonuses deferred over multiple years. The November Plan does not expect an increase in bonuses, and despite the strength in profits in the third quarter, many risks remain that could reduce profitability in the fourth quarter.

Given the strong job gains, combined with a modest acceleration of capital gains income into 2012 by taxpayers seeking to avoid higher federal taxes in 2013 (although bonuses are expected to be weak), the City forecasts that personal income tax collections will rise by 6.8 percent in FY 2013. The rate of growth is then projected to ease (to an average annual rate of 3.8 percent in fiscal years 2014 through 2016) as the City expects job growth to slow and remain weighted toward lower-paying jobs. The November 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.

While tourism remains vibrant, the slowdown in job growth is expected to constrain consumer incomes and spending. As a result, growth in sales tax collections is forecast to slow from 4.3 percent in FY 2013 to an annual average of 4.1 percent in fiscal years 2014 through 2016.

The November Plan is based on the trends shown in Figure 12.

Figure 12
City Fund Revenues
(in millions)

	FY 2012	FY 2013	Annual Growth	FY 2014	FY 2015	FY 2016	Average Three-Year Growth Rate
Taxes							
Real Property Tax	$ 17,945	$ 18,430	2.7%	$ 18,970	$ 19,632	$ 20,275	3.2%
Personal Income Tax	7,953	8,493	6.8%	8,521	9,129	9,497	3.8%
Sales Tax	5,812	6,061	4.3%	6,326	6,599	6,839	4.1%
Business Taxes	5,362	5,555	3.6%	5,826	6,027	6,363	4.6%
Real Estate Transaction Taxes	1,448	1,540	6.3%	1,741	1,941	2,148	11.7%
Other Taxes	2,848	2,922	2.6%	3,030	3,102	3,174	2.8%
Audits	743	838	12.8%	709	709	709	-5.4%
Subtotal	**42,111**	**43,839**	**4.1%**	**45,123**	**47,139**	**49,005**	**3.8%**
Miscellaneous Revenues	5,499	4,876	-11.3%	5,573	5,189	5,041	1.1%
Unrestricted Intergovernmental Aid	25	- - -	NA	- - -	- - -	- - -	NA
Grant Disallowances	165	(15)	NA	(15)	(15)	(15)	0.0%
Total	**$ 47,800**	**$ 48,700**	**1.9%**	**$ 50,681**	**$ 52,313**	**$ 54,031**	**3.5%**

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

VI. Expenditure Trends

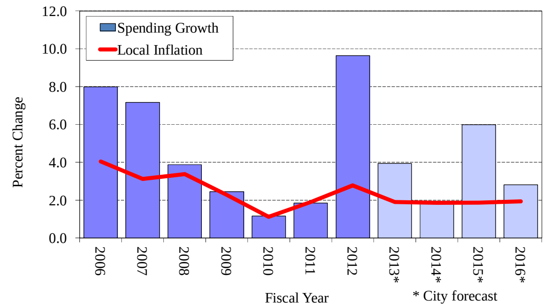
City-funded expenditures grew by 9.6 percent in FY 2012 (see Figure 13), because the City replaced the loss of expiring federal stimulus aid ($1.8 billion) and a cut in expected State education aid ($812 million) with City funds, and because pension contributions, health insurance costs and debt service grew at relatively rapid rates.

The City is still in the process of assessing the damage from Superstorm Sandy, but has authorized more than $700 million in expenditures, including cleanup costs and overtime. The November Plan assumes that all storm-related expenditures will be funded from non-City sources (e.g., federal and State funds), resulting in no net budgetary impact. However, the actual amounts and timing of federal and State aid remains to be determined.

The November Plan assumes that City-funded spending will rise by 3.9 percent ($1.9 billion) in FY 2013 to $51 billion, reflecting the continued growth in debt service and health insurance costs. Spending is projected to rise by only 2 percent in FY 2014 (reflecting the impact of the Mayor's proposed cost-reduction program), and by 6 percent in FY 2015 and 2.5 percent in FY 2016.

Figure 13

Growth in City-Funded Expenditures



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

Although City-funded spending is projected to exceed City fund revenues by $2.3 billion in FY 2013, the budget will be balanced with surplus resources generated in FY 2012. 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 $3.8 billion in nonrecurring resources, and the FY 2014 budget includes $2.3 billion in nonrecurring resources (see Appendix A).

The City's expenditure projections assume annual wage increases of only 1.25 percent beginning in FY 2013, which is lower than the projected local inflation rate. If wages were to rise at the projected inflation rate without any offsetting savings, costs would increase by $17 million in FY 2013, $87 million in FY 2014, $217 million in FY 2015 and $412 million in FY 2016. The City also assumes no financial liability will arise from the three-year wage freeze imposed on municipal workers during fiscal years 2010 through 2012, even though the City has not reached new labor agreements covering this period. 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 prior round of collective bargaining covering calendar years 2009 and 2010.

The City's estimates also do not reflect the potential impact of the impending federal fiscal cliff, which would reduce federal funding to New York City. Furthermore, we note that the growth in City-funded spending is held down in fiscal years 2013 and 2014 because the City is continuing to draw down resources deposited in the Retiree Health Benefits Trust during the last economic expansion ($1 billion in each fiscal year). These resources are expected to be mostly exhausted by FY 2014, which helps explain the relatively large increase in spending in FY 2015 (6 percent).

Debt service and health insurance costs are projected to grow faster than City fund revenues during the financial plan period. Even though the growth in health insurance premiums for active employees will be held to 5.2 percent in FY 2014 (the slowest rate of growth since FY 1999), it is still faster than the projected growth in City fund revenues (4.1 percent). The November Plan assumes that health insurance premiums will resume growing at an average annual rate of 9 percent in subsequent years. Premiums for Medicare-eligible retirees are expected to grow by 8 percent annually.

Debt service is expected to grow from $5 billion in FY 2012 to $7.3 billion by FY 2016, which is an average annual growth rate of 9.7 percent. As a result, debt service would consume an increasing share of revenues, rising from 10.6 percent in FY 2012 to 13.5 percent in FY 2016, the highest level since FY 2002. (Our analysis indicates that debt service could be lower by $180 million over the course of fiscal years 2013 and 2014 as a result of recently completed debt refundings.) These estimates reflect the recent announcement by the Mayor, City Comptroller and the City Council Speaker to accelerate capital commitments by $1.2 billion into fiscal years 2013 and 2014 to take advantage of low borrowing and construction costs. Most of the investments would be focused in education and transportation. The City estimates that this initiative will save $200 million over the life of the bonds and will create an estimated 8,000 jobs.

City-funded pension contributions are expected to rise from $7.8 billion in FY 2012 to $8.2 billion by FY 2016. These estimates assume implementation of the City Actuary's recommended changes in the assumptions and methodologies used to calculate City pension contributions. 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 would help free up nearly $3 billion during the financial plan period but also would result in higher costs in the longer term. The boards of trustees of the City's five pension systems have approved the changes, but some of the changes also require State approval. While the State is expected to approve the changes, which would be retroactive to FY 2012, the State Legislature is not scheduled to meet until January 2013.

The City's pension contribution projections have been revised since the June Plan to reflect a shortfall in investment earnings in FY 2012. The shortfall required the City to increase planned contributions by nearly $100 million in FY 2014, $200 million in FY 2015 and $300 million in FY 2016. The ability of the City's pension systems to meet even the new investment earnings target of 7 percent may continue to be difficult in the current economic environment. As of November 30, 2012, the pension systems have earned about 4.5 percent on their investments.

The demand for social services (e.g., Medicaid, homeless services and food stamps) has increased dramatically over the past few years as a result of the recession, but the impact on the City's budget has been marginal as a result of funding relationships with other levels of government. For example, the Medicaid caseload has grown to nearly 3 million, or about one out of every three New York City residents, but the State has taken actions in recent years that limited the growth in the local share of Medicaid. The food stamp program is fully funded by the federal government.

The November Plan is based on the trends shown in Figure 14. Staffing trends are discussed in Appendix B.

Figure 14
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC)
(in millions)

	FY 2012	FY 2013	Annual Growth	FY 2014	FY 2015	FY 2016	Average Three-Year Growth Rate
Salaries and Wages	$12,853	$12,740	-0.9%	$12,705	$13,199	$13,359	1.6%
Pension Contributions	7,798	7,905	1.4%	8,055	8,047	8,242	1.4%
Medicaid	6,104	6,190	1.4%	6,272	6,353	6,322	0.7%
Debt Service	5,046	5,774	14.4%	6,295	7,000	7,310	8.2%
Health Insurance	4,131	4,546	10.0%	4,843	5,473	6,084	10.2%
Other Fringe Benefits	2,738	2,832	3.4%	2,963	3,045	3,144	3.5%
Energy	841	1,008	19.9%	1,070	1,099	1,127	3.8%
Judgments and Claims	583	735	26.1%	768	779	815	3.5%
Public Assistance	561	527	-6.1%	529	528	528	0.1%
General Reserve	- - -	300	NA	300	300	300	NA
Drawdown Retiree Health Benefits Trust	(672)	(1,000)	NA	(1,000)	- - -	- - -	NA
Prior Year's Expenses	(333)	- - -	NA	- - -	- - -	- - -	NA
Other	9,425	9,450	0.3%	9,186	9,277	9,415	-0.1%
Total	**$49,075**	**$51,007**	**3.9%**	**$51,986**	**$55,100**	**$56,646**	**3.6%**

Sources: NYC Office of Management and Budget; OSDC analysis

VII. Other Issues

A. Superstorm Sandy

Superstorm Sandy reached the 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 governors of New York, New Jersey and Connecticut are seeking more than $80 billion in federal aid for costs related to the storm. The request includes funding for emergency work, such as debris removal and emergency services provided before, during and after the storm; permanent repairs to roads, bridges, public housing, schools, hospitals, sewage treatment facilities and other public infrastructure; revenue losses; and mitigation projects to lessen the severity of damage from future storms.

According to the Governor, Superstorm Sandy could cost New York State $33 billion, including public, private and economic losses.[9] The City's preliminary estimate of the loss incurred by its agencies (including the Housing Authority and the Health and Hospitals Corporation) totals $4.5 billion, including about $1 billion in operating costs. The City is still in the process of tabulating the cost of the storm including preparation, damages and lost revenues. The November Plan assumes that all storm-related costs will be reimbursed by non-City sources, primarily the federal government.

The President recently announced that he will request a supplemental appropriation of about $60 billion, but congressional approval for even this lower amount may prove difficult given the focus on reducing the federal deficit. Under the President's proposal, the City would be reimbursed for 90 percent of storm-related costs, but revenue losses are generally not subject to federal reimbursement.[10] Operating expenses are likely to be reimbursed relatively quickly, but the reimbursement process for capital projects could take several years to complete. Until a federal appropriation is authorized, the amount and timing of federal aid cannot be determined. The City will begin to reflect the potential budgetary impact of the storm in the January 2013 Financial Plan.

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[9] The Governor has requested an additional $9.1 billion in federal aid for storm mitigation projects, such as the construction of seawalls, and the replenishment of beaches and dunes to protect shorefront communities.

[10] The City estimates that revenue losses associated with the storm could total $250 million. Currently available data do not show any discernible impact, but complete data covering the aftermath of the storm are not yet available.

Superstorm Sandy had a tremendous impact on the New York City Metropolitan Transportation Authority (MTA). Seven East River subway tunnels and two East River railroad tunnels were flooded. (The East River tunnels are owned and operated by Amtrak but are used by the Long Island Rail Road.) 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). Other damage included the South Ferry/Whitehall Street subway station, which was flooded up to its ceiling and will require $600 million in repairs. The Rockaway subway line also suffered significant damage ($650 million). The MTA estimates that New York City's transit system will require a total of $2.1 billion to repair subway tracks and signal systems, and other infrastructure. Together, the Long Island Rail Road and the Metro-North Railroad sustained damages totaling more than $450 million.

In total, the MTA estimates that its infrastructure suffered $4.8 billion in damage. The MTA also estimates that its expenses to prepare for the storm and restore service after the storm amounted to $144 million, and that it lost $124 million in revenues. The MTA expects that 100 percent of its storm-related operating expenses (through November 14, 2012), will be reimbursed by the federal government, and that insurance will cover lost revenues and remaining expenses. The MTA's property insurance is expected to cover up to $1.1 billion of its infrastructure loss, and federal reimbursement is expected to cover at least 75 percent of the remainder, leaving as much as $950 million in capital costs to be bonded out by the MTA.

Although the MTA expects to be reimbursed for the majority of its storm costs, final settlement of its claim could take two to three years. As a result, the MTA is planning on issuing $4.8 billion of anticipation notes in 2013 and 2014, which will cost $48 million annually until reimbursement is received. If the MTA has to fund the $950 million in costs that are not reimbursed, borrowing such an amount is expected to cost $62 million annually starting in 2016. The MTA expects to fund these additional debt service costs through unspecified cost-saving measures.

B. The Fiscal Cliff

Unless Congress acts, a series of automatic spending cuts totaling $1.2 trillion over nine years are scheduled to take effect on January 1, 2013. Half of the cuts would come from defense programs and half from non-defense programs. In September 2012, the U.S. Office of Management and Budget issued a preliminary list of exempt programs and an estimate of the programmatic impact (approximately 9 percent in defense programs, 8 percent in non-defense programs and 2 percent in Medicare).

Although the November Plan does not reflect the potential impact of the impending fiscal cliff, the City estimates that the automatic cuts could reduce federal aid to New York City by about $300 million over the course of fiscal years 2013 and 2014, and by about $200 million in subsequent years, with most of the impact in education and social services. (These estimates do not include the impact on programs outside of the City's financial plan, such as the New York City Housing Authority, the Metropolitan Transportation Authority and other organizations that receive federal funding.) 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.

In addition, a number of federal tax cuts are set to expire on December 31, 2012. Unless these cuts are extended, personal income, capital gains, corporate, dividend and estate taxes will rise. In addition, the payroll tax cut, which reduces employees' share of the Social Security payroll tax from 6.2 percent of wages to 4.2 percent of wages, is also set to expire at the end of 2012.

The Congressional Budget Office (CBO) estimates that the expiration of all these provisions would increase federal taxes nationally by at least $375 billion for federal fiscal year 2013. The CBO also estimates that the combination of higher federal taxes and spending cuts, if implemented as currently planned, would cause the inflation-adjusted GDP to contract at an annual rate of 2.9 percent in the first half of calendar year 2013, and could push the nation into another recession.

A recent OSC report found that the expiration of these tax provisions could increase federal taxes on New York State residents by $43 billion. New York City residents would pay about $21 billion more in federal taxes, which could adversely affect the City's economy.[11] The President and congressional leaders are negotiating alternative actions to reduce the federal deficit, but it remains to be seen whether those actions would have a larger or smaller impact on the City's budget and economy.

C. Sale of Taxi Medallions

Legal issues continue to threaten the City's ability to generate $1.5 billion from the sale of 2,000 new taxi medallions, which was authorized by State law in February 2012.[12] On August 17, 2012, the New York State Supreme Court ruled that certain aspects of the legislation were unconstitutional, thereby invalidating the entire law. 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 over these appeals.

[11] While federal taxes would increase significantly for New York City residents, there would be only a small increase in City revenues since only a few of the changes in federal tax law would affect the calculation of City taxes.

[12] 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.

Reflecting the ongoing litigation, the November Plan has delayed but not reduced the expected proceeds from the sale of the taxi medallions, and now projects receipts of $790 million in FY 2014, $447 million in FY 2015 and $223 million in FY 2016. While litigation proceeds, the receipt of these resources remains at risk. If the City's appeal is unsuccessful, it would require new legislation to authorize the sale of any additional taxi medallions.

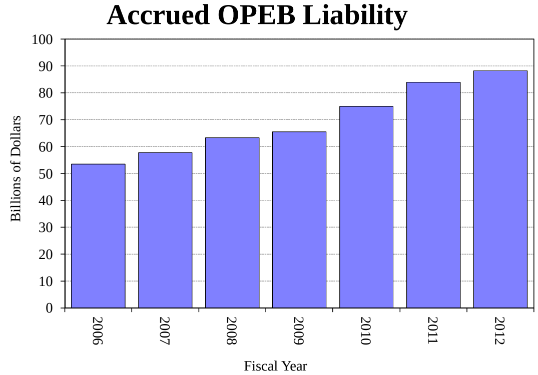
D. Cash Flow

The City began FY 2013 with a cash balance of $6.3 billion, its highest opening balance since FY 2007. The most recent cash flow projections prepared by the City Comptroller show that the City will pass its historic low-balance period in mid-December with a balance of between $2.1 billion and $2.7 billion, even after taking into account estimated costs associated with Superstorm Sandy. The City Comptroller's cash flow projections also show that the City could end May 2013 with a balance of $3.9 billion, before factoring in FEMA reimbursements. The latest cash flow projections prepared by the City's Office of Management and Budget show a cash balance of $3.7 billion at the end of May 2013, and a balance of $7.2 billion at the end of the fiscal year (reflecting the receipt of prepaid real estate taxes). While the November Plan assumes the City will borrow $2.4 billion during the year to meet its cash flow needs, it appears unlikely that the City will need to do so.

E. Other Post-Employment Benefits

Figure 15

Accrued OPEB Liability



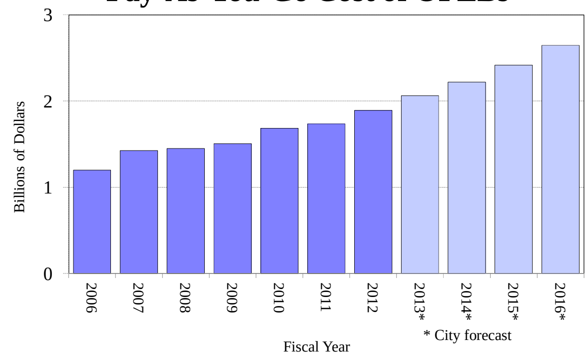
Sources: NYC Actuary; OSDC analysis

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 15, 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 the cost of services, the City is not required to fund OPEBs on a similar basis. The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. In FY 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 $2.6 billion in FY 2016 (see Figure 16), an increase of 40 percent in four years.

Figure 16

Pay-As-You-Go Cost of OPEBs



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

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, which could be used to help balance the operating budget.

Appendix A: Nonrecurring Resources

In the aggregate, nonrecurring resources of $3.8 billion and $2.3 billion will be used to balance the budget in FY 2013 and FY 2014, respectively (see Figure 17).

Figure 17
Nonrecurring Resources
(in millions)

	FY 2013	FY 2014
Surplus Transfers[13]	$ 2,307	$ 155
Retiree Health Benefits Trust	1,000	1,000
Debt Refundings and Redemptions - Net	308	289
State Building Aid	143	- - -
Federal Medicaid Assistance	32	- - -
Educational Construction Fund	- - -	32
Taxi Medallion Sales	- - -	790
Total	**$ 3,790**	**$ 2,266**

Sources: NYC Office of Management and Budget; OSDC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the budget in fiscal years 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.
- General Obligation and Transitional Finance Authority (TFA) debt refundings and redemptions will reduce debt service by $308 million in FY 2013 and $289 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 State building aid not needed to fund debt service on education bonds issued 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 November Plan anticipates $1.5 billion from the sale of additional taxi medallions over a three-year period beginning in FY 2014.

[13] The City transferred FY 2012 surplus resources of $2.4 billion to FY 2013 and $31 million to FY 2014. The November Plan assumes the City will transfer surplus resources of $124 million from FY 2013 to FY 2014.

Appendix B:
Staffing Levels

The City workforce is expected to total 255,780 full-time and full-time-equivalent employees by the end of FY 2013 (see Figure 18).[14] While the November Plan assumes that the City will add 1,925 positions during fiscal years 2013 and 2014, many of these positions may remain vacant because the Mayor has imposed a hiring freeze. These and other changes are discussed below.

- While the Department of Education is expected to maintain pedagogical staffing at about the same level in FY 2013 as last year, the November Plan assumes staffing will rise by 1,692 positions during FY 2014 in response to projected increases in special education enrollment.
- The size of the police force is projected to hold steady during the financial plan period at about 34,500 officers, which is among the lowest levels during the past 21 years.
- The Fire Department plans to resume hiring in FY 2013 to maintain staffing at 10,274 uniformed positions.[15]
- The Department of Correction is expected to increase its uniformed staffing by 350 positions by the end of FY 2014 to fill posts previously staffed through overtime.
- The Department of Parks and Recreation plans to reduce staffing to 4,383 employees by June 2014, which would be 1,709 fewer than at the end of FY 2012.

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14 The November Plan does not reflect the financial impact of Superstorm Sandy. The Parks Department and the Department of Transportation are keeping their seasonal staffs on payroll to assist with cleanup efforts.

15 A court-imposed ban had prevented the Fire Department from hiring new uniformed employees because of concerns over the fairness of a previous firefighter exam. A revised exam was administered during the spring of 2012 and the results were approved by the court in September 2012. The Fire Department plans to resume hiring in January 2013 under court supervision.

Figure 18

City-Funded Staffing Levels

(Full-Time and Full-Time-Equivalents)

Additions/(Reductions)

		Actual		City Forecast		Variance		
		June 2012	Oct. 2012	June 2013	June 2014	June 2012 to Oct. 2012	June 2012 to June 2013	June 2013 to June 2014
Public Safety		**79,883**	**80,314**	**79,662**	**79,533**	**431**	**(221)**	**(129)**
Police	Uniformed	34,406	34,802	34,379	34,379	396	(27)	0
	Civilian	15,679	15,421	15,630	15,611	(258)	(49)	(19)
Fire	Uniformed	10,254	10,158	10,274	10,274	(96)	20	0
	Civilian	5,110	5,310	4,957	4,938	200	(153)	(19)
Correction	Uniformed	8,519	8,675	8,941	8,869	156	422	(72)
	Civilian	1,447	1,422	1,627	1,606	(25)	180	(21)
District Attys. & Prosecutors		3,690	3,776	3,133	3,133	86	(557)	0
Probation		766	740	705	707	(26)	(61)	2
Board of Correction		12	10	16	16	(2)	4	0
Health & Welfare		**22,598**	**22,558**	**24,015**	**23,404**	**(40)**	**1,417**	**(611)**
Social Services		10,090	10,283	10,573	10,123	193	483	(450)
Children's Services		6,097	6,040	6,468	6,460	(57)	371	(8)
Health & Mental Hygiene		4,268	4,117	4,696	4,479	(151)	428	(217)
Homeless Services		1,762	1,754	1,873	1,960	(8)	111	87
Other		381	364	405	382	(17)	24	(23)
Environment & Infrastructure		**17,085**	**16,550**	**16,469**	**15,831**	**(535)**	**(616)**	**(638)**
Sanitation	Uniformed	6,882	7,216	7,064	7,154	334	182	90
	Civilian	1,888	1,900	2,023	2,108	12	135	85
Transportation		2,005	1,973	1,874	1,966	(32)	(131)	92
Parks & Recreation		6,092	5,261	5,285	4,383	(831)	(807)	(902)
Other		218	200	223	220	(18)	5	(3)
General Government		**9,148**	**9,248**	**10,365**	**10,299**	**100**	**1,217**	**(66)**
Finance		1,814	1,797	1,930	1,930	(17)	116	0
Law		1,348	1,328	1,387	1,332	(20)	39	(55)
Citywide Admin. Services		1,397	1,338	1,439	1,430	(59)	42	(9)
Taxi & Limo. Commission		461	480	621	646	19	160	25
Investigations		192	204	232	221	12	40	(11)
Board of Elections		768	900	1,026	1,026	132	258	0
Info. Tech. & Telecomm.		963	965	1,041	1,048	2	78	7
Other		2,205	2,236	2,689	2,666	31	484	(23)
Housing		**1,522**	**1,507**	**1,612**	**1,602**	**(15)**	**90**	**(10)**
Buildings		1,067	1,055	1,127	1,127	(12)	60	0
Housing Preservation		455	452	485	475	(3)	30	(10)
Department of Education		**113,584**	**114,057**	**113,649**	**115,335**	**473**	**65**	**1,686**
	Pedagogues	91,841	92,424	91,670	93,362	583	(171)	1,692
	Non-Pedagogues	21,743	21,633	21,979	21,973	(110)	236	(6)
City University of New York		**7,815**	**9,188**	**7,635**	**7,595**	**1,373**	**(180)**	**(40)**
	Pedagogues	5,048	6,266	5,013	5,013	1,218	(35)	0
	Non-Pedagogues	2,767	2,922	2,622	2,582	155	(145)	(40)
Elected Officials		**2,297**	**2,255**	**2,373**	**2,258**	**(42)**	**76**	**(115)**
Total		**253,932**	**255,677**	**255,780**	**255,857**	**1,745**	**1,848**	**77**

Sources: NYC Office of Management and Budget; OSDC analysis