# Review of the Financial Plan of the City of New York

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New York State
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# I. Executive Summary

In June 2011, New York City projected a balanced budget for FY 2012 but a large budget gap of $4.6 billion in FY 2013, and even larger gaps in subsequent years. On February 2, 2012, the City issued a revised financial plan (the "February Plan"). As shown in Figure 1, the City has closed the FY 2013 budget gap and narrowed the out-year gaps to $3 billion in FY 2014 and about $3.5 billion in subsequent years. Most of the improvement comes from freeing up reserves (nearly $5 billion), proceeds from the anticipated sale of taxi medallions ($1 billion) and savings from agency actions.

In recent months, the national economy has expanded at an accelerated rate based on the strength of manufacturing and exports, even though concerns remain over the European sovereign debt crisis. Between September 2011 and February 2012, the private sector expanded at an average of 214,200 jobs per month, about twice the average monthly gain during the summer of 2011. Thus far, the nation has recovered 3.5 million jobs, or nearly half of the jobs lost during the recession.

Preliminary employment data had indicated that New York City recovered only half of the jobs lost during the recession and that job growth slowed markedly during the second half of 2011, which raised concerns about the pace of the economic recovery. Newly released revised data show that New York City has regained all of the jobs lost during the recession even though the unemployment rate remains high at 9.3 percent.

Wall Street faces continued challenges as it undergoes structural changes in response to the fallout from the recent financial crisis. While the broker/dealer operations of the member firms of the New York Stock Exchange (the traditional measure of Wall Street profitability) had a strong first half in 2011, they lost $4.9 billion in the second half. For the year, Wall Street earned only $7.7 billion, the second year that profits declined by more than 50 percent and the lowest level of profitability since 2002.

Lower profits have led many firms to announce large reductions in bonuses, and to defer bonuses to future years. While the securities industry in New York City has recovered about 40 percent of the jobs lost during the recession, job losses are expected to resume as the year progresses.

The February Plan assumes slow job growth and modest Wall Street profits, and as a result the City lowered its forecast for personal and business taxes. The impact, however, was more than offset by higher forecasts for real estate and sales taxes. Nevertheless, business tax collections and Wall Street profits have been even weaker than forecast by the City.

The commercial real estate market continues to improve, as evidenced by declining vacancy rates, rising rental prices, and higher sale prices for Manhattan office buildings. In response, the City has raised its forecast for real estate taxes (by a total of $2 billion during the financial plan period), although growth could exceed the City's revised forecast. The residential real estate market, however, remains weak.

The City had set aside $1 billion annually beginning in FY 2012 to fund the cost of changes in the actuarial assumptions and methods used to calculate City pension contributions. The City Actuary has recommended reducing the investment earnings assumption from 8 percent to 7 percent, as well as other changes that will greatly increase pension contributions. To mitigate the impact on the City's budget, the Actuary has recommended stretching out the amortization period for unfunded liabilities. While this longer amortization period will help free up nearly $3.1 billion in reserves during the Plan period, it could result in higher costs in the long term.

In recent years, the City has relied heavily on surplus resources generated in prior years and other nonrecurring resources to balance the budget. The City currently projects a surplus of $1.3 billion for FY 2012, which the City will use to help balance next year's budget. The FY 2012 surplus, however, is substantially smaller than last year's surplus ($3.7 billion).

In total, the FY 2013 budget includes $3.5 billion in nonrecurring resources, including $1 billion from the sale of taxi medallions and $1 billion from the Retiree Health Benefits Trust (RHBT). The RHBT was created by the City to help fund the future cost of retiree health benefits, but the City has been redirecting these resources ($3.1 billion) to help balance the budget, leaving future taxpayers to fund the full cost of services being provided today.

The Governor's proposed State budget includes a number of initiatives that would impact the City, including increases in education aid (contingent on reaching agreement with the teacher's union on a teacher evaluation program), a new pension plan for future government employees, and a three-year takeover of the growth in the local share of Medicaid. These initiatives are subject to legislative approval.

New York City's financial situation continues to improve, but the February Plan still projects sizeable out-year budget gaps because in recent years the City has relied heavily on nonrecurring resources to balance the budget, and debt service is rapidly rising. In addition, the City faces a number of budget risks (see Figure 2), including the pace of the economic recovery, the timing of the receipt of proceeds from the sale of taxi medallions, the cost of new labor agreements and the potential for future reductions in federal aid. The City's ability to cushion the impact of such adverse developments will be diminished by FY 2014 because it will have exhausted most of the reserves accumulated during the last economic expansion.

## Figure 1
## New York City Financial Plan
(in millions)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|---|
| **REVENUES** | | | | | |
| Taxes | | | | | |
| General Property Tax | $ 17,812 | $ 18,383 | $ 18,986 | $ 19,648 | $20,291 |
| Other Taxes | 23,650 | 24,751 | 25,373 | 26,643 | 27,624 |
| Tax Audit Revenue | 700 | 724 | 706 | 706 | 706 |
| Subtotal: Taxes | $ 42,162 | $ 43,858 | $ 45,065 | $ 46,997 | $ 48,621 |
| Miscellaneous Revenues | 6,289 | 7,058 | 6,035 | 6,097 | 6,197 |
| Unrestricted Intergovernmental Aid | 25 | - - - | - - - | - - - | - - - |
| Less: Intra-City Revenue | (1,791) | (1,531) | (1,533) | (1,537) | (1,542) |
| Disallowances Against Categorical Grants | (15) | (15) | (15) | (15) | (15) |
| Subtotal: City Funds | $ 46,670 | $ 49,370 | $ 49,552 | $ 51,542 | $ 53,261 |
| Other Categorical Grants | 1,046 | 913 | 909 | 906 | 892 |
| Inter-Fund Revenues | 551 | 509 | 504 | 504 | 504 |
| Federal Categorical Grants | 7,734 | 6,592 | 6,491 | 6,414 | 6,412 |
| State Categorical Grants | 11,368 | 11,341 | 11,449 | 11,586 | 11,705 |
| **Total Revenues** | **$ 67,369** | **$ 68,725** | **$ 68,905** | **$ 70,952** | **$ 72,774** |
| **EXPENDITURES** | | | | | |
| Personal Service | | | | | |
| Salaries and Wages | $ 22,123 | $ 21,730 | $ 21,796 | $ 21,759 | $ 22,002 |
| Pensions[1] | 7,999 | 8,145 | 8,078 | 7,964 | 8,039 |
| Fringe Benefits | 8,005 | 8,335 | 8,920 | 9,499 | 10,123 |
| Retiree Health Benefits Trust | (672) | (1,000) | (1,000) | - - - | - - - |
| Subtotal: Personal Service | $ 37,455 | $ 37,210 | $ 37,794 | $ 39,222 | $ 40,164 |
| Other Than Personal Service | | | | | |
| Medical Assistance | $ 6,275 | $ 6,321 | $ 6,458 | $ 6,638 | $ 6,735 |
| Public Assistance | 1,409 | 1,345 | 1,365 | 1,365 | 1,365 |
| All Other [2] | 20,754 | 20,099 | 20,764 | 21,317 | 21,710 |
| Subtotal: Other Than Personal Service | $ 28,438 | $ 27,765 | $ 28,587 | $ 29,320 | $ 29,810 |
| General Obligation, Lease and TFA Debt Service [2,3] | $ 5,612 | $ 6,278 | $ 6,797 | $ 7,163 | $ 7,436 |
| FY 2011 Budget Stabilization & Discretionary Transfers [2] | (3,742) | - - - | - - - | - - - | - - - |
| FY 2012 Budget Stabilization [3] | 1,297 | (1,297) | - - - | - - - | - - - |
| General Reserve | 100 | 300 | 300 | 300 | 300 |
| Subtotal | $ 69,160 | $ 70,256 | $ 73,478 | $ 76,005 | $ 77,710 |
| Less: Intra – City Expenses | (1,791) | (1,531) | (1,533) | (1,537) | (1,542) |
| **Total Expenditures** | **$ 67,369** | **$ 68,725** | **$ 71,945** | **$ 74,468** | **$ 76,168** |
| **Gap To Be Closed** | **$ - - -** | **$ - - -** | **$ (3,040)** | **$ (3,516)** | **$ (3,394)** |

1 Assumes savings from Governor's pension proposal of $80 million in Fiscal Year 2015 and $155 million in Fiscal Year 2016.

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

3 Fiscal Year 2012 Budget Stabilization totals $1.297 billion.

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

| | *Better/(Worse)* | | | | |
|---|---|---|---|---|---|
| | **FY 2012** | **FY 2013** | **FY 2014** | **FY 2015** | **FY 2016** |
| **Surplus/(Gaps) per February Plan** | **$ - - -** | **$ - - -** | **$ (3,040)** | **$ (3,516)** | **$ (3,394)** |
| Tax Revenues | (150) | (100) | 150 | 300 | 500 |
| Pension Reform | - - - | - - - | - - - | (80) | (155) |
| Debt Refunding | - - - | 139 | - - - | - - - | - - - |
| **OSDC Risk Assessment** | **(150)** | **39** | **150** | **220** | **345** |
| **Remaining Gap to be Closed per OSDC**[4] | **$ (150)** | **$ 39** | **$ (2,890)** | **$ (3,296)** | **$ (3,049)** |
| **Additional Risks and Offsets** | | | | | |
| Wage Increases at Projected Inflation[5] | $ (1,416) | $ (1,514) | $ (2,038) | $ (2,524) | $ (2,945) |
| Taxi Medallion Sale | - - - | (800) | 800 | - - - | - - - |
| State Takeover of the Local Share of Medicaid Growth | - - - | 11 | 65 | 164 | 293 |

4 The February Plan includes a general reserve of $100 million in FY 2012 and $300 million annually in each of fiscal years 2012 through 2015.

5 The February Plan assumes a three-year wage freeze after the expiration of contracts negotiated in the last round of collective bargaining (most of which have already expired), but includes reserves sufficient to fund wage increases of 1.25 percent annually beginning in FY 2013. The City also has not reached an agreement with the United Federation of Teachers and the Council of School Supervisors and Administrators for the prior round of collective bargaining. Wage increases at the pattern rate during that round of collective bargaining could increase costs by $900 million annually during the financial plan period, excluding any retroactive costs, beyond those reflected in the table above.

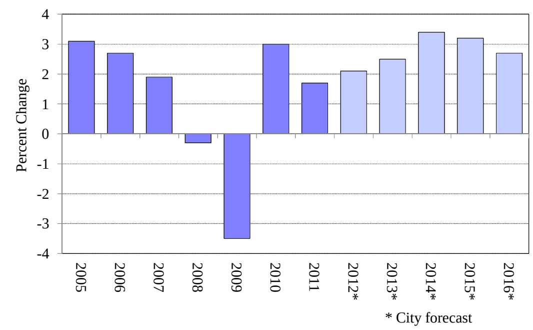
# II. Economic Trends

The national economy nearly stalled during the first quarter of 2011 as uncertainty over the European sovereign debt crisis peaked and concerns grew about the slow pace of employment gains. Despite continued concerns regarding the European crisis, the national economy has accelerated based on the strength of manufacturing and exports. Consumer spending, which makes up about two-thirds of the economy, continues to be constrained by sluggish income growth, the weak housing market and high debt levels.

The Gross Domestic Product (GDP) grew at an annual rate of only 1.7 percent in 2011, which was about half the 3 percent gain in 2010 (see Figure 3). The February Plan assumes that GDP growth will accelerate slowly given the weak outlook for consumer spending, by 2.1 percent in 2012 and 2.3 percent in 2013. The February Plan further assumes that GDP growth will peak at 3.4 percent in 2014 before slowing in 2015 and 2016.

**Figure 3**

**Change in U.S. Gross Domestic Product**



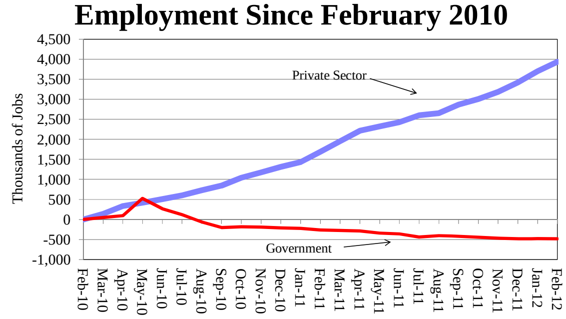

Sources: U.S. Bureau of Economic Analysis; NYC Office of Management and Budget

The national job market has improved in recent months. Between September 2011 and February 2012, the private sector expanded at an average of 214,200 jobs per month, about twice the average monthly gain during the summer of 2011. Thus far, the nation has recovered 3.5 million jobs, or 49 percent of the jobs lost during the recession. The private sector has added 3.9 million jobs while the government sector has lost 485,000 jobs (see Figure 4). The City projects that the pace of national employment growth will accelerate, from 1.3 percent in 2011 to 2.3 percent in 2012, and to an average of 2.6 percent in 2013 and 2014.

The national unemployment rate has also begun to improve, falling by 0.8 percentage points in six months (to 8.3 percent in February 2012), compared to a drop of 0.9 percentage points over the prior 22 months (from the peak of 10 percent in October 2009). In addition, initial claims for unemployment insurance benefits have fallen sharply in recent weeks, although they have not yet reached prerecession levels.

**Figure 4**

**Cumulative Change in National Employment Since February 2010**

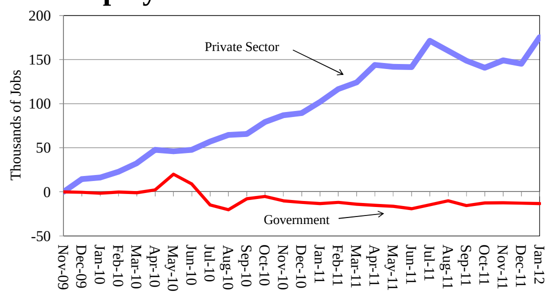



Note: Data are seasonally adjusted.
Source: U.S. Bureau of Labor Statistics

Preliminary employment data had indicated that New York City regained about half of the jobs lost during the recession, but recently released revised data show that job growth was much stronger in 2010 and 2011 than initially reported. As of January 2012, New York City exceeded its prerecession level by 17,200 jobs, with 162,200 jobs added since the recession ended. The local unemployment rate, however, has grown over the past year and reached 9.3 percent in January 2012.

The private sector added 175,500 jobs as the government sector shed 12,900 jobs (see Figure 5). Although jobs were lost between August 2011 and December 2011, employment surged in January 2012, which raised job levels to a postrecession high. The February Plan, which was based on the preliminary job data, assumed that total job gains in the City would slow to 0.7 percent in 2012 and then gradually pick up to reach 1.4 percent by 2015.

**Figure 5**
**Cumulative Change in New York City Employment Since November 2009**

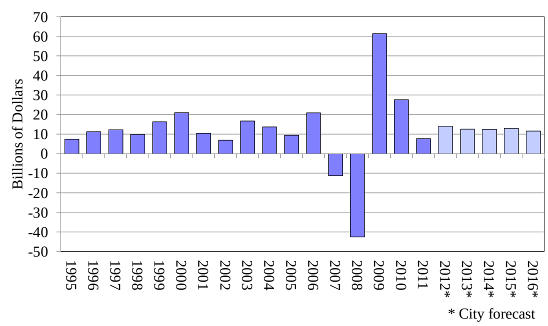



Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; ODSC analysis

Wall Street had a strong first half in 2011, but the European sovereign debt crisis and increased market volatility became major issues by mid-year. During the second half of 2011, the broker/dealer operations of New York Stock Exchange member firms reported losses in both the third and fourth quarters that totaled $4.9 billion. The losses were the first since the last quarter of 2008. The fourth quarter loss was surprising, given the modest profits reported by the major financial firms from all their activities in that quarter.

For the full year, profits totaled nearly $7.7 billion in 2011 (see Figure 6), a decline of 72 percent from the $27.6 billion earned in 2010, and considerably less than forecast by the City and the State Comptroller. The February Plan assumes that Wall Street profits will rise to $14 billion in 2012 but then drift slightly lower in subsequent years.

**Figure 6**
**Wall Street Profits**

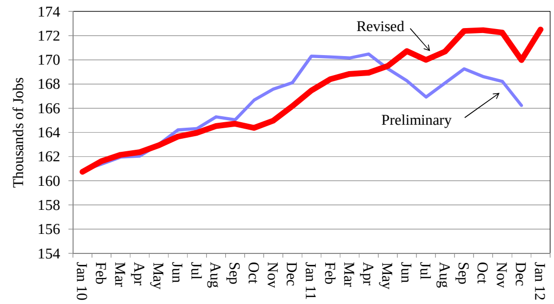



Sources: New York Stock Exchange; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

Preliminary employment data indicated that the securities industry in New York City had resumed downsizing in April 2011 after regaining one third of the jobs lost during the recession. Revised data show that job growth was stronger than initially reported (see Figure 7). By September 2011, the securities industry had recovered 41 percent of the jobs lost during the recession. Since then, however, the level of employment has remained essentially unchanged, but job losses are expected to resume as the year progresses in the face of reduced profitability and regulatory changes. The February Plan assumes that the industry will lose nearly 2,000 jobs in 2012 and almost 3,000 more jobs by 2016.

**Figure 7**

**NYC Securities Employment**



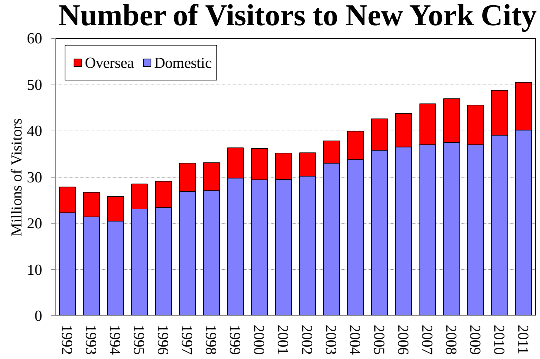

Note: Data are seasonally adjusted.
Sources: NYS Department of Labor; OSDC analysis

Lower profits have led many securities firms to announce large reductions in bonuses for 2011, and to defer a greater portion of bonuses to future years. The February Plan assumes that cash bonuses paid by securities firms to their New York City employees will decline by 10 percent, with a larger decline in cash bonuses for work performed during 2011 partially offset by bonuses deferred from earlier years. The State Comptroller estimates that cash bonuses declined by 14 percent in 2011 during the traditional bonus season (based on an examination of trends in tax withholding). The decline in 2011 Wall Street bonuses (which were paid in early 2012) coupled with slower overall Citywide job growth helps slow the projected increase in total Citywide wages from 4 percent in 2011 to 1.1 percent in 2012.

Tourism remains one of the bright spots in the City's economy. The City recently announced that it hosted a record 50.5 million visitors in 2011, nearly 2 million more than the previous record set in 2010 and nearly twice as many as two decades ago (see Figure 8). Visitor spending was estimated to have reached approximately $32 billion in 2011, only $100 million short of the 2008 record.

**Figure 8**

**Number of Visitors to New York City**



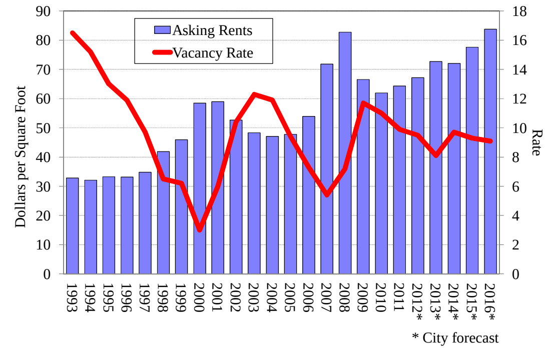

Note: Data for 2011 is preliminary.
Source: NYC & Company

The City's hotels and Broadway benefited greatly from the rise in the number of visitors. In 2011, the hotel average room rate increased by 5.6 percent to $276, and the February Plan projects that the rate will rise to $305 by the end of the financial plan period. The hotel occupancy rate averaged 85.3 percent in 2011, and with about 40 hotels expected to open over the next two years or so, the February Plan projects that the hotel occupancy rate will dip to 81.3 percent in 2012 but then gradually rise to 85.7 percent by 2016. Broadway experienced record revenues of $1.1 billion as well as record attendance of 12.5 million (including nearly 8 million tourists) in the recent 2010-2011 season.

With rising office-based employment, the City's commercial real estate market continues to improve. Leasing activity reached 30 million square feet in 2011, the most in a decade. Cassidy Turley reported that in December 2011, the vacancy rate in Manhattan's primary office market fell to 9.9 percent, the lowest level in three years, and average asking rents grew to $64.12 per square foot, or 9.7 percent higher than one year earlier. The February Plan assumes that by 2013 the vacancy rate will fall to 8.1 percent, and that the average asking rent will rise to $72.73 per square foot (see Figure 9). The completion of more than 4 million square feet of office space in the World Trade Center, however, is expected to raise the vacancy rate to 9.7 percent in 2014 and keep it elevated through 2016, even as the average asking rent rises to $83.79 by 2016.

**Figure 9**

**Manhattan Commercial Real Estate**




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

The City's residential real estate market remains sluggish. In 2011, single-family home sales and average prices declined by 8.5 percent and 0.7 percent, respectively. Although the February Plan assumes that single-family home sales will increase by 9 percent in 2012 and 21 percent in 2013, it also assumes that prices will decline by 5.5 percent in 2012 and rise only slightly in 2013 (1.8 percent).

Prudential Douglas Elliman reported that in the fourth quarter of 2011, sales of Manhattan cooperative and condominium apartments fell by 12.4 percent (compared to one year earlier), while the median sales price rose by 1.2 percent. The recent fall in mortgage rates helped boost sales of entry-level studio and one-bedroom apartments, which now account for 51.3 percent of apartment sales, the highest level since 2009.

The ongoing European sovereign debt and banking crisis remains one of the major risks to the City's economic outlook. The continued risk of disorderly defaults by some European countries could dampen investors' confidence, tighten the credit markets, and depress the financial markets. The emerging European recession, reflecting austerity measures in many countries, and rising oil prices could weaken the global economy and affect U.S. exports and tourism.

# III. Changes Since the June 2011 Plan

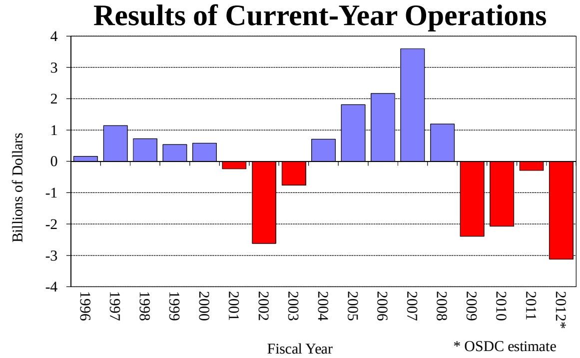
In June 2011, the City projected a balanced budget for FY 2012, but budget gaps of $4.6 billion in FY 2013 and about $4.9 billion in fiscal years 2014 and 2015. Since June 2011, the City has drawn down reserves, implemented agency cost-reduction actions, and revised its revenue and expenditure forecasts. These actions permitted the City to generate a surplus of $1.3 billion in FY 2012, balance the FY 2013 budget, and to narrow the out-year gaps to $3 billion in FY 2014 and about $3.5 billion in subsequent years (see Figure 11). The FY 2012 surplus comes almost entirely from a drawdown in reserves, rather than from unanticipated revenues as in past years.

The FY 2012 budget was balanced at the beginning of the fiscal year with $3.7 billion in surplus funds from FY 2011, but the City now projects a surplus of $1.3 billion in FY 2012. Thus, the City consumed $2.4 billion in surplus resources that were generated in prior years to balance the FY 2012 budget. These resources, combined with other resources generated in prior years, contribute to a current-year deficit (i.e., the difference between revenues earned and expenditures incurred in the current fiscal year).

As shown in Figure 10, the current-year deficit had been declining over the past three fiscal years, but is now projected to total $3.1 billion in FY 2012, the largest current-year deficit since the City began to balance its budget in accordance with generally accepted accounting principles (in FY 1981).

**Figure 10**

**Results of Current-Year Operations**




Note: Adjusted for surplus transfers, TFA, TSASC, and discretionary actions.
Includes benefit of proposed and enacted gap-closing actions.
Sources: NYC Office of Management and Budget; NYC Comptroller; OSDC analysis

The FY 2013 budget gap was closed by transferring the FY 2012 surplus to FY 2013 ($1.3 billion); drawing down resources from the Retiree Health Benefits Trust ($1 billion), which the City established with surplus funds during the last economic expansion to help fund the future cost of retiree health benefits; proceeds anticipated from the sale of additional taxi medallions ($1 billion); agency cost-reduction actions ($790 million); and a reduction in pension reserves ($425 million).

Over the course of the current fiscal year, the City raised its revenue forecasts by a net of $136 million in FY 2012, $335 million in FY 2013, $317 million in FY 2014 and $511 million in FY 2015, driven by a higher forecast for real estate–related tax collections largely due to an improving commercial real estate market. The benefit of these unanticipated revenues was offset during the financial plan period by unexpected costs, mostly in the uniformed agencies to fund overtime and failed cost-reduction initiatives.

# Figure 11
## Financial Plan Reconciliation–City Funds
## February 2012 Plan vs. June 2011 Plan

(in millions)

| | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|---|---|---|---|---|
| | *Better/(Worse)* | | | |
| **Gap Per June 2011 Plan** | **$ - - -** | **$ (4,632)** | **$ (4,844)** | **$ (4,922)** |
| **Revenue Reestimates** | | | | |
| Real Property Tax | 187 | 165 | 344 | 576 |
| Sales Tax | 70 | 82 | 81 | 74 |
| Business Taxes | (191) | (132) | (192) | (231) |
| Personal Income Tax | (192) | (72) | (164) | (190) |
| Other Taxes | 210 | 287 | 326 | 323 |
| Audits | 30 | 30 | 30 | 30 |
| **Subtotal** | **114** | **360** | **425** | **582** |
| Non-Tax Revenues | 22 | (25) | (108) | (71) |
| **Total** | **136** | **335** | **317** | **511** |
| **Expenditure Reestimates** | | | | |
| Uniformed Overtime | (293) | (311) | (275) | (247) |
| Other Uniform Expenses | (117) | (149) | (147) | (111) |
| Debt Service | 137 | 328 | 94 | 86 |
| Health Insurance Reestimate | 2 | 42 | (24) | (56) |
| Other Expense Changes | (102) | (125) | (258) | (262) |
| **Total** | **(373)** | **(215)** | **(610)** | **(590)** |
| **Reserves** | | | | |
| Prior Years' Expenses | 500 | - - - | - - - | - - - |
| Pension Reserve | 425 | 425 | 501 | 902 |
| General Reserve | 200 | - - - | - - - | - - - |
| Retiree Health Benefits Trust | - - - | 1,000 | 1,000 | - - - |
| **Total** | **1,125** | **1,425** | **1,501** | **902** |
| **Other Actions** | | | | |
| Agency Program | 409 | 790 | 596 | 583 |
| Taxi Medallion Sales | - - - | 1,000 | - - - | - - - |
| **Total** | **409** | **1,790** | **596** | **583** |
| **Surplus/(Gap)** | **1,297** | **(1,297)** | **(3,040)** | **(3,516)** |
| Surplus Transfer | **(1,297)** | **1,297** | - - - | - - - |
| **Gap Per February Plan** | **$ - - -** | **$ - - -** | **$ (3,040)** | **$ (3,516)** |

Sources: NYC Office of Management and Budget; OSDC analysis

# IV. Impact of the State Budget

In January 2012, the Governor released the executive budget for State Fiscal Year (SFY) 2012-2013, which closes a $3.5 billion budget gap for SFY 2012-2013 by limiting spending ($2 billion) and restructuring the State income tax ($1.5 billion). The Governor's budget proposals, as reflected by the February Plan, would benefit the City's budget by $234 million in FY 2013, $231 million in FY 2014, $316 million in 2015 and $391 million in FY 2016 (see Figure 12). The City could also benefit from the Governor's proposal to take over the City's share of Medicaid growth and to award additional education aid through competitive grants, although these proposals are not reflected in the February Plan.

**Figure 12**
**Impact of the SFY 2012-2013 Executive State Budget on New York City as Reflected in the February Plan**
(in millions)

| | FY 2013 | FY 2014 | FY 2015 | FY 2016 |
|---|---|---|---|---|
| Education Aid | $ 224.0 | $ 224.0 | $ 224.0 | $ 224.0 |
| Lower-Cost Pension Plan | - - - | - - - | 80.0 | 155.0 |
| All Other Actions* | 9.8 | 6.9 | 12.1 | 12.1 |
| **Total Impact** | **$ 233.8** | **$ 230.9** | **$ 316.1** | **$ 391.1** |

*Excludes the potential impact of the State takeover of the growth in localities' Medicaid costs.
Sources: NYC Office of Management and Budget; OSDC analysis

The Governor's executive budget primarily benefits the City by increasing education aid by $224 million annually. The growth in education aid combines increases in both operating and building aid. The City argues that combining the two types of aid could lead to a reduction in capital investment, and has called for the State to allocate building aid separately. Although not reflected in the City's budget, the Governor's budget proposes to further increase education aid to the City from the current base year by $468 million in FY 2014 and $765 million in FY 2015, and by allocating $250 million in competitive grants to school districts across the state, for which the City would be able to compete.

The increases in State education aid, however, are contingent upon the implementation of a teacher evaluation program by January 2013. The Governor recently brokered an agreement with New York City and the teachers' unions that established a framework for a teacher evaluation program. School districts across the State, including New York City, will still have to negotiate the details of the evaluation program with the unions that represent their teachers.

The February Plan also reflects the Governor's proposal to create a lower-cost pension plan for new State and local government employees hired on or after April 1, 2012. The new pension plan would generate government savings by reducing employee benefits and increasing employee contributions in comparison to current pension plans. The Governor has also proposed the creation of a defined contribution program. New employees would have to choose either a defined benefit pension plan or a defined contribution program. The February Plan assumes that the Governor's proposal will reduce pension contributions by $80 million in FY 2015 and $155 million in FY 2016. The City Actuary, however, has not yet released his estimate of the budgetary impact.

Other proposals made by the Governor would benefit the City's budget by $9.8 million in FY 2013, $6.9 million in FY 2014, and $12.1 million annually in each of fiscal years 2015 and 2016. These initiatives include changes to the State's early intervention program for children with disabilities, such as expanding health insurance coverage to commercial providers, centralizing administration, and reducing the City's share of expenditures.

The Governor also proposed that the State take over the growth rate in localities' shares of Medicaid costs. In January 2006, the State implemented a cap that limited the growth in localities' spending on Medicaid to about 3 percent annually. The Governor would phase in a takeover of the growth in the local share at a rate of 1 percent annually over three calendar years, starting in calendar year 2013 (eliminating all growth by calendar year 2015). The State estimates that this initiative would save the City $10.8 million in FY 2013, $65.2 million in FY 2014, $163.9 million in FY 2015 and $292.6 million in FY 2016. The potential impact of this initiative has not been included in the February Plan. The Governor has also proposed capping the reimbursement to localities for Medicaid administrative expenses, which could slightly reduce the projected savings from a State takeover of the growth in the local share of Medicaid.

# V. Agency Program

The February Plan includes the agency program proposed by the Mayor in November 2011 with some minor revisions. The City intends to mitigate the impact that would otherwise be imposed on basic municipal services by maximizing reimbursement from the federal and State governments, raising revenues from fees and tax audits, and reestimating costs.

**Figure 13**
**Agency Program**
(in millions)

| | Positions | FY 2012 | FY 2013 |
|---|---|---|---|
| Department of Education | - - - | $ 147.0 | $ 301.2 |
| Health and Social Services | 69 | 112.4 | 60.3 |
| Uniformed Agencies | | | |
| Fire | 16 | 16.7 | 38.0 |
| Sanitation | 308 | 14.4 | 54.0 |
| Correction | 120 | 13.4 | 16.6 |
| Police | - - - | 8.3 | 74.6 |
| Dept. of Citywide Admin. Services | 22 | 17.1 | 3.4 |
| Dept. of Information Tech. | 22 | 12.8 | 9.0 |
| Transportation | 112 | 12.3 | 28.5 |
| Finance | (40) | 8.0 | 43.5 |
| Libraries | 195 | 6.1 | 13.2 |
| Cultural Institutions | 109 | 3.1 | 6.1 |
| Parks and Recreation | 137 | 2.7 | 21.7 |
| Procurement Savings | - - - | - - - | 55.5 |
| All Other Agencies | 132 | 34.3 | 64.7 |
| **Total Agency Program** | **1,202** | **$ 408.6** | **$ 790.3** |

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

The February Plan assumes that the agency program will generate $790 million in FY 2013, and reduce staffing by more than 1,200 positions (see Figure 13). Staffing reductions are concentrated in Sanitation, libraries and cultural institutions, Parks and Recreation, Correction, and Transportation. Since FY 2008, the City has implemented gap-closing initiatives that will generate about $6 billion annually.

Virtually the entire agency program is within the City's control to implement, although the City Council has raised objections to certain proposals. In the past, for example, the City Council has worked with the Mayor during the budget process to rescind cuts in certain programs, such as libraries, cultural institutions, firehouse closures and cuts in child care slots.[6]

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

The February Plan reduces funding to the Department of Education (DOE) by $147 million in FY 2012, $301 million in FY 2013 and about $160 million in subsequent years. The reduction in funding, however, is not expected to affect educational services. The Transitional Finance Authority will transfer to the DOE $100 million in excess State building aid in FY 2013. The DOE also plans to enhance processes for claiming federal and State aid, reestimate special education costs, and reduce funding for school repairs.

Agencies that provide health care and social services would generate $173 million over the course of fiscal years 2012 and 2013 by increasing the federal fringe reimbursement rate for certain employees whose positions are federally funded ($72 million). However, the agencies would also reduce funding for certain public health programs, eliminate 2,300 after-school program slots and close seven school-based community centers.

The uniformed agencies would generate $183 million in FY 2013 and reduce staffing by 444 positions through attrition. The Police Department will reduce overtime costs ($50 million), and anticipates the receipt of additional federal funds ($15 million). The Department of Sanitation has identified surpluses in the waste export budget ($29 million) and will reduce funding for marine transfer stations that it intends to privatize, which will eliminate the need for 248 uniformed and 54 civilian employees. The Fire Department will meet its FY 2013 target ($38 million), mostly by implementing new and increased fees.

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

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

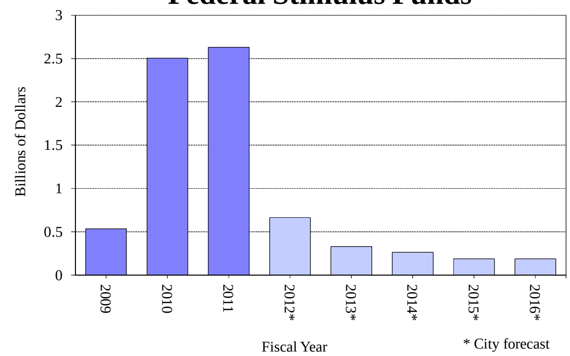
# VI. Revenue and Expenditure Trends

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

The budgets were balanced in those years by raising taxes, drawing down reserves accumulated during the last economic expansion, cutting agency budgets, and receiving federal stimulus funds (see Figure 14). Federal stimulus aid dropped precipitously in FY 2012, but most of the loss was replaced with City funds.

**Figure 14**

**Federal Stimulus Funds**




Sources: NYC Office of Management and Budget; OSDC analysis

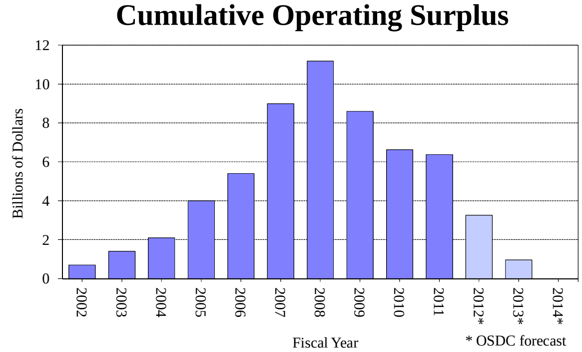
As the economy improved after the 2000-2002 recession, the City accumulated surplus resources that it used to pay down debt, increase reserves, and fund recurring expenses. The cumulative operating surplus peaked in FY 2008 at $11 billion, including contributions to the Retiree Health Benefits Trust (RHBT). During the most recent recession, the City drew down the operating surplus (including resources set aside in the RHBT) to maintain spending. The City expects to exhaust these resources by FY 2014 (see Figure 15).

As the economy has improved, revenue growth has strengthened, but not fast enough to support planned spending. To replace the loss of federal stimulus funds and to offset the loss of State aid (mostly education aid and unrestricted aid to localities), the City has relied heavily on nonrecurring resources, including surplus resources generated during the last economic expansion.

By our estimate, the FY 2012 budget is balanced with nonrecurring resources of $4.3 billion, and the FY 2013 budget includes $3.5 billion in nonrecurring resources (see Appendix A). While the average rate of expenditure growth is expected to slow during fiscal years 2014 through 2016 (to 3.8 percent), spending is still projected to outpace the average rate of revenue growth during this period (2.6 percent). As a result, the City projects budget gaps averaging $3.3 billion annually during these years.

**Figure 15**

**Cumulative Operating Surplus**

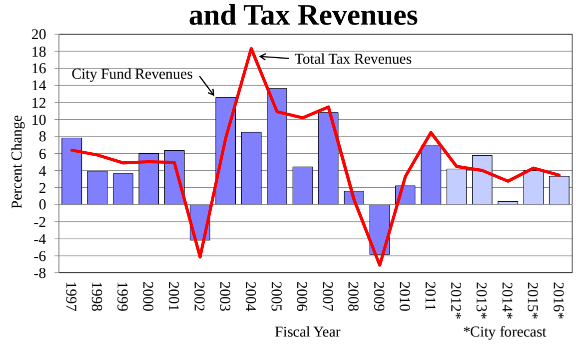



Sources: NYC Office of Management and Budget; OSDC analysis

## A. Revenue Trends

**Figure 16**

**Annual Changes in City Fund Revenues and Tax Revenues**




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

Since June 2011, the City has made only minor revisions to its revenue forecast. Wall Street profits and bonuses are now expected to be weaker than previously forecast, which reduced projected personal and business income taxes. These losses, however, are expected to be more than offset by higher tax collections from continued improvement in the real estate market, particularly the commercial real estate market.

The February Plan assumes that City Fund revenues will rise by 4.2 percent in FY 2012, significantly slower than the rate of growth in FY 2011 (6.9 percent) as a result of slower growth in tax revenues (see Figure 16). Tax revenues, which account for about 90 percent of City fund revenues, are forecast to grow by 4.5 percent in FY 2012 and 4 percent in FY 2013, which is much lower than the growth rate in FY 2011 (8.5 percent), as growth in economically sensitive taxes eases in response to reduced job growth and lower Wall Street profits and bonuses.

In FY 2013, City fund revenues are projected to rise by 5.8 percent, boosted by the expected sale of additional taxi medallions, which is estimated to generate $1 billion in FY 2013.[7] The February Plan assumes that City fund revenues will rise by only 0.4 percent in FY 2014 because the one-time benefit from the sale of taxi medallions is not expected to be replaced, and tax revenue growth is expected to weaken.

Weakness in business tax collections in recent months, along with unexpected losses on Wall Street during the fourth quarter of 2011, is likely to lead to business tax collections that are even lower than forecast by the City for fiscal years 2012 and 2013. The City's forecast for the real property tax, however, may be too conservative based on the tentative property tax roll for FY 2013. As discussed later in this section (see "Real Property Taxes"), we believe that collections from existing real property taxes could be higher than anticipated in the February Plan during fiscal years 2014 through 2016.

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[7] Excluding the taxi medallion sale, City fund revenues would increase by only 3.6 percent.

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

**Figure 17**
**City Fund Revenues**
(in millions)

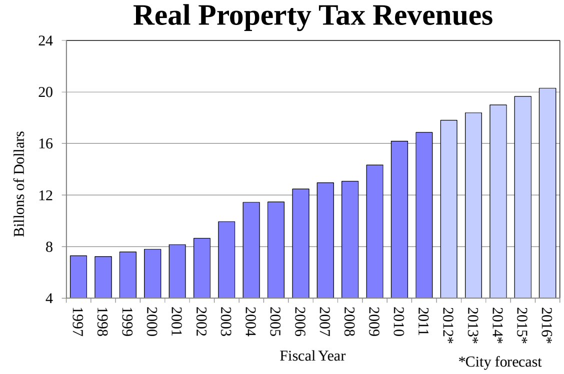
| | FY 2012 | FY 2013 | Annual Growth | FY 2014 | FY 2015 | FY 2016 | Average Three-Year Growth Rate |
|---|---|---|---|---|---|---|---|
| Taxes | | | | | | | |
| Real Property Tax | $ 17,812 | $ 18,383 | 3.2% | $ 18,986 | $ 19,648 | $ 20,291 | 3.3% |
| Personal Income Tax | 7,979 | 8,529 | 6.9% | 8,576 | 9,174 | 9,555 | 3.9% |
| Sales Tax | 5,867 | 6,066 | 3.4% | 6,327 | 6,600 | 6,839 | 4.1% |
| Business Taxes | 5,560 | 5,724 | 2.9% | 5,774 | 5,934 | 6,187 | 2.6% |
| Real Estate Transaction Taxes | 1,375 | 1,480 | 7.6% | 1,693 | 1,864 | 1,914 | 8.9% |
| Other Taxes | 2,869 | 2,952 | 2.9% | 3,003 | 3,071 | 3,129 | 1.9% |
| Audits | 700 | 724 | 3.4% | 706 | 706 | 706 | -0.8% |
| **Subtotal** | **42,162** | **43,858** | **4.0%** | **45,065** | **46,997** | **48,621** | **3.5%** |
| Miscellaneous Revenues | 4,572 | 5,601 | 22.5% | 4,576 | 4,634 | 4,729 | -5.5% |
| Unrestricted Intergovernmental Aid | 25 | - - - | -100% | - - - | - - - | - - - | NA |
| Anticipated State and Federal Aid | - - - | - - - | NA | - - - | - - - | - - - | NA |
| Grant Disallowances | (15) | (15) | NA | (15) | (15) | (15) | 0.0% |
| **Total** | **$ 46,744** | **$ 49,444** | **5.8%** | **$ 49,626** | **$ 51,616** | **$ 53,335** | **2.6%** |

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

## 1. Real Property Taxes

Real property tax revenues are now expected to increase by 5.6 percent to $17.8 billion in FY 2012 (see Figure 18), reflecting lower refunds compared to the forecast in November as well as modest increases in property values, especially for commercial properties. State law provides that changes in assessed values are phased in over several years, and revenue growth in recent years was supported by the phase-in of previous increases in value.

**Figure 18**
**Real Property Tax Revenues**




Sources: NYC Comptroller, NYC Office of Management and Budget

The tentative tax roll for FY 2013 showed that market values for all properties in the City increased by 3.8 percent. Because of expected reductions in assessments due to taxpayer challenges and the implementation of exemptions that had been omitted in the tentative tax roll, the City is forecasting that the final property tax roll will yield revenue growth of 3.2 percent in FY 2013 ($571 million), which reflects an increase of 4.2 percent in assessed values that is partially offset by an increase in refunds. With property values again rising, the "pipeline" of the assessed value increases to be phased in is being replenished, and will be able to support revenue growth in future years.

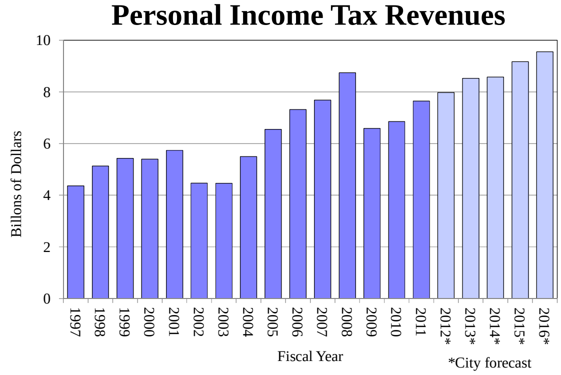
During the FY 2014 through FY 2016 period, the City forecasts growth in real property tax revenues to remain near the FY 2013 level, averaging 3.3 percent annually, with growth in assessed values projected to slow to an average of 3.2 percent annually. We project that real property tax revenues will exceed the City's forecast by $150 million in FY 2014, $300 million in FY 2015 and $500 million in FY 2016. Although the City's forecast of slower employment growth and rising office vacancy rates will put pressure on the values of commercial properties, the City's rising population and shortage of housing will maintain values for large residential properties. Our forecast is based on continued growth in property values, including for commercial properties, although at a rate somewhat less than projected in FY 2013 (the impact of the addition of space from the World Trade Center will not affect property tax values until FY 2016). Growth is also boosted by the rising level of prior assessment increases that have yet to be phased in.

## 2. Personal Income Tax

Increases in employment, wages, and capital gains are expected to yield nearly $8 billion in personal income tax revenues in FY 2012, or 4.4 percent more than the prior year. While this would be the third consecutive year of growth, collections still remain below the FY 2008 levels prior to the economic downturn (see Figure 19). Because employment gains have slowed during the second half of 2011, the expected rate of growth is less than half the rate experienced in FY 2011 (11.5 percent). Growth is also restrained by the City's expectation of a 10 percent reduction in Wall Street bonuses for 2011, which are being paid in the first quarter of 2012.

**Figure 19**

**Personal Income Tax Revenues**



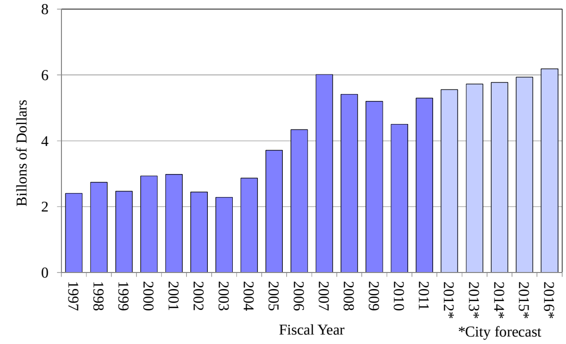

Sources: NYC Comptroller, NYC Office of Management and Budget

Despite the projected slowdown in local job growth, the City forecasts that the rate of growth in personal income tax collections will rise to 6.9 percent in FY 2013. The February Plan assumes that estimated and final tax payments will rise sharply as taxpayers accelerate capital gains and other income into calendar year 2012 to avoid the higher tax rates in 2013 resulting from the scheduled expiration of the Bush tax cuts. This acceleration of income comes at the expense of FY 2014, when personal income tax collections are forecast to grow by only 0.6 percent. During the following two fiscal years, revenue growth is expected to increase (to an average annual rate of 5.6 percent) as the pace of employment gains strengthen.

## 3. Business Taxes

Figure 20

**Business Tax Revenues**



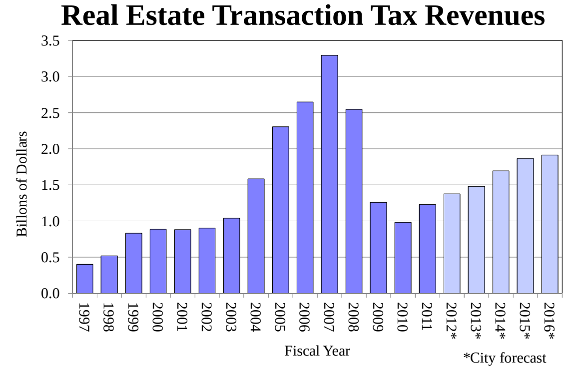

Sources: NYC Comptroller, NYC Office of Management and Budget

Business tax collections are projected to reach $5.7 billion in FY 2013, which is an expected gain of only 2.9 percent after rising by 4.9 percent in FY 2012 (see Figure 20). This would be the second consecutive year of growth after revenues declined during fiscal years 2008 through 2010. The sharp drop in Wall Street profits during calendar year 2011 (and poor returns at hedge funds) contributes to the slower rate of revenue growth in FY 2012. Collections are projected to slow further to 0.9 percent in FY 2014 as the economy slows and the financial sector continues to work through the fallout from the recent financial crisis. The February Plan assumes that the non-financial sector will strengthen and help drive a 3.5 percent average annual increase in business tax collections in fiscal years 2015 and 2016.

## 4. Real Estate Transaction Taxes

Figure 21

**Real Estate Transaction Tax Revenues**




Sources: NYC Comptroller, NYC Office of Management and Budget

Revenues from taxes collected on real estate transactions are expected to reach $1.5 billion in FY 2013, which is nearly half of the peak level in FY 2007. Even though collections are projected to reach $1.9 billion by FY 2016, revenues would remain far below the FY 2007 level (see Figure 21).

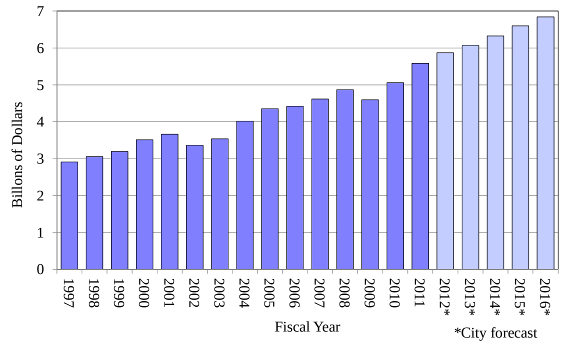
Transaction activity has been boosted by improved sales of large commercial properties, with the total value of sales for properties valued at more than $50 million rising by 26.7 percent in 2011. Residential activity, however, remains weak. Conventional home sales declined by almost 20 percent in 2011, with a nearly equal decline in values (18 percent). The number and value of sales of cooperative and condominium apartments in Manhattan also declined in 2011 (each by 12.3 percent).

### 5. Sales Tax

The slowdown in job and wage gains, coupled with continued caution on the part of consumers, is expected to reduce the rate of growth in sales tax collections to 5 percent in FY 2012, less than half the rate of increase in FY 2010. Collections, which are forecast to reach $5.9 billion (see Figure 22), would have been lower if not for the boost provided by the continued strength of the City's tourism industry (a record 50.5 million visitors came to the City in 2011).

**Figure 22**

**Sales Tax Revenues**




Sources: NYC Comptroller, NYC Office of Management and Budget

The expectation of weaker job and wage growth and a more subdued outlook for tourism are expected to slow growth in sales tax collections to 3.4 percent in FY 2013. As the economy improves in the later years of the financial plan period, sales tax growth is expected to rise slightly, to an annual average of 4.1 percent in fiscal years 2014 through 2016.

## B. Expenditure Trends

City-funded expenditures are projected to grow by about $1.6 billion in FY 2013 to $50.7 billion, an increase of 3.2 percent (see Figure 23), reflecting relatively rapid rates of growth in debt service (14.7 percent) and health insurance costs (10.2 percent). While projected spending is $1.3 billion higher than revenues, the FY 2013 budget will be balanced with resources generated in prior years, including the FY 2012 projected surplus.

The pace of City-funded spending is expected to pick up over the remainder of the financial plan period (average annual growth of 3.8 percent), primarily as a result of continued growth in debt service and health insurance premiums. The February Plan, however, assumes a three-year wage freeze, which is subject to negotiation. (The City has yet to reach an agreement with the teachers union for the prior round of collective bargaining.)

The growth in City-funded spending has also been held down by an expected drawdown from the Retiree Health Benefits Trust. The City deposited surplus resources accumulated during the last economic expansion into the trust to help fund the future cost of retiree health benefits. The City, however, drew down $1.1 billion to help balance the budget during fiscal years 2010 through 2012, and intends to draw down the remaining $2 billion in equal installments over the next two fiscal years.

City-funded staffing levels (full-time and full-time-equivalent positions) have declined by 13,878 during fiscal years 2008 through 2011, and by another 6,198 employees during the first half of FY 2012. While the February Plan assumes that the City will add 2,387 employees between December 31, 2011, and June 30, 2013, many of these positions may remain vacant because the Mayor has imposed a hiring freeze.

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

**Figure 23**
**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 | $12,865 | $12,769 | -0.7% | $12,907 | $13,285 | $13,559 | 2.0% |
| Pension Contributions | 7,840 | 7,985 | 1.8% | 7,919 | 7,805 | 7,880 | -0.4% |
| Medicaid | 6,091 | 6,201 | 1.8% | 6,337 | 6,517 | 6,615 | 2.2% |
| Debt Service | 5,219 | 5,984 | 14.7% | 6,575 | 6,944 | 7,220 | 6.5% |
| Health Insurance | 4,155 | 4,577 | 10.2% | 5,040 | 5,561 | 6,101 | 10.1% |
| Other Fringe Benefits | 2,755 | 2,837 | 3.0% | 2,962 | 3,044 | 3,103 | 3.0% |
| Energy | 952 | 999 | 4.9% | 1,047 | 1,079 | 1,100 | 3.3% |
| Judgments and Claims | 655 | 685 | 4.6% | 718 | 754 | 790 | 4.9% |
| Public Assistance | 493 | 532 | 7.9% | 540 | 540 | 540 | 0.5% |
| General Reserve | 100 | 300 | NA | 300 | 300 | 300 | NA |
| Drawdown Retiree Health Benefits Trust | (672) | (1,000) | NA | (1,000) | - - - | - - - | NA |
| Prior Year's Expenses | (500) | - - - | NA | - - - | - - - | - - - | NA |
| Other | 9,236 | 8,872 | -3.9% | 9,321 | 9,303 | 9,521 | 2.4% |
| **Total** | **$ 49,189** | **$ 50,741** | **3.2%** | **$ 52,666** | **$ 55,132** | **$ 56,729** | **3.8%** |

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

## 1. Pension Contributions

The February Plan assumes that pension contributions will average $7.9 billion during the financial plan period. These estimates assume implementation of the City Actuary's recommended changes in the actuarial assumptions and methodologies used to calculate City pension contributions and the Governor's proposed lower-cost pension plan for new employees.[8]

The City Actuary's changes include a reduction in the annual investment earnings assumption from 8 percent to 7 percent because earnings from the financial markets are expected to be lower in the future; a different cost methodology (i.e., entry age) to determine the projected cost of future pension benefits; and a longer amortization

[8] The City estimates that the Governor's proposal, if enacted, would reduce contributions by $80 million in FY 2015 and $155 million in FY 2016.

period for existing unfunded pension liabilities.[9] These changes require State approval. Other changes, such as a market value restart,[10] do not require State approval.[11] In the past, the trustees of the City's five actuarial pension systems (which include representatives of the municipal unions, the Mayor and the City Comptroller) have approved changes in the actuarial assumptions and methodologies before their implementation.

If implemented, the changes would increase annual pension contributions by a net of $575 million in FY 2012, $605 million in FY 2013, $539 million in FY 2014, $148 million in FY 2015 and $37 million in FY 2016. Since the City had established an annual reserve of $1 billion for this purpose, the City's financial plan would realize savings of $425 million in FY 2012, $395 million in FY 2013, $461 million in FY 2014, $852 million in FY 2015 and $963 million by FY 2016. If the changes are not implemented in time for FY 2012, the portion of the reserve used to fund these costs in that year ($575 million) could be reallocated.

### 2. Collective Bargaining

More than 97 percent of the City workforce is currently working without a collective bargaining contract. The Mayor has proposed a three-year wage freeze and has eliminated the corresponding reserve for collective bargaining, reallocating those resources to help balance the budget.[12] The February Plan includes funding beginning in FY 2013 for a 1.25 percent annual wage increase for the three years following the expiration of the wage freeze. If instead wages were to rise at the projected inflation rate during the seven-year period without any offsetting savings, costs would increase by $1.4 billion in FY 2012 (including retroactive pay), $1.5 billion in FY 2013 and $2.9 billion in FY 2016.

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 State Public Employment Relations Board (PERB) appointed a mediator and is

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

10 Under a market value restart, the actuarial value of assets is reset to the market value rather than phasing in gains and losses on investments over a six-year period.

11 The City Actuary has also proposed a change in the way investment expenses (i.e., management fees) are funded. Under the City Actuary's proposal, the cost of investment expenses would be recovered implicitly (i.e., the proposed investment earnings assumption of 7 percent would be net of expenses), rather than the current practice of recovering investment expenses directly from employers. This change would free up $180 million during the financial plan period.

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

establishing a fact-finding panel to facilitate negotiations between the City and the UFT, but a resolution does not appear to be imminent. Although the recommendations of the panel are nonbinding, they could serve as a framework for a new labor agreement. A retroactive agreement similar to those negotiated by the City's other unions for those years would increase costs by $1.7 billion in FY 2012 and by $900 million annually thereafter.

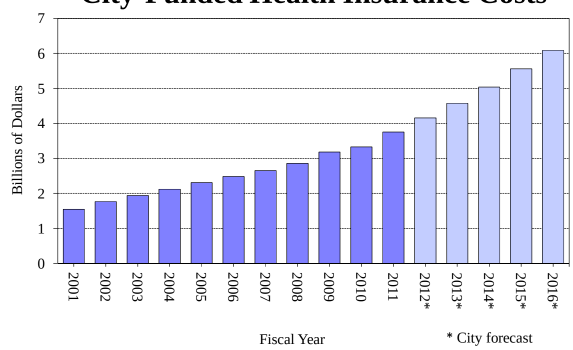
Representatives of the municipal unions believe that the reduction in the investment earnings assumption used to calculate City pension contributions recommended by the City Actuary (from 8 percent to 7 percent) is larger than necessary. Union representatives have suggested that the boards of trustees of the pension funds approve a smaller reduction, which would free up resources that could be used to fund wage increases for City workers.

### 3. Health Insurance

The February Plan assumes that City-funded health insurance costs will rise from $3.8 billion in FY 2011 to $6.1 billion by FY 2016, an increase of $2.3 billion (see Figure 24), or 62 percent, as a result of rising health insurance premiums. The City anticipates that health insurance premiums for active employees will rise by 8.5 percent in FY 2013 and by an average of more than 9.0 percent annually thereafter, in line with historical rates of growth. Premiums for Medicare-eligible retirees are expected to rise by 8 percent annually during the financial plan period.

**Figure 24**

**City-Funded Health Insurance Costs**




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

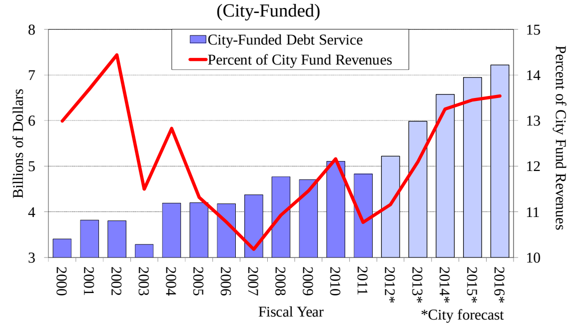
The cost of municipal health insurance also could be affected by the outcome of the State's review of a proposed conversion of the not-for-profit health insurers Health Insurance Plan of New York (HIP) and Group Health Incorporated (GHI) to a single, for-profit entity. Together, HIP and GHI cover 95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

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

## 4. Debt Service

The City has realized significant debt service savings in recent years because interest rates were lower than expected and because the City refunded debt to take advantage of the low–interest rate environment. The February Plan assumes rising interest rates beginning in FY 2013, but rates may rise more slowly.

**Figure 25**
**Debt Service**
(City-Funded)

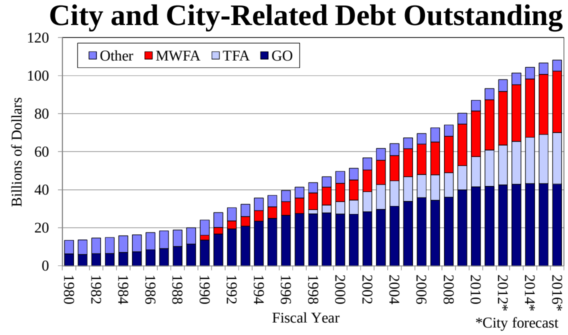



Note: Debt service amounts are adjusted for prepayments and debt defeasances.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

City-funded debt service (adjusted for defeasances and surplus transfers) is estimated at $6 billion in FY 2013, which is $1.2 billion more than in FY 2011 (see Figure 25). These estimates, however, do not reflect the impact of a recent debt refunding, which will reduce debt service by an estimated $139 million in FY 2013. Debt service is projected to reach $7.2 billion by FY 2016.

Figure 25 also shows that debt service is projected to consume 13.5 percent of City fund revenues in FY 2016, compared with 10.8 percent in FY 2011. (Debt service as a percent of total revenues would rise from 7.7 percent in FY 2011 to 10.4 percent in FY 2016.)

**Figure 26**
**City and City-Related Debt Outstanding**




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

The outstanding debt of the City and City-related entities has risen steadily over the past 30 years.[13] Debt outstanding grew from $13.4 billion in

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

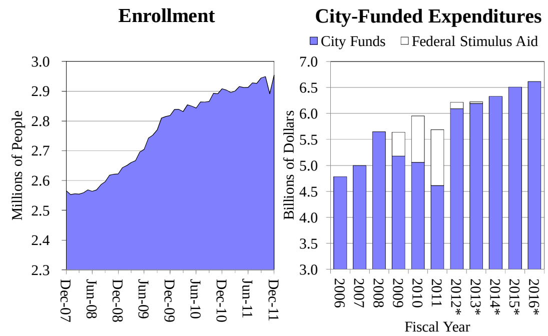
FY 1980 to $93.2 billion in FY 2011 (see Figure 26), and could reach more than $108 billion by FY 2016. The FY 2011 amount is equivalent to about $11,000 per capita, or $5,000 more per capita than ten years earlier, placing a heavier financial burden on residents.

## 5. Medicaid

Over the past four years, enrollment in the Medicaid program grew by 15 percent to reach 2,954,261 people in December 2011 (see Figure 27), or about one out of every three New York City residents. Enrollment growth has slowed over the past year as the economy has improved and unemployment has declined.

The City-funded cost of this program declined by 18 percent from $5.6 billion in FY 2008 to $4.6 billion in FY 2011 as a result of temporary federal stimulus aid. This aid, which totaled $2.6 billion through FY 2013, expired on June 30, 2011, and the February Plan assumes that the City's share of Medicaid will grow to $6.3 billion in FY 2014. The February Plan, however, does not reflect the Governor's proposal to take over the growth in the local share of Medicaid.

**Figure 27**
**Medicaid**

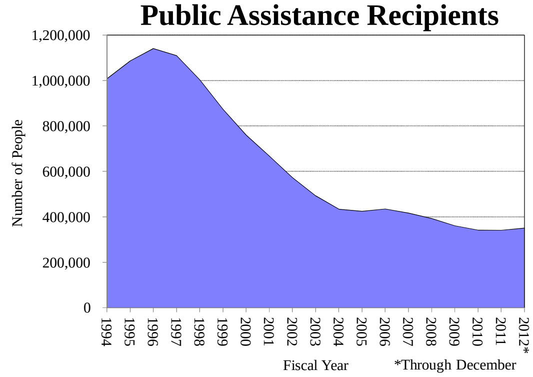



Sources: NYC Human Resources Administration; OSDC analysis

## 6. Public Assistance

The public assistance caseload rose by only 3 percent over the past three years, to 352,918 recipients in December 2011 (see Figure 28), even though the recent recession was the deepest in the postwar era.[14] In 2010, 20 percent of the City's population lived below the federal poverty line, and about one in every five New York City residents received public assistance or food stamps.

**Figure 28**
**Public Assistance Recipients**




Sources: NYC Human Resources Administration; OSDC analysis

[14] The December 2011 public assistance caseload was 800,000 lower than the peak in March 1995, largely as a result of federal welfare reform measures implemented in the late 1990s that enforce work requirements.

City-funded expenditures for public assistance (excluding Work Advantage, which benefits homeless families) are projected to total $493 million in FY 2012 and grow to $540 million by FY 2016, largely as a result of planned increases in benefits.

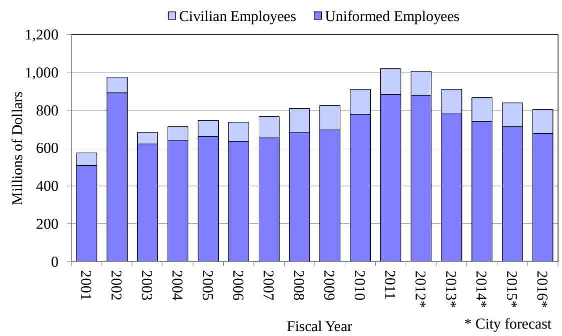
## 7. Uniformed Agencies

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

The February Plan assumes that overtime will decline only slightly in FY 2012, but then drop to $800 million by FY 2016. The decline is dependent upon the implementation of overtime cost-reduction initiatives (valued at $60 million in FY 2013), which have failed in the past; the lifting of a hiring ban on firefighters that has been imposed by a federal court; and average winter snowfalls.

**Figure 29**

**Uniformed Agencies Overtime Spending**




Sources: NYC Office of Management and Budget; OSDC analysis

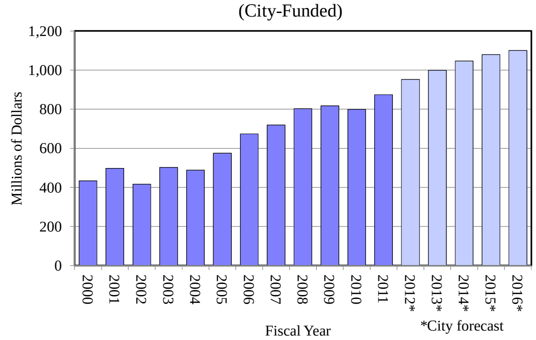
## 8. Energy Costs

Energy costs (i.e., electricity, steam and heat) reached $800 million in FY 2008, nearly double the cost seven years earlier, largely as a result of higher prices for oil and natural gas (see Figure 30). Energy costs remained stable during the next two fiscal years, but such costs rose sharply in FY 2011 and again in FY 2012 with the increase in political tensions in the Middle East. The February Plan assumes that energy costs will reach $1.1 billion by FY 2016.

**Figure 30**

**Energy Costs**

(City-Funded)



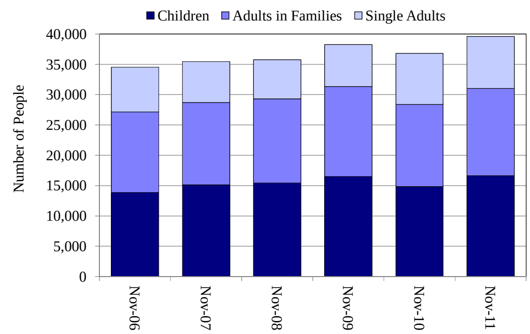

Sources: NYC Comptroller; Office of Management and Budget; OSDC analysis

## 9. Homeless Services

The Department of Homeless Services (DHS) provides shelter for homeless families and single adults in more than 200 City facilities. In November 2011, the shelter population totaled 39,584 (see Figure 31), which is 8 percent higher than last year, and the highest census since the City started keeping records in the early 1980s.

Figure 31

**Homeless Shelter Population**




Sources: NYC Department of Homeless Services; OSDC analysis

The 9,836 families in shelters (down 6 percent from a peak last year) included 16,634 children, which is 12 percent more than last year. The single-adult homeless population has grown by 33 percent in three years to 8,574.

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

Runaway and homeless youth aged 16 to 21 are served by the Department of Youth and Community Development (DYCD), which funds 7 short-term crisis shelters and 11 transitional living residences operated by community- and faith-based organizations. According to a study conducted by Columbia University and the New School, there are 3,800 runaway and homeless youth in New York City; of these, 30 percent are lesbian, gay, bisexual, transgender, or questioning youth. The DYCD sheltered about 1,700 youth in FY 2011, or less than half the total population, in 250 beds that were utilized at near capacity.

The City, at the urging of the City Council, has funded the majority of the cost of services for these youth, which totaled $13 million in FY 2011. State and federal funds, which represent less than 1 percent of the costs, have been cut in recent years. The February Plan assumes that City funding for runaway and homeless youth programs would total $5 million in FY 2013, which is $7 million (or 43 percent) less than projected for the current fiscal year. According to City Council representatives, the planned reduction could potentially eliminate 159 shelter beds; reduce essential nonresidential services, such as drop-in centers; and eliminate street outreach services. In past years, the City Council has sought to increase funds for these programs.

The DHS has proposed guidelines that would require caseworkers to determine whether single adults seeking shelter have alternative housing before providing services. A lawsuit (charging the City with violating a court decree that requires it to shelter homeless single adults) has delayed implementation of the new guidelines.

The Work Advantage program has provided rental subsidies to 25,000 households since it began in April 2007, preventing long stays in the City's shelter system by placing recipients in permanent housing. The City ended Work Advantage in March 2011 when the State eliminated funding for the program, but the City was ordered by the courts to continue subsidies for current recipients. The court has lifted that order, and the City discontinued payments as of February 1, 2012. Plaintiffs have appealed and are seeking City payments for the remaining 8,000 households through March 2013, which could raise costs by $50 million in FY 2013.

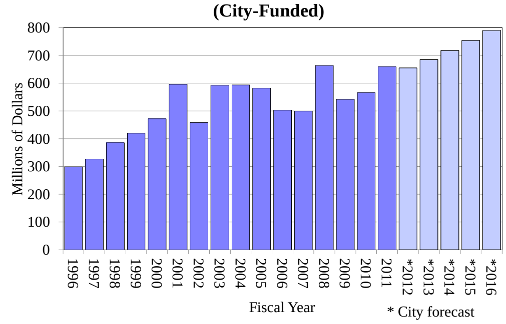
## 10. Judgments and Claims

The February Plan assumes that judgments and claims will grow from $659 million in FY 2011 to $790 million in FY 2016 (see Figure 32). In recent years, the City has reduced costs in major categories, such as medical malpractice and sidewalk and roadway claims. However, new claims relating to police actions increased by about 28 percent during the three months ending in December 2011, compared with the same period last year. In addition, a federal judge has issued a court order establishing a panel to adjudicate claims that the Fire Department discriminated against minority job applicants. Risks related to these claims have been estimated at about $65 million.

**Figure 32**

**Judgments and Claims**

**(City-Funded)**




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

# VII. Other Issues

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

**A. Department of Education**

The February Plan allocates $24.5 billion (including pensions and debt service) to the Department of Education (DOE) in FY 2013, which represents 35.7 percent of the City's total budget (26.9 percent of City funds). Of this amount, City funds account for $13.6 billion or 56 percent, the State's contribution accounts for $8.8 billion or 36 percent, and federal funds make up $2 billion or 8 percent. Spending is projected to increase by $848 million in FY 2014 and by $405 million in FY 2015, reflecting growing costs for debt service, fringe benefits and special education.

Between fiscal years 2007 and 2012, City funding for education grew by $3.9 billion. This increase reflects the City's commitment to increase funding for education in response to the Campaign for Fiscal Equity (CFE) litigation, and an allocation of nearly $1.7 billion to replace cuts in State education aid ($812 million) and expiring federal stimulus funds ($853 million). Over the same period, State aid increased by $1.2 billion, less than the $3.2 billion promised in the State Education Budget and Reform Act of 2007.

The Governor's proposed budget would increase education aid by $805 million statewide after a large cut last year. Of this amount, $290 million would be allocated for general aid, $265 million for expense-based aid and $250 million for competitive grants. New York City would receive $224 million in additional general and expense-based aid, or 40 percent of the statewide total. Competitive grants would be awarded to districts that demonstrate the most improvement in performance and efficiency.

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

To prevent the possible loss of federal funds, the Governor brokered an agreement that establishes a framework for a statewide teacher evaluation system. Although the agreement addresses the major issues, such as the weight of standardized test scores and the appeals process, the City and the teachers union must still reach agreement on the remaining details and implement an evaluation system by January 2013 to receive any increase in State aid.

## B. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) projects budget gaps, on an accrual basis of accounting, of $974 million in FY 2012 and $1.3 billion in FY 2013, rising to $1.7 billion in FY 2016, because of a fundamental structural imbalance between recurring revenues and expenditures. To address these gaps, the HHC has proposed an aggressive gap-closing program; however, this program assumes the receipt of substantial amounts of additional State and federal aid, which could be difficult to obtain given the fiscal condition of the State and federal governments. If the gap-closing actions are unsuccessful, the HHC could run out of cash during FY 2013. The HHC also plans to reduce staffing by another 1,250 positions through FY 2014.

## C. Metropolitan Transportation Authority

The February 2012 financial plan for the Metropolitan Transportation Authority (MTA) projects a $1 million surplus in 2012, an $80 million surplus in 2013, and relatively small budget gaps of $137 million in 2014 and $204 million in 2015. These estimates, however, assume a fare and toll increase of 7.5 percent on both January 1, 2013, and January 1, 2015, along with savings from additional cost-reduction initiatives. The MTA also assumes that its unionized employees will agree to no-cost labor agreements for three years. The MTA is currently in negotiations with the Transport Workers Union, as the most recent contract expired on January 15, 2012.

In December 2011, the MTA Payroll Mobility Tax (PMT) was eliminated for most small businesses and all private schools. Public schools, which were reimbursed by the State, are now exempt. The Governor's proposed budget includes $250 million for the MTA to fully offset the revenue lost in 2012 from changes to the PMT.

To fill a $9.9 billion funding gap in the MTA's $24.3 billion capital program, the MTA proposed an increase in State support and planned borrowing. As requested by the MTA, the Governor allocated $770 million in his proposed budget to the MTA for capital projects over a multiyear period.

Under the MTA's proposed financing strategy, borrowing would increase by $6.3 billion to a total of $14.8 billion. Such a level of borrowing would increase MTA debt service by 64 percent, to $3.2 billion, between 2011 and 2018. The MTA is currently planning to refund $5.3 billion in debt at lower interest rates to help reduce its annual debt service costs.[15] The capital funding strategy was submitted to the State Capital Program Review Board in January 2012, but at the request of the State Senate it was withdrawn from consideration. The MTA resubmitted the funding strategy on February 22, 2012, without any changes from the initial submission.

[15] The MTA also plans to refund $1.4 billion in State service contracts. The debt service on these bonds is funded entirely by the State.

## D. New York City Housing Authority

In past years, the New York City Housing Authority (NYCHA) has faced a structural deficit because government subsidies and rents have not kept pace with rising costs. In NYCHA's most recent budget presentation, which was in May 2011, NYCHA projected budget gaps of $57 million in FY 2012, $66 million in FY 2013, and $61 million annually in fiscal years 2014 and 2015 (NYCHA is scheduled to release its 2012 budget in April or May 2012).

NYCHA's fiscal situation could worsen because of cuts in federal aid. The enacted 2012 federal budget reduces operating subsidies to public housing authorities nationwide by $655 million, and decreases capital subsidies by $165 million. As a result, NYCHA could face federal funding losses of $133 million in operating subsidies.

In December 2011, NYCHA announced a broad-based plan to address its fiscal difficulties and improve services to its residents. Some of the strategies include partnering with the private sector to develop mixed-use housing; phasing in rent increases for tenants who pay less than 30 percent of their incomes toward rent; and streamlining the maintenance and repair process to address NYCHA's repair backlog.

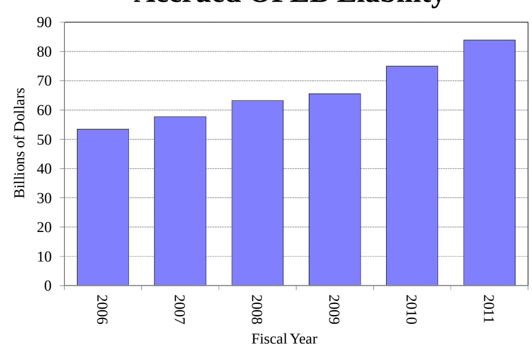
## E. Other Post-Employment Benefits

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

The City's accrued OPEB liability for past employee service reached $83.9 billion as of FY 2011—an increase of $30.4 billion since FY 2006 (the first OPEB valuation year reported by the City). The accrued OPEB liability for FY 2011 rose sharply, by $8.9 billion, from the previous fiscal year (see Figure 33). The increase primarily reflects the City's expectation that future health care costs will be higher as a result of longer life expectancies and rising health insurance premiums. The present value of the City's future OPEB obligations was $41 billion as of June 30, 2010 (the most recent date for which data are available).

**Figure 33**

**Accrued OPEB Liability**

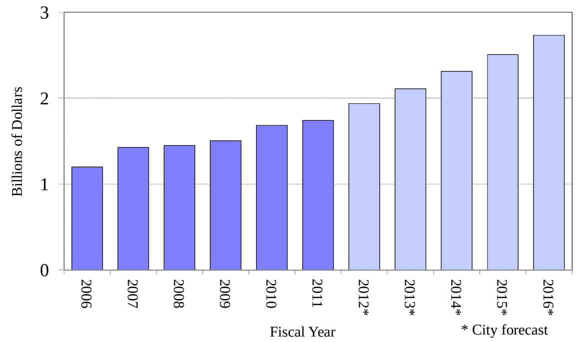



Sources: NYC Actuary; OSDC analysis

The City, to its credit, deposited $2.5 billion in the Retiree Health Benefits Trust during the last economic expansion to help fund these costs. However, the City has been using these resources instead to help balance the budget. The City drew down $477 million during fiscal years 2010 and 2011, and plans to draw down $672 million in FY 2012 and $1 billion in each of fiscal years 2013 and 2014 (a total of $3.1 billion including interest).

**Figure 34**

**Pay-As-You-Go Cost of OPEBs**




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

Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of the cost of services, the City is not required to fund OPEBs on a similar basis. The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. In FY 2010, the City paid less than half of the present value of obligations ($3.2 billion) that is attributed, on an actuarial basis, to services received that fiscal year, deferring nearly $1.6 billion to future taxpayers. OPEB costs, on a PAYGO basis, are projected to rise from $1.2 billion in FY 2006 to $2.7 billion by FY 2016, an average annual increase of 8.6 percent (see Figure 34).

## F. Sale of Taxi Medallions

In June 2011, the State Legislature passed legislation that authorized New York City to sell 1,500 additional taxi medallions and issue new street-hail permits for livery cabs to increase taxi service outside of Manhattan's central business district. The City included $1 billion from the sale of the new medallions in its November 2011 financial plan. The Governor indicated he would not support the legislation without changes to improve access to taxi and livery cabs for persons with disabilities.

On December 20, 2011, the Governor announced an agreement that permits the sale of 2,000 new taxi medallions and requires all new taxis to be accessible to the physically disabled. The agreement also creates 18,000 new licenses that will allow livery cars to pick up street-hails in upper Manhattan and the other four boroughs (20 percent of these vehicles must be accessible to the physically disabled). The Taxi and Limousine Commission will be required to create a Disabled Accessibility Plan (DAP) that outlines how the City will expand accessibility for its taxi fleet. The DAP will be developed by the City with input from various stakeholders, including the City Council, and must be approved by the State Department of Transportation.[16]

[16] Legislation incorporating the agreement was approved by the State Legislature and subsequently signed into law by the Governor on February 17, 2012.

On December 23, 2011, the U.S. District Court ruled that the City was violating the Americans with Disabilities Act because less than 2 percent of its taxi fleet provides access to wheelchair-bound passengers. The court ruled that the City must submit for its approval a comprehensive plan to provide meaningful access for these passengers. The City is seeking a stay of the court's ruling pending an appeal.

The City has not revised its estimate of proceeds from the sale of taxi medallions, even though the number of medallions for sale has increased from 1,500 to 2,000. The February Plan still assumes the receipt of $1 billion in FY 2013, but the sale of all of the medallions could be delayed given the steps now needed to complete the sale.[17] However, it is also likely that the City could realize more than $1 billion from the sale based on past sales of existing taxi medallions, but the value will depend on market conditions at the time of the sale and the cost to make vehicles accessible to disabled passengers.

## G. The Federal Budget

In August 2011, Congress agreed to raise the debt ceiling as long as the federal deficit was reduced. A congressional committee established to reduce the deficit was unable to reach agreement; therefore, automatic spending cuts of $1.2 trillion over nine years are scheduled to be implemented beginning in January 2013. Planned defense spending would be cut by about 9 percent and nondefense programs by about 4 percent, according to the Congressional Budget Office. Some programs are exempt (e.g., Social Security and Medicaid), which means the cuts in domestic spending would fall more heavily on education and public housing. The State Division of the Budget estimates that these actions would reduce federal funding to New York State by $5 billion over ten years.

In February 2012, the President released his proposed budget, which reduces the deficit by at least $4 trillion over ten years and eliminates the impending automatic cuts. The proposal includes $350 billion in new stimulus funds to continue the payroll tax benefit and unemployment insurance benefits, as well as actions to retain and create jobs. The proposed budget also increases funding for education and other programs that will benefit New York City. The additional spending is offset by cuts to Medicare and Medicaid programs, primarily by reducing payments to providers (such as the Health and Hospitals Corporation) and increasing taxes on high-income earners and corporations.

[17] The legislation permits the City to sell up to 400 medallions (20 percent of the total) before obtaining State Department of Transportation approval, so we believe the City will realize at least $200 million in FY 2013.

# Appendix A:
# Nonrecurring Resources

In the aggregate, nonrecurring resources of $4.3 billion in FY 2012 and $3.5 billion in FY 2013 will be used to balance the budget in those years (see Figure 35).

**Figure 35**
**Nonrecurring Resources**
(in millions)

| | FY 2012 | FY 2013 |
|---|---|---|
| FY 2011 Surplus | $ 3,742 | $ - - - |
| Retiree Health Benefits Trust | 672 | 1,000 |
| Prior-Year Payables | 500 | - - - |
| State Building Aid | 220 | 100 |
| Debt Refundings and Redemptions - Net | 211 | 75 |
| Federal Medicaid Assistance | 124 | 32 |
| Early Retiree Reinsurance Program | 50 | - - - |
| Educational Construction Fund | 32 | - - - |
| Taxi Medallion Sales | - - - | 1,000 |
| FY 2012 Projected Surplus | (1,297) | 1,297 |
| **Total** | **$ 4,254** | **$ 3,504** |

Sources: NYC Office of Management and Budget; OSDC analysis

- Surplus resources accumulated in prior years will be transferred to help balance the budget in fiscal years 2012 and 2013.
- The City plans to draw down $672 million in FY 2012 from the Retiree Health Benefits Trust, and intends to draw down $1 billion in FY 2013. An additional planned $1 billion drawdown in FY 2014 would deplete the trust's balance.
- The City expects to save $500 million in FY 2012 from overestimating prior years' expenses, but the February Plan does not anticipate any future savings.
- The Department of Education would benefit by $220 million in FY 2012 and $100 million in FY 2013 from the release of State building aid retained in prior years.
- General Obligation and Transitional Finance Authority debt refundings and redemptions produced budgetary savings of $211 million in FY 2012 and $75 million in FY 2013.
- Federal stimulus budget relief for Medicaid totals $124 million in FY 2012 and $32 million in FY 2013.
- The City expects $50 million from the federal government in FY 2012 to help fund health care costs for certain retirees who are not yet eligible for Medicare.
- The City transferred $32 million in surplus funds from the Educational Construction Fund to the Department of Education in FY 2012.
- The February Plan includes $1 billion in revenue from the sale of additional taxi medallions in FY 2013.

# Appendix B: City-Funded Staffing Levels

As of December 31, 2011, the City-funded workforce totaled 249,522 full-time and full-time-equivalent employees, or 6,198 employees fewer than at the beginning of FY 2012 (see Figure 36). Most of the reductions were concentrated in education and seasonal employment. While the February Plan assumes that the City will add 2,387 employees between December 31, 2011, and June 30, 2013, many of these positions may remain vacant because the Mayor has imposed a hiring freeze. These and other changes are discussed below.

- Pedagogical staffing at the Department of Education has declined by 2,169 positions from July 1, 2011, through December 2011, and is expected to decline even further by the end of FY 2013 (by 2,104 positions), leaving 8,627 fewer teachers than in FY 2009.
- The Police Department increased uniformed staffing by 760 officers since the beginning of FY 2012, and expects to maintain a slightly lower staffing level through FY 2013 (34,309 police officers—the lowest level since FY 1992).
- Uniformed staffing at the Fire Department declined by 929 positions from August 2010 through December 2011 due to a federal court–imposed hiring ban, and would decline even further in FY 2013 (by 176 positions), assuming the closure of 20 fire companies.
- The Department of Correction plans to increase staffing by 864 positions (554 uniformed and 310 civilian employees) by the end of FY 2013.
- Staffing in the Department of Parks and Recreation is expected to rise by 408 positions by the end of FY 2013, but would be 3,409 fewer employees (primarily seasonal hires) than in FY 2007.
- Staffing in general government agencies was below the levels planned for the end of FY 2013 by 1,536 employees.

## Figure 36

# City-Funded Staffing Levels

### (Full-Time and Full-Time-Equivalents)

*Additions/(Reductions)*

| | | Actual | | | City Forecast | | Variance | |
|---|---|---|---|---|---|---|---|---|
| | | June 2011 | Nov. 2011 | Dec. 2011 | June 2012 | June 2013 | June 2011 to Dec. 2011 | Dec. 2011 to June 2013 |
| **Public Safety** | | **79,954** | **79,823** | **79,724** | **80,072** | **79,372** | **(230)** | **(352)** |
| Police | Uniformed | 33,667 | 34,576 | 34,427 | 34,309 | 34,309 | 760 | (118) |
| | Civilian | 15,723 | 15,515 | 15,683 | 15,701 | 15,511 | (40) | (172) |
| Fire | Uniformed | 10,621 | 10,480 | 10,450 | 10,779 | 10,274 | (171) | (176) |
| | Civilian | 5,059 | 5,036 | 5,026 | 4,834 | 4,848 | (33) | (178) |
| Correction | Uniformed | 8,456 | 8,354 | 8,300 | 8,744 | 8,854 | (156) | 554 |
| | Civilian | 1,422 | 1,414 | 1,417 | 1,721 | 1,727 | (5) | 310 |
| District Attys. & Prosecutors | | 3,611 | 3,658 | 3,632 | 3,172 | 3,125 | 21 | (507) |
| Probation | | 795 | 775 | 777 | 800 | 712 | (18) | (65) |
| Other | | 600 | 15 | 12 | 12 | 12 | (588) | 0 |
| **Health & Welfare** | | **22,004** | **22,444** | **22,524** | **24,273** | **23,827** | **520** | **1,303** |
| Social Services | | 9,973 | 9,959 | 9,914 | 10,642 | 10,469 | (59) | 555 |
| Children's Services | | 5,514 | 6,115 | 6,075 | 6,529 | 6,395 | 561 | 320 |
| Health & Mental Hygiene | | 4,352 | 4,245 | 4,425 | 4,821 | 4,659 | 73 | 234 |
| Homeless Services | | 1,786 | 1,768 | 1,757 | 1,919 | 1,937 | (29) | 180 |
| Other | | 379 | 357 | 353 | 362 | 367 | (26) | 14 |
| **Environment & Infrastructure** | | **17,447** | **15,641** | **14,679** | **16,195** | **15,355** | **(2,768)** | **676** |
| Sanitation | Uniformed | 6,833 | 7,043 | 7,024 | 7,056 | 7,053 | 191 | 29 |
| | Civilian | 1,909 | 1,845 | 1,801 | 1,999 | 2,003 | (108) | 202 |
| Transportation | | 2,198 | 2,004 | 1,976 | 2,008 | 1,998 | (222) | 22 |
| Parks & Recreation | | 6,297 | 4,544 | 3,672 | 4,911 | 4,080 | (2,625) | 408 |
| Other | | 210 | 205 | 206 | 221 | 221 | (4) | 15 |
| **General Government** | | **8,484** | **8,903** | **8,824** | **10,682** | **10,360** | **340** | **1,536** |
| Finance | | 1,756 | 1,775 | 1,784 | 2,068 | 2,069 | 28 | 285 |
| Law | | 1,252 | 1,315 | 1,323 | 1,336 | 1,334 | 71 | 11 |
| Citywide Admin. Services | | 1,334 | 1,340 | 1,340 | 1,443 | 1,470 | 6 | 130 |
| Taxi & Limo. Commission | | 436 | 409 | 407 | 589 | 591 | (29) | 184 |
| Investigations | | 197 | 194 | 194 | 229 | 226 | (3) | 32 |
| Board of Elections | | 488 | 749 | 631 | 1,426 | 1,023 | 143 | 392 |
| Info. Tech. & Telecomm. | | 1,012 | 989 | 968 | 1,051 | 1,034 | (44) | 66 |
| Other | | 2,009 | 2,132 | 2,177 | 2,540 | 2,613 | 168 | 436 |
| **Housing** | | **1,579** | **1,517** | **1,513** | **1,652** | **1,634** | **(66)** | **121** |
| Buildings | | 1,094 | 1,050 | 1,049 | 1,135 | 1,135 | (45) | 86 |
| Housing Preservation | | 485 | 467 | 464 | 517 | 499 | (21) | 35 |
| **Department of Education** | | **116,304** | **113,228** | **113,151** | **112,540** | **111,447** | **(3,153)** | **(1,704)** |
| | Pedagogues | 93,547 | 91,504 | 91,378 | 90,367 | 89,274 | (2,169) | (2,104) |
| | Non-Pedagogues | 22,757 | 21,724 | 21,773 | 22,173 | 22,173 | (984) | 400 |
| **City University of New York** | | **7,648** | **8,938** | **6,855** | **7,595** | **7,635** | **(793)** | **780** |
| | Pedagogues | 5,029 | 6,118 | 4,258 | 5,013 | 5,013 | (771) | 755 |
| | Non-Pedagogues | 2,619 | 2,820 | 2,597 | 2,582 | 2,622 | (22) | 25 |
| **Elected Officials** | | **2,300** | **2,270** | **2,252** | **2,407** | **2,279** | **(48)** | **27** |
| | | | | | | | | |
| **Total** | | **255,720** | **252,764** | **249,522** | **255,416** | **251,909** | **(6,198)** | **2,387** |

Note: Juvenile Justice (shown in Other Public Safety in FY 2011) is merged into Children's Services in FY 2012
Sources: NYC Office of Management and Budget; OSDC analysis