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

On June 26, 2014, the City of New York submitted to the New York State Financial Control Board a revised financial plan for FY 2014, which ended on June 30, 2014, and a new four-year financial plan (the "June Plan") for fiscal years 2015 through 2018 (see Figure 1). The June Plan incorporates the adopted budget for FY 2015 and other revisions since the Mayor released his executive budget.

For years, the Office of the State Comptroller (OSC) and others have pointed to the absence of new labor agreements as the greatest uncertainty facing the City's financial plan. (All of the labor agreements with the City's unions had expired, some as long ago as 2008.) In May 2014, the Mayor reached a new labor agreement with the United Federation of Teachers (UFT), which represents 33 percent of the City's workforce.

The City, which has a long history of pattern bargaining, assumes the economic terms of the UFT agreement will set the wage pattern for all municipal unions. In the past two months, a number of unions have agreed to follow the UFT pattern. Nearly 60 percent of the workforce has now reached new labor agreements with the City. The union representing the City's police officers, however, is seeking larger wage increases than those offered by the City, and has begun the process that could lead to binding arbitration.

The City estimates that the UFT agreement and the wage pattern it sets for the other unions will cost $13.6 billion during fiscal years 2014 through 2018. These costs were partially offset by resources ($3.5 billion) set aside by the City in its labor reserve prior to reaching the agreement, and by a total of $4.4 billion in new resources that will become available as the result of an approved agreement between the City and the Municipal Labor Committee (MLC), which represents the City's unions.

Under the MLC agreement, the City and the unions have agreed to work together to reduce the cost of health insurance to the City by $3.4 billion through FY 2018, of which $1.3 billion would be recurring savings. The agreement also permits the City to use $1 billion in unneeded resources in the Health Stabilization Fund to help fund wage increases. To build confidence that the agreement is generating the anticipated savings, the City has agreed to report on its progress on a regular basis.

The June Plan also includes a number of new programmatic initiatives. These include an expansion of full-day prekindergarten and after-school programs for middle-school students (funded from the largest increase in State education aid in eight years). City-funded initiatives include efforts to reduce and prevent homelessness; a pilot program to offer free lunch for middle-school students; and an expansion of the capital program to fund a new affordable housing program and to reduce school overcrowding.

OSC estimates that City-funded spending grew by 10.3 percent in FY 2014 and will increase by another 3.7 percent in FY 2015. Although the City-funded workforce is scheduled to increase by 1,675 employees during FY 2015, staffing would remain well below the prerecession peak.

The June Plan projects budget gaps of $2.6 billion in FY 2016, $1.9 billion in FY 2017 and $3.1 billion in FY 2018. The budget gaps are larger than those projected by the City in February 2014 because they now reflect the cost of collective bargaining and new programmatic initiatives, but the gaps are significantly smaller than the historical average over the past 35 years when measured as a share of City fund revenues.

Although the budget gaps for fiscal years 2019 through 2021 could be larger than the gaps projected for the financial plan period (because the cost of the UFT agreement and the pattern it sets for the other unions is highest in those years), the City has a long lead time to close these gaps. However, the sooner the City begins the process of implementing actions to close the budget gaps during the financial plan period, the smaller the gaps will be in fiscal years 2019 through 2021.

The City will also benefit from a continuation of its conservative approach to forecasting revenues, which has created surpluses that have helped close budget gaps and cushion the impact of adverse events. In FY 2014, tax revenues exceeded the City's forecast at the beginning of the fiscal year by $3 billion. For FY 2015, the City forecasts only a small increase in tax revenues even though Wall Street got off to a good start in the first quarter and the City continues to add jobs at a solid pace. OSC believes that tax revenues are likely to be higher than forecast by the City, particularly in the current fiscal year (see Figure 2).

While the City's economy is strong today, the possibility of an economic setback increases with each year. Changes in the business cycle are inevitable, and the national economic recovery has already exceeded the average length for all recoveries since the end of World War II. Thus, it is a positive development that the Mayor and the City Council have increased the City's reserves after the City spent down most of its accumulated surplus between fiscal years 2009 and 2013. The City has increased the annual general reserve to $750 million, far greater than the statutory minimum ($100 million) and the largest amount ever.

In FY 2014, the City rescinded the planned transfer of $1 billion from the Retiree Health Benefits Trust into the operating budget and contributed an additional $864 million, raising the balance to more than $2.2 billion. The Trust was created to help fund the future cost of post-employment benefits other than pensions (which reached $92.5 billion in FY 2013), although the City has used it as a rainy-day fund.

In conclusion, the City projects a surplus of $2 billion in FY 2014 and a balanced budget for FY 2015. The out-year budget gaps are manageable, and although a significant economic setback during the financial plan period could make closing the gaps more difficult, the City has increased its reserves. The City, however, still has work to do. It must conclude negotiations with the remaining municipal unions, obtain planned health insurance savings and narrow the projected budget gaps.

Figure 1
New York City Financial Plan
(in millions)

REVENUES	FY 2015	FY 2016	FY 2017	FY 2018
Taxes				
General Property Tax	$20,779	$21,854	$22,799	$23,734
Other Taxes	27,130	28,329	29,291	30,220
Tax Audit Revenue	709	709	709	709
Subtotal: Taxes	$48,618	$50,892	$52,799	$54,663
Miscellaneous Revenues	8,020	6,996	6,988	6,624
Unrestricted Intergovernmental Aid	- - -	- - -	- - -	- - -
Less: Intra-City Revenue	(1,797)	(1,822)	(1,825)	(1,830)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	$54,826	$56,051	$57,947	$59,442
Other Categorical Grants	809	876	872	867
Inter-Fund Revenues	533	519	518	518
Federal Categorical Grants	6,458	6,329	6,306	6,293
State Categorical Grants	12,401	12,820	13,294	13,813
Total Revenues	**$75,027**	**$76,595**	**$78,937**	**$80,933**
EXPENDITURES				
Personal Service				
Salaries and Wages	$23,747	$24,668	$24,975	$26,388
Pensions	8,595	8,833	8,900	9,408
Fringe Benefits	8,670	9,039	9,460	9,972
Retiree Health Benefits Trust	- - -	- - -	- - -	- - -
Subtotal: Personal Service	$41,012	$42,540	$43,335	$45,768
Other Than Personal Service				
Medical Assistance	$6,447	$6,415	$6,415	$6,415
Public Assistance	1,428	1,407	1,413	1,413
All Other	22,640	22,688	23,138	23,671
Subtotal: Other Than Personal Service	$30,515	$30,510	$30,966	$31,499
Debt Service[1]	$6,530	$7,242	$7,582	$7,839
FY 2014 Budget Stabilization[1]	(1,983)	- - -	- - -	- - -
General Reserve	750	750	750	750
Subtotal	$76,824	$81,042	$82,633	$85,856
Less: Intra-City Expenses	(1,797)	(1,822)	(1,825)	(1,830)
Total Expenditures	**$75,027**	**$79,220**	**$80,808**	**$84,026**
Gap to Be Closed	**- - -**	**$(2,625)**	**$(1,871)**	**$(3,093)**

Source: NYC Office of Management and Budget

1 Fiscal Year 2014 Budget Stabilization totals $1.983 billion, including GO of $621 million and TFA of $1.362 billion.

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

	Better/(Worse)			
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**
Surplus/(Gaps) Per June Plan	**$ - - -**	**$ (2,625)**	**$ (1,871)**	**$ (3,093)**
Tax Revenue	800	500	500	500
Debt Service	150	- - -	- - -	- - -
Medicaid Reimbursement	(50)	(80)	(80)	(80)
Uniformed Overtime	(50)	(50)	(50)	(50)
Pension Contributions	- - -	178	356	534
OSC Baseline Risk Assessment	**850**	**548**	**726**	**904**
Surplus/(Gaps) Per OSC[2]	**$ 850**	**$ (2,077)**	**$ (1,145)**	**$ (2,189)**
Potential Risks and Offsets[3]				
Health Insurance Savings[4]	(400)	(700)	(1,000)	(1,300)

[2] The June Plan includes a general reserve of $750 million in each of fiscal years 2015 through 2018. The Retiree Health Benefits Trust, which the City has used in the past as a rainy-day fund, has a balance of more than $2.2 billion. The City also has a reserve of $1 billion for disallowances of federal and State aid, which, if not needed for that purpose, could be used to help balance the budget.

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

[4] An agreement between the City and the Municipal Labor Committee (MLC), which represents the City's unions, is expected to generate cumulative health insurance savings of $3.4 billion through FY 2018, of which $1.3 billion is expected to be recurring. Pursuant to the agreement, a joint labor-management committee has been formed to identify actions to reduce the cost of health insurance. If the City and the MLC are unable to resolve any dispute on their own, the agreement calls for arbitration and a decision within 90 days. The arbitrator has the authority to enforce the terms of the agreement.

II. Economic Trends

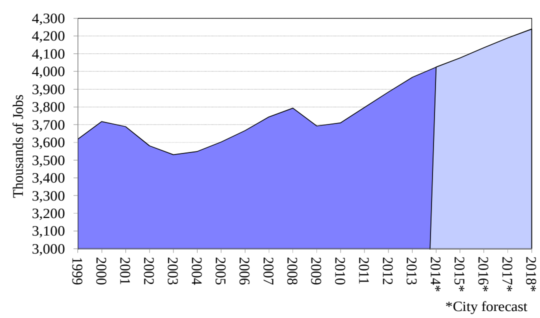
The national economy contracted by 2.9 percent during the first quarter of 2014 (the first contraction in three years) because of severe winter weather. The economy is expected to rebound strongly in the second quarter, although the annual growth rate could be held down to less than 2 percent as a result of the disappointing first quarter. National employment now exceeds prerecession levels, and the unemployment rate, while still above prerecession levels, has fallen from a peak of 10 percent in October 2009 to 6.1 percent in June 2014 (the lowest level since September 2008).

Citing improvements in the economy, the Federal Reserve continues to scale back its bond-purchasing program, which was created to hold down long-term interest rates and to stimulate economic growth. In recent months, however, consumer prices have increased by more than 2 percent on an annual basis, which has raised concerns that low interest rates and the strengthening economy are beginning to fuel inflation. The Federal Reserve's preferred measure of inflation has also risen, although it remains below 2 percent. The Federal Reserve, however, has reaffirmed its position that short-term interest rates will remain near zero to support continued progress toward its objectives of maximum employment and 2 percent inflation.

Since the end of the recession, job growth in New York City has averaged 1.8 percent annually, nearly twice as fast as in the nation and New York State (both grew by 1 percent annually). In 2013, employment in the City climbed to a record high of nearly 4 million (see Figure 3), and the City continued to register strong job gains during the first half of 2014. In June 2014, employment in the City exceeded the prerecession level by 243,500 jobs.

Figure 3

Annual New York City Employment



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

Job growth in the City, however, has been concentrated in lower-paying sectors. These sectors accounted for more than three-quarters of all jobs created in the City since 2009, with the majority located in just three industries (home health care, accommodation and food services, and retail trade). Among higher-paying sectors, job growth has been strong in professional and business services as well as in the high-tech and related creative industries. The construction sector has begun to add jobs (though employment remains well below prerecession levels) and manufacturing employment has stabilized after decades of decline. Unlike in prior recoveries, however, the securities industry has lost jobs in the current recovery.

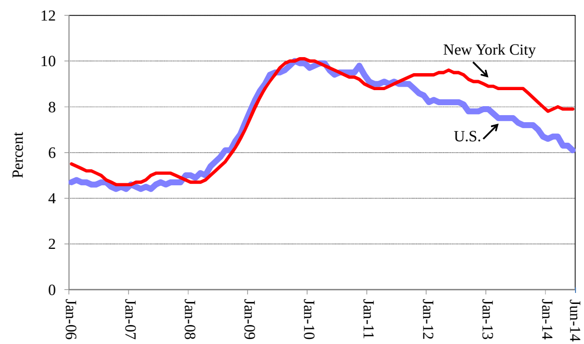
The June Plan assumes that job growth will remain strong, but the pace will ease from 2.1 percent in 2013 to 1.5 percent in 2014 and then 1.3 percent annually during calendar years 2015 through 2018. The City's forecast assumes that job growth during the financial plan period will remain concentrated in lower-paying sectors.

Although the City's unemployment rate has fallen from a peak of 10.1 percent in November 2009 to 7.9 percent in June 2014, it remains higher than the prerecession level and higher than the national rate (see Figure 4). Nearly half of the unemployed people in the City are considered long-term unemployed (i.e., they have been without a job for more than six months), a share that has not changed significantly since the height of the recession (by contrast, the share fell quickly after the last recession). The number of City residents without a job for at least two years has risen sharply since the end of the recession.

Some of the City's boroughs, neighborhoods and segments of the population are experiencing even higher rates of unemployment. Nearly one-fifth of the City's working-age population lacks a high school diploma, and the unemployment rate among those residents was 11.4 percent.

Figure 4

Unemployment Rates



Note: Data have been seasonally adjusted.

Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor; OSC analysis

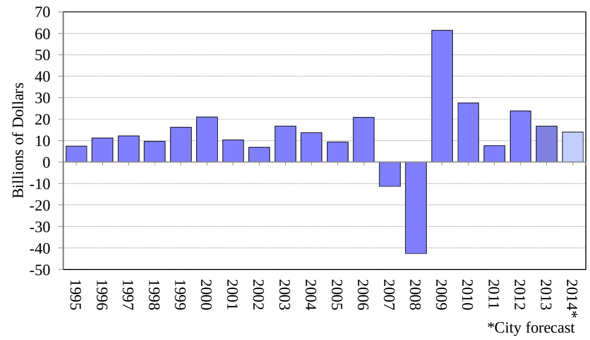
Income growth remains sluggish in the City, constrained by the high concentration of new lower-paying jobs, small salary increases from many employers and relatively high unemployment. Wage growth in 2013 (2.3 percent) was further constrained as income (primarily bonuses) was shifted into 2012 to avoid higher federal income tax rates that took effect in 2013. The June Plan projects that wage growth will rise at an average annual rate of 3.9 percent through 2018, which is less than half the average rate of increase in the last expansion.

Wall Street is one of the City's economic engines and a major source of tax revenues. The Federal Reserve's low-interest-rate policies helped Wall Street rebound from record losses in 2007 and 2008 with five consecutive years of profitability (including the three best years on record). Although the broker/dealer profits of the member firms of the New York Stock Exchange (the traditional measure of industry profitability) declined by 30 percent to $16.7 billion in 2013, profitability was still good by historical standards (see Figure 5).

The City expects that several factors, including ongoing litigation related to the financial crisis, the implementation of new regulations, and rising interest rates, will constrain industry profits to $14 billion in 2014. The industry, however, got off to a good start in the first quarter with profits of $5.3 billion, even though profitability was held down by litigation costs. While profitability has been volatile in recent years, the results of the first quarter put the industry on pace to exceed the City's forecast for the year.

Figure 5

Wall Street Profits



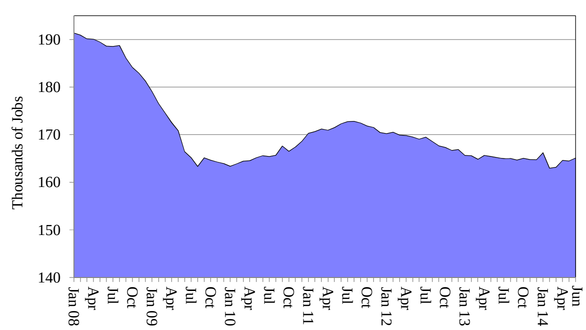
Sources: NYSE Euronext; Securities Industry and Financial Markets Association; NYC Office of Management and Budget

In February 2014, OSC estimated that bonuses (including compensation deferred from prior years) for securities industry employees who work in New York City increased by 15 percent in 2013 to an average of $164,530. (The total bonus pool also rose by 15 percent to $26.7 billion.) Based on its expectations of lower industry profits this year, the City forecasts a decline in Wall Street bonuses in 2014.

Although Wall Street has been profitable for several years, the securities industry in the City continues to shed jobs (see Figure 6). After losing 28,000 jobs during the recession, the securities industry added jobs during 2010 but resumed downsizing beginning in the second half of 2011. The industry is now nearly 14 percent smaller than before the financial crisis.

Figure 6

Securities Employment in New York City



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

In 2013, the City's tourism industry posted another record year. NYC & Company (the City's tourism agency) estimates that the total number of visitors to New York City increased to 54.3 million (a fourth-consecutive record year), and that visitor spending reached a record of nearly $40 billion. The City expects the number of tourists to break another record in 2014, reaching 55 million.

New York City's real estate markets also continue to improve. Data from the Department of Finance show that the City's median home value for one-, two- and three-family homes, which fell by almost 20 percent during the recession, has since recovered about one-third of its lost value. Values for condominium and cooperative apartments in Manhattan have returned to prerecession levels.

While the high-end residential market is strong, the City has a shortage of affordable housing. OSC has reported that, even after the benefit of government subsidies, one-fifth of City households face a severe rent burden, devoting at least half of their incomes to housing. The Mayor has unveiled a ten-year plan to build and preserve 200,000 units of affordable housing in the City (for more detail, see Section IX).

The City's commercial real estate market is among the strongest in the nation. Sales of large Manhattan office buildings have rebounded, fueled by international investment and low interest costs. In 2013, the value of office-building sales totaled $11.2 billion, which was 75 percent higher than the value of sales in 2012.

The average asking rent in Manhattan's primary office market has recovered one-third of its recessionary decline, reaching $68.90 per square foot in 2013. The vacancy rate initially fell as the recovery began but then it started to rise again, reaching 12.1 percent in 2013 (slightly higher than in 2009). The City expects that the completion of the World Trade Center towers will increase the inventory of Manhattan office space, causing the vacancy rate to edge up to 12.8 percent in 2014 while the average asking rent eases slightly. As this new space is absorbed, vacancy rates are expected to fall and rents are expected to increase in 2015.

While the City's economy is strong today, the possibility of an economic setback increases with each year. Changes in the business cycle are inevitable, and the national economic recovery has already exceeded the average length for all recoveries since the end of World War II. As the Federal Reserve unwinds its accommodative monetary policy, many economists (and the City) anticipate that interest rates will soon begin to rise. The magnitude and timing of rate increases will affect businesses and consumers throughout the economy, with the most notable effects on the real estate and financial markets. Other factors could also have an impact on the national and local economies, including continued weakness in the European economy, and geopolitical tensions.

III. Changes Since the June 2013 Plan

Over the past year, the City has recognized a total of nearly $11.2 billion in unplanned resources during fiscal years 2014 through 2017 ($5.8 billion in FY 2014 alone), mostly from higher tax revenues and savings in health insurance and debt service (see Figure 7). These resources permitted the City to fund new labor agreements and programmatic initiatives; generate a surplus of $2 billion in FY 2014; and balance the FY 2015 budget. The out-year budget gaps are larger than projected in February 2014, but more realistic now that they reflect the cost of collective bargaining.

Tax collections are projected to be higher by $5.9 billion through FY 2017, largely because real estate values and sales activity increased faster than the City had anticipated ($3.3 billion) and because personal income tax collections were much stronger than expected in FY 2014. The City also benefited in FY 2014 from the sale of City-owned buildings and a refund of health insurance premiums.

Health insurance and debt service costs are lower by $2.8 billion through FY 2017 because of a freeze in health insurance premiums in 2015 and a continuation of low interest rates, which reduced the cost of variable and fixed-rate debt. The City also realized unprecedented savings from an overestimation of prior years' expenses ($993 million in FY 2014), and drew down most of the resources in the general reserve in FY 2014 because they were not needed.

In May 2014, the City reached a tentative labor agreement with the United Federation of Teachers, which was subsequently approved by the union members. The agreement and the pattern it sets for the other municipal unions will cost more than the amounts the City had set aside in its reserve for collective bargaining prior to reaching the agreement, but these unplanned costs will be partially offset by health insurance savings and from a transfer of unneeded funds from the Health Stabilization Fund (for more detail, see Section VI).

The City also rescinded budget cuts planned for fiscal years 2015 through 2018, and funded new mayoral and City Council initiatives, plus a number of initiatives that had been funded for only one year in the FY 2014 budget. For example, the City rescinded $166 million in cuts to libraries and cultural institutions, and added $59 million to keep open 20 fire companies. The City added funds to prevent and reduce homelessness, improve child protection services, promote traffic safety and support arts education. The City added $160 million annually to continue social services programs such as day care and services for seniors.

The City still had sufficient resources to increase the general reserve to $750 million annually beginning in FY 2015 (the highest level ever), and to rescind a planned $1 billion withdrawal from the Retiree Health Benefits Trust as well as contribute another $864 million. The remaining resources (more than $1.8 billion) were transferred to help balance the FY 2015 budget.

Figure 7
Financial Plan Reconciliation–City Funds
June 2014 Plan vs. June 2013 Plan
(in millions)

	Better/(Worse)			
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**
Surplus/Gaps Per June 2013 Plan	**$ - - -**	**$ (1,965)**	**$ (1,769)**	**$ (1,382)**
Resources:				
Tax Revenue				
Personal Income Tax	1,326	161	220	225
Real Estate Transaction Taxes	655	132	174	46
Real Property Tax	431	451	595	772
Other Taxes	391	26	100	18
Audits	176	- - -	- - -	- - -
Subtotal	**2,979**	**770**	**1,089**	**1,061**
Prior Payables	993	- - -	- - -	- - -
Miscellaneous Revenue	717	184	130	8
Debt Service	619	398	155	137
Drawdown of General Reserve	410	- - -	- - -	- - -
Health Insurance	91	444	479	517
Total Sources	**5,809**	**1,796**	**1,853**	**1,723**
Uses:				
Collective Bargaining				
Anticipated Cost of Labor Settlements	(1,896)	(1,056)	(1,924)	(1,877)
Health Insurance Savings	- - -	400	700	1,000
Health Stabilization Fund	- - -	1,000	- - -	- - -
Subtotal	**(1,896)**	**344**	**(1,224)**	**(877)**
New Initiatives				
Programmatic Initiatives	(137)	(584)	(550)	(579)
PEG Restorations	(62)	(343)	(368)	(373)
City Council FY 2015 Initiatives	- - -	(287)	- - -	- - -
Subtotal	**(199)**	**(1,214)**	**(918)**	**(952)**
Reserves				
Retiree Health Benefits Trust	(1,864)	- - -	- - -	- - -
Increase General Reserve	- - -	(450)	(450)	(450)
Subtotal	**(1,864)**	**(450)**	**(450)**	**(450)**
All Other Expense Changes	(9)	(352)	(117)	67
Total Uses	**(3,968)**	**(1,672)**	**(2,709)**	**(2,212)**
Net Change During FY 2014	**1,841**	**124**	**(856)**	**(489)**
Surplus/(Gap)	**$ 1,841**	**$ (1,841)**	**$ (2,625)**	**$ (1,871)**
Surplus Transfers[5]	(1,841)	1,841	- - -	- - -
Gaps Per June 2014 Plan	**$ - - -**	**$ - - -**	**$ (2,625)**	**$ (1,871)**

Sources: NYC Office of Management and Budget; OSC analysis

5 The June 2013 financial plan projected a surplus of $142 million for FY 2014, which brings the surplus projected for FY 2014 to nearly $2 billion.

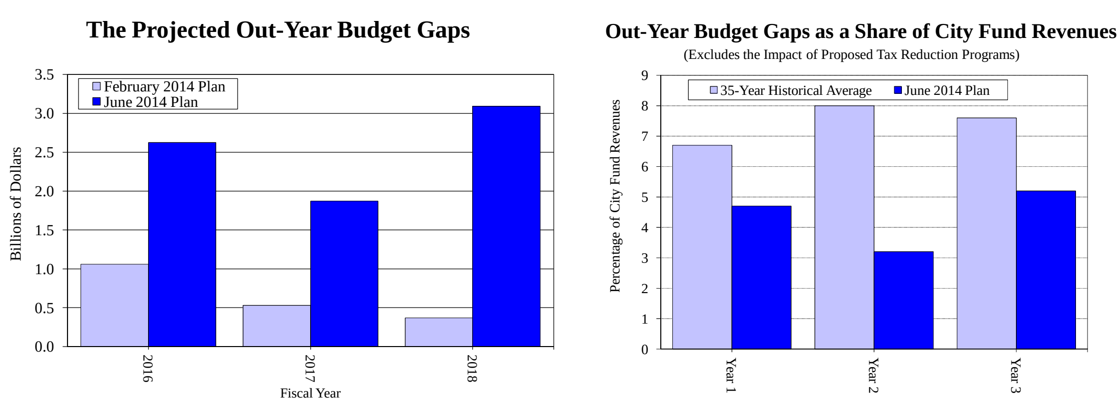
IV. The Projected Budget Gaps

The City projected large out-year budget gaps during the 2008 financial crisis and resulting recession, but the gaps declined quickly as the economic recovery took hold. The dramatic improvement resulted from a number of developments, including continued improvement in the local economy, a drawdown of reserves, low interest rates that permitted the City to refinance outstanding debt at lower cost, expiring labor agreements and the impact of agency cost-reduction initiatives.

The City's February 2014 financial plan projected budget gaps of $1.1 billion in FY 2016, $530 million in FY 2017 and $370 million in FY 2018, but these gap estimates were understated because they did not reflect the impact of unfinished labor negotiations. In early May 2014, the City reached a labor agreement with the United Federation of Teachers, which the June Plan assumes will set the wage pattern for agreements with the other municipal unions (for more detail, see Section VI). In addition, the Mayor and the City Council have approved a number of new programmatic initiatives, which have also added to the projected budget gaps.

As a result, the June Plan projects budget gaps of $2.6 billion in FY 2016, $1.9 billion in FY 2017 and $3.1 billion in FY 2018. As shown in Figure 8, these gap estimates are much larger than those projected by the City in February 2014, but are significantly smaller than the historical average over the past 35 years when measured as a percentage of City fund revenues. The City has demonstrated in the past that gaps of this magnitude are manageable, but a significant economic setback during the financial plan period would make closing them more difficult.

Figure 8
The Out-Year Budget Gaps

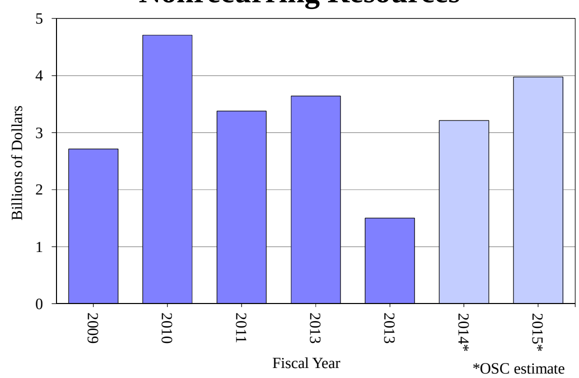


Sources: NYC Office of Management and Budget; OSC analysis

Although the budget gaps for fiscal years 2019 through 2021 could be larger than the gaps projected for the financial plan period (because the cost of the UFT labor agreement and the wage pattern that it sets for the other unions is highest in those years), the City has a long lead time to close these gaps. However, the sooner the City begins the process of identifying and implementing actions that generate recurring resources to close the budget gaps during the financial plan period, the smaller the gaps will be in fiscal years 2019 through 2021.

While the City relied heavily on nonrecurring resources during the recession, its level of reliance dropped significantly (to $1.5 billion) in FY 2013 (see Figure 9). OSC estimates that the budgets for fiscal years 2014 and 2015 include nonrecurring resources of $3.2 billion and nearly $4 billion, respectively (see Appendix A).

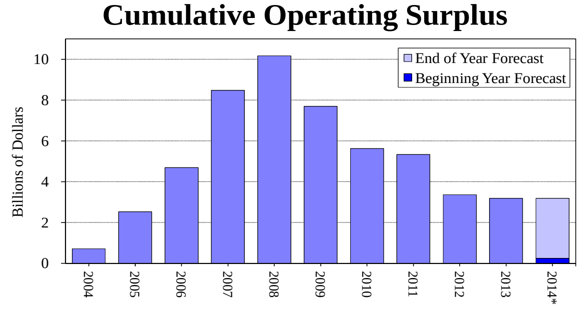
Figure 9
Nonrecurring Resources



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

During the last economic expansion, the City accumulated surplus resources as revenue growth outpaced spending. The cumulative surplus peaked in FY 2008 at $10.2 billion (see Figure 10). The City began to draw on these resources beginning in FY 2009 to help navigate the recession, and by the end of FY 2013 the City had spent $7 billion of the accumulated surplus. The adopted budget for FY 2014 had anticipated that the accumulated surplus would be largely depleted by the end of the fiscal year, leaving the City with little cushion to respond to unanticipated events. Revenue collections, however, were much stronger than the City's initial projections, which allowed the Mayor to rescind the planned transfer of $1 billion from the Retiree Health Benefits Trust (which the City has used in the past as a rainy-day fund) into the operating budget, and to deposit an additional $864 million into the Trust. The City also increased the general reserve to $750 million annually beginning in FY 2015, far more than the statutory minimum ($100 million) and the largest amount ever.

Figure 10
Cumulative Operating Surplus



Note: Adjusted for surplus transfers, TFA, TSASC and discretionary actions. Estimates include the balance of Retiree Health Benefits Trust reserves for each fiscal year ending June 30.
Sources: NYC Office of Management and Budget; NYC OPEB Plan; OSC analysis

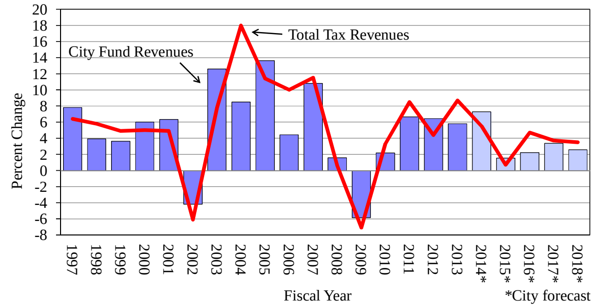
V. Revenue Trends

The City has raised its forecast of revenue collections for fiscal years 2014 through 2017 by $6.9 billion since June 2013. Most of this additional revenue comes from higher tax collections ($5.9 billion), which reflect stronger job growth; improving real estate market conditions; and a smaller-than-expected falloff in capital gains following a 2013 increase in federal personal income tax rates.

In FY 2014, economic growth outpaced the City's expectations, and tax revenues exceeded the City's initial forecast by $3 billion (growing by 5.6 percent). This, combined with several nonrecurring revenues (see Appendix A), resulted in City fund revenue growth of 7.3 percent.

Figure 11

Annual Changes in City Fund Revenues and Tax Revenues



Note: Adjusted for debt service on TFA and Tobacco Bonds, and the transfer of TSASC revenues.

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

The June Plan assumes that tax collections in FY 2015 will increase by only $325 million (a gain of less than 1 percent) and City fund revenue will increase by only 1.6 percent (see Figure 11). This forecast appears overly conservative because the City's economy continues to grow. The City, for example, assumes that personal income tax collections will decline by 3.2 percent in FY 2015 even though the City continues to add jobs at a steady pace. As a result, OSC believes that tax revenues could be $800 million higher than the City's forecast in FY 2015. The June Plan assumes that tax collections will grow at an average annual rate of 4 percent during fiscal years 2016 through 2018, which is more consistent with forecasts for economic growth.

The June Plan does not include the possible benefit from an $8.9 billion penalty to be paid by BNP Paribas to settle federal and state criminal charges. Any funds received by the City, which could total nearly $900 million, could be subject to restrictions in their use.

Details of the City's revenue forecasts are shown in Figure 12 and discussed below.

Figure 12
City Fund Revenues
(in millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Taxes						
Real Property Tax	$ 18,751	$ 19,999	$ 20,779	$ 21,854	$ 22,799	$ 23,734
Personal Income Tax	9,168	9,495	9,191	9,617	9,948	10,220
Sales Tax	6,132	6,460	6,666	6,946	7,260	7,556
Business Taxes	5,857	5,907	5,959	6,149	6,312	6,530
Real Estate Transaction Taxes	1,828	2,488	2,226	2,467	2,561	2,638
Other Taxes	2,976	3,059	3,088	3,150	3,210	3,276
Audits	1,009	885	709	709	709	709
Subtotal	**45,721**	**48,293**	**48,618**	**50,892**	**52,799**	**54,663**
Miscellaneous Revenues						
Licenses, Charges, Fines, etc.	4,728	4,994	4,744	4,788	4,837	4,876
Taxi Medallion Sale	- - -	337	553	360	400	- - -
Health Stabilization Fund	- - -	- - -	1,000	- - -	- - -	- - -
Other Nonrecurring Items[6]	- - -	453	- - -	100	- - -	- - -
Subtotal	**4,728**	**5,784**	**6,297**	**5,248**	**5,237**	**4,876**
Grant Disallowances	(59)	(15)	(15)	(15)	(15)	(15)
Total	**$ 50,390**	**$ 54,062**	**$ 54,900**	**$ 56,125**	**$ 58,021**	**$ 59,524**

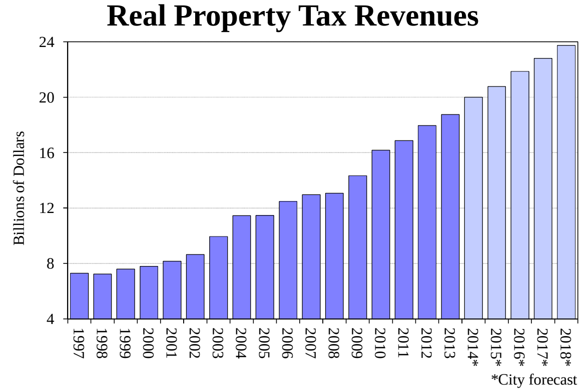
Note: Miscellaneous revenues include debt service on tobacco bonds.
Sources: NYC Office of Management and Budget; OSC analysis

1. Real Property Tax

Real property tax collections will increase by 3.9 percent in FY 2015, to $20.8 billion, based on the final property tax roll (see Figure 13). Since FY 2010 (the last year in which property tax rates were raised), real property tax collections have increased by 28 percent, reflecting increases in assessed values as the economy has recovered.

Assessed values rose by 6.1 percent in FY 2015, the largest increase since FY 2010. Much of the growth resulted from strong gains in values for commercial and large residential properties (such as cooperative, condominiums and apartment buildings). Values for one-, two- and three-family homes continued to recover, increasing at their fastest rate (4.2 percent) since FY 2008.

Figure 13
Real Property Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

[6] This includes the sale of City-owned real estate and the refund of health insurance premiums (see Appendix A).

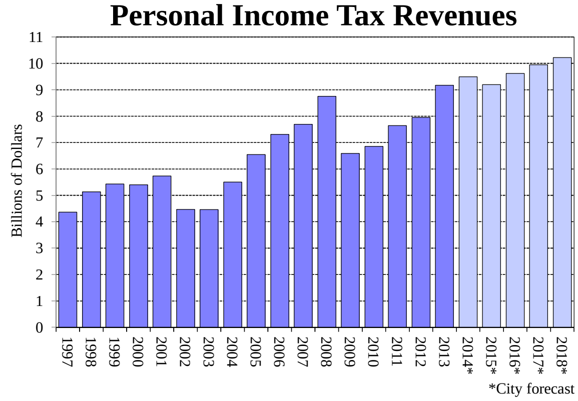
State law requires that increases in assessed values for commercial and large residential properties be phased in over five years. While the law limits the growth in real property tax revenue in FY 2015, it creates a pipeline of gains that will be realized in subsequent years.

The June Plan assumes that assessed values will rise at a slower rate in subsequent years (an average annual rate of 4.6 percent) based on the assumption that long-term interest rates (which affect property valuation) will rise sharply during the financial plan period. If long-term interest rates rise at a slower rate, growth in property values could exceed the City's forecast, yielding additional tax revenues.

2. Personal Income Tax

Collections from the personal income tax were much higher in FY 2014 than the City anticipated at the beginning of the fiscal year ($1.3 billion), rising by 3.6 percent to reach $9.5 billion (see Figure 14). These additional revenues reflect stronger growth in employment and Wall Street bonuses, and payments from the State to correct a distributional shortfall in its processing of City personal income tax returns.

Figure 14
Personal Income Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

Growth was also boosted by a smaller-than-expected decline in capital gains in 2013. This decline resulted from taxpayers accelerating income from 2013 and subsequent years into 2012 in order to avoid paying higher federal personal income tax rates that became effective in January 2013. The City had previously expected tax payments on this income to decline by 60 percent, but the actual decline was only 40 percent. Many other jurisdictions, such as New York State, New Jersey and Illinois, had projected smaller declines and therefore experienced revenue shortfalls.

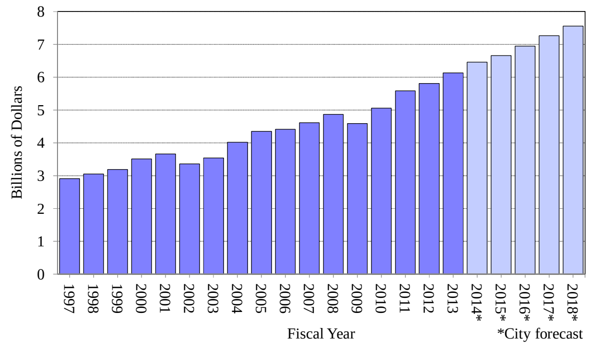
The June Plan, by contrast, projects that personal income tax collections will decline by 3.2 percent in FY 2015. Based on current trends in the economy and economic forecasts from IHS Global Insight, however, OSC expects collections from the personal income tax to increase by 1 percent in FY 2015. As a result, revenues could exceed the City's forecasts by about $400 million annually beginning in FY 2015.

3. Sales Tax

Sales tax collections grew by 5.3 percent in FY 2014 to reach $6.5 billion (see Figure 15), boosted by the high level of spending from the record number of tourists who visited the City. Although the June Plan expects growth in sales tax collections to slow in FY 2015, OSC expects the City's economy to remain vibrant in FY 2015, with continued strong growth in jobs, wages and tourism yielding an additional $100 million annually compared to the forecasts in the June Plan. Over the balance of the financial plan period, the City's sales tax forecast is more consistent with its economic outlook, growing at an average annual rate of 4.3 percent.

Figure 15

Sales Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

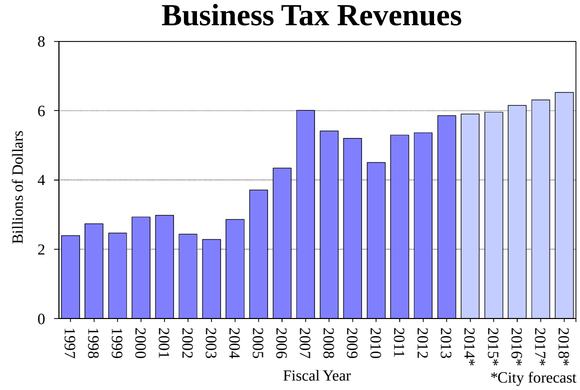
4. Business Taxes

The June Plan assumes that collections from business taxes, which are paid by corporations and unincorporated businesses, will rise by less than 1 percent in FY 2015 to $6 billion (see Figure 16), a similar rate of growth as FY 2014.

The rates of growth reflect continued weakness in payments from financial firms, whose profits have been affected by higher interest rates, a reduction in mortgage activity, and legal settlements related to the financial crisis. Profits at Wall Street firms, for example, declined to $16.7 billion in 2013, and the City expects profits to ease to $14 billion in 2014. The industry, however, got off to a good start in the first quarter of 2014 with profits of $5.3 billion, which puts the industry on pace to exceed the City's forecast and could lead to higher revenue collections. Financial firms account for about half of all business tax collections (with the securities industry accounting for nearly 40 percent of the financial share).

Figure 16

Business Tax Revenues



Sources: NYC Comptroller; NYC Office of Management and Budget

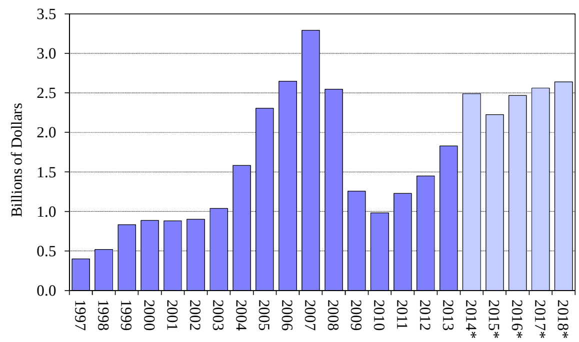
The June Plan projects that the average annual rate of growth for business taxes will rise slightly during fiscal years 2016 through 2018, to 3.1 percent. The City expects that implementation of regulatory reforms, additional legal settlements and rising interest rates will continue to limit increases in profitability for financial firms. Nevertheless, the City expects that continued improvements in the broader economy will allow payments from nonfinancial firms to grow modestly during these years.

5. Real Estate Transaction Taxes

The market for commercial properties in the City, especially for large Manhattan office buildings, has strengthened and is attracting increased interest from international investors. Sales have also been strong for high-end Manhattan residential properties. As a result, collections from the City's two taxes on real estate transactions (the mortgage recording tax and the real property transfer tax) rose by 36.1 percent to reach nearly $2.5 billion by FY 2014 (see Figure 17).

Figure 17

Real Estate Transaction Tax Revenues



*City forecast

Sources: NYC Comptroller; NYC Office of Management and Budget

The June Plan, however, assumes that collections will decline by 10.5 percent in FY 2015 ($262 million) because rising interest rates will significantly reduce transaction activity. The June Plan also assumes that, despite continued increases in interest rates, collections will resume growing in FY 2016.

Although there is some concern that recent increases in inflation will lead to higher interest rates, the Federal Reserve has reaffirmed its intention to hold short-term rates near zero until labor market conditions show further improvement. Thus, OSC believes that collections from real estate transaction taxes are likely to exceed the City's forecast for FY 2015.

6. Miscellaneous Revenues

Miscellaneous revenues (from sources such as charges for services, licenses, permits, fines, fees and investment income) are projected to total $6.3 billion in FY 2015, including $553 million from the sale of taxi medallions (see Section IX) and $1 billion related to the transfer from the Health Stabilization Fund as a result of a recent collective bargaining agreement (see Section VI).

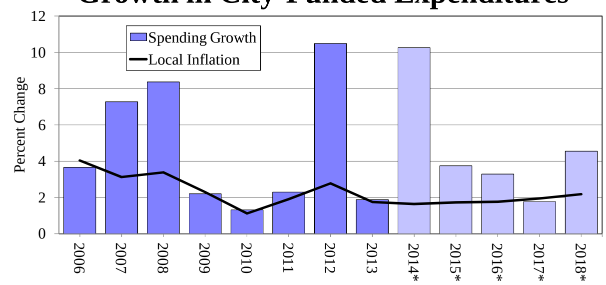
The Mayor recently announced a new reform initiative that will change the way several agencies (including the Department of Consumer Affairs and the Department of Sanitation) regulate small businesses. The initiative aims to increase consistency and fairness within the regulatory system and to provide outreach and education to business owners. For example, the Department of Health and Mental Hygiene will reduce fines against food establishments for minor violations and may waive other fines in certain instances.

VI. Expenditure Trends

OSC estimates that City-funded expenditures grew by 10.3 percent in FY 2014 ($5.1 billion).[7] This would be the fastest rate of growth in six years with the exception of FY 2012, when the City replaced expiring federal stimulus aid and offset a large cut in State education aid (see Figure 18). The rapid rate of growth in FY 2014 reflects the cost of new labor agreements, continued growth in fringe benefits and the discretionary contribution of $864 million into the Retiree Health Benefits Trust.[8] City-funded spending is projected to increase by another 3.7 percent (twice the projected inflation rate) in FY 2015 to reach nearly $57 billion. Spending is projected to grow more slowly during fiscal years 2016 through 2018 (at an average annual rate of 3.2 percent).

Figure 18

Growth in City-Funded Expenditures



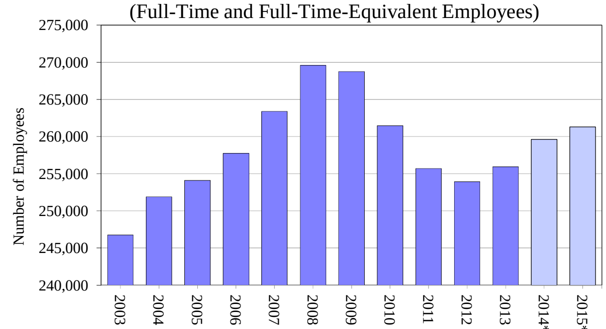
Note: Adjusted for surplus transfers, TFA, TSASC and discretionary actions. City-funded expenditures grew by 10.5 percent in FY 2012 because the City replaced expiring federal stimulus aid ($1.8 billion) and a cut in State education aid ($812 million) with City funds.
Sources: NYC Office of Management and Budget; OSC analysis

Personal service costs (i.e., the cost of employee wages and fringe benefits) will rise by $7.3 billion between fiscal years 2013 and 2018, an increase of 26 percent. These estimates reflect the impact of the recent labor agreement between the City and the United Federation of Teachers (UFT), and the City's expectation that the agreement will set the wage pattern for the other unions (for more detail, see "Collective Bargaining" later in this section). Debt service is expected to increase by nearly $2.2 billion to $7.6 billion in FY 2018, an increase of 39.7 percent.

Figure 19

City-Funded Staffing Levels

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



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

The City-funded workforce grew by 22,800 employees between fiscal years 2003 and 2008 (see Figure 19), but staffing levels contracted by 15,666 employees over the next four years as budget cuts were imposed to help

7 OSC adjusts City-funded expenditures for surplus transfers and debt defeasances, and includes debt service on bonds issued by TSASC.

8 City-funded spending would have increased by 8.5 percent in FY 2014 without the discretionary contribution to the Retiree Health Benefits Trust.

weather the Great Recession. Staffing levels grew by 2,003 employees during FY 2013, and the City forecasts that staffing grew by another nearly 3,700 employees during FY 2014. The June Plan assumes that City-funded staffing (both full-time and full-time-equivalents) will increase by 1,675 employees during FY 2015 to reach 261,295 (see Appendix B), which is still below the prerecession peak.

The June Plan is based on the trends shown in Figure 20 and discussed below.

Figure 20
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers and TSASC)
(in millions)

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Salaries and Wages	$ 13,713	$ 16,212	$15,854	$ 16,659	$ 16,997	$ 18,342
Pension Contributions	8,022	8,152	8,437	8,672	8,739	9,247
Medicaid	6,233	6,272	6,353	6,322	6,322	6,322
Debt Service	5,465	5,481	6,446	7,124	7,365	7,636
Health Insurance	3,943	4,301	4,277	4,490	4,662	4,857
Other Fringe Benefits	2,431	2,666	2,720	2,840	2,900	2,966
Energy	882	941	920	912	922	965
Judgments and Claims	402	523	534	570	606	642
Public Assistance	576	561	600	582	585	585
General Reserve	- - -	40	750	750	750	750
Prior Years' Expenses	(347)	(993)	- - -	- - -	- - -	- - -
Retiree Health Benefits Trust Contribution	(1,000)	864	- - -	- - -	- - -	- - -
Other	9,493	9,904	10,091	9,932	10,044	10,305
Total	**$ 49,813**	**$ 54,924**	**$ 56,982**	**$ 58,853**	**$ 59,892**	**$ 62,617**

Sources: NYC Office of Management and Budget; OSC analysis

1. Collective Bargaining

In the past few years, the absence of new labor agreements represented the greatest uncertainty facing the City's financial plan. While most of the labor agreements expired in 2010, the City had not reached an agreement with the United Federation of Teachers (UFT) and a number of smaller unions for the 2008-2010 round of collective bargaining. In May 2014, the City and the UFT, which represents the City's teachers and paraprofessionals (33 percent of the workforce), announced a nine-year labor agreement, which was subsequently approved by the rank and file on June 3, 2014.

The UFT agreement compensates teachers and other UFT members for two annual wage increases of 4 percent that were provided by the prior mayoral administration to most other municipal unions in 2009 and 2010, but not to members of the UFT.[9] In addition, the agreement increases wages by 10 percent over a seven-year period

[9] The City had set aside resources to increase the wages for members of the UFT by 4 percent in each of calendar years 2009 and 2010, but the City redirected those resources in 2010 to offset a sharp reduction in State education aid, which resulted from the State's efforts to balance its budget during the recession.

ending in 2018 and provides employees with a $1,000 payment upon ratification of the agreement.[10] The City, which has a long history of pattern bargaining, assumes that these terms will set the wage pattern for all municipal unions.

In the past two months, the City has reached new labor agreements with a number of other unions (e.g., District Council 37), which are consistent with the wage patterns set by the UFT agreement.[11] In total, the City has now reached new labor agreements with unions that represent nearly 60 percent of the workforce. However, the Patrolmen's Benevolent Association (which represents the City's police officers) is seeking larger wage increases than those offered by the City, and has begun the process that could lead to binding arbitration.

Under the UFT agreement, the salaries for teachers and other UFT members will increase by about 2 percent per year over a four-year period beginning on May 1, 2015 (this represents a restructuring of the two annual wage increases of 4 percent that were provided to most other municipal employees). In addition, workers will receive five lump-sum payments over a six-year period to compensate them (without interest) for the time they went without the raises.[12]

UFT members who retired before July 1, 2014, will receive one large lump-sum payment,[13] while those who retire between July 1, 2014 and October 1, 2020 will receive lump-sum payments on the same schedule as active employees. Employees who otherwise leave City service will be ineligible for any future payments. The City set aside resources in FY 2014 (more than $1 billion for all unsettled contracts covering the 2008-2010 contract period) to fund the estimated cost of the lump-sum payments to past and future retirees through September 30, 2020. The cost for employees still in service will be funded from the operating budget in the year in which the payments are made.[14]

10 After an 18-month wage freeze, wages will increase by 1 percent retroactive to May 2013, 1 percent in May 2014, 1 percent in May 2015, 1.5 percent in May 2016, 2.5 percent in May 2017 and 3 percent in May 2018.

11 The UFT agreement and subsequent agreements with other unions have included changes in work rules.

12 Lump-sum payments will be made on October 1 of 2015, 2017, 2018, 2019 and 2020.

13 A Structured Retiree Claims Settlement Fund will be created in the amount of $180 million to settle all claims by retirees who have retired between November 1, 2009, through June 30, 2014. The fund will be distributed based on an agreed-upon formula.

14 The accounting treatment of the UFT agreement in the June Plan is consistent with generally accepted accounting principles (GAAP). State law and the City Charter require the City to balance its budget and to prepare its financial plan in accordance with GAAP, except for the application of Statement No. 49 of the Government Accounting Standards Board, which relates to environmental remediation. As required by State law and the City Charter, the City's financial statements will be reviewed by an independent accounting firm at the end of each fiscal year.

Figure 21 shows the budgetary impact of the UFT agreement and the City's expectation that it will set the pattern for negotiations with the other municipal unions. The City estimates that compensating UFT members and other employees for the 8 percent wage increase for the 2008-2010 round of collective bargaining will cost nearly $4.7 billion during fiscal years 2014 through 2018, and that a pattern wage increase of 10 percent for all City employees for the 2010-2017 contract period will cost nearly $8.9 billion during this period.

Figure 21
Budgetary Impact of Anticipated Labor Settlements

(in millions)

	Offsets/(New Cost)							
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Gross Cost								
2008-2010 Contract Period								
Wage Increases	(14)	(80)	(286)	(561)	(844)	(1,072)	(1,156)	(1,169)
Lump Sum Payments	(1,030)	(172)	(725)	(146)	(830)	(1,265)	(1,430)	(1,533)
Other *	- - -	(21)	(21)	(29)	(29)	(29)	(29)	(29)
Subtotal	**(1,044)**	**(273)**	**(1,032)**	**(736)**	**(1,703)**	**(2,366)**	**(2,615)**	**(2,731)**
2010-2017 Contract Period[15]								
Wage Increases	(833)	(912)	(1,441)	(2,174)	(2,898)	(3,522)	(3,732)	(3,776)
Ratification Payment	(146)	(240)	(136)	- - -	- - -	- - -	- - -	- - -
Subtotal	**(979)**	**(1,152)**	**(1,577)**	**(2,174)**	**(2,898)**	**(3,522)**	**(3,732)**	**(3,776)**
Total Gross Cost	**$(2,023)**	**$(1,425)**	**$(2,609)**	**$(2,911)**	**$(4,601)**	**$(5,888)**	**$(6,347)**	**$(6,507)**
Offsets								
Labor Reserve	$127	$369	$685	$1,034	$1,299	$1,299	$1,299	$1,299
Health Stabilization Fund	- - -	1,000	- - -	- - -	- - -	- - -	- - -	- - -
Health Care Cost Savings	- - -	400	700	1,000	1,300	1,300	1,300	1,300
Total Offsets	**$127**	**$1,769**	**$1,385**	**$2,034**	**$2,599**	**$2,599**	**$2,599**	**$2,599**
Net Budgetary Impact	**$(1,896)**	**$344**	**$(1,224)**	**$(877)**	**$(2,002)**	**$(3,289)**	**$(3,748)**	**$(3,908)**

* The UFT contract provides for increases in starting salaries for teachers and in pay differentials (e.g., longevity pay) for certain other UFT members.

Note: Totals may not add due to rounding.

These costs (which total $13.6 billion during fiscal years 2014 through 2018) will be partially offset by resources set aside by the City in its labor reserve ($3.5 billion) prior to reaching the agreement, and by a total of $4.4 billion in new resources that are expected to become available as the result of an approved agreement between the City and the Municipal Labor Committee (MLC), which represents the City's unions. Thus, the net budgetary cost during fiscal years 2014 through 2018 is expected to total

15 For some union contracts (e.g., the United Federation of Teachers), the 2010-2017 round of collective bargaining would provide wage increases in calendar year 2018.

$5.7 billion. The annual net budgetary impact is greatest during fiscal years 2019 through 2021 because of lump-sum payments scheduled for those years as well as the full impact of wage increases granted in prior years.[16]

The agreement between the City and the MLC is expected to generate cumulative health insurance savings of $3.4 billion through FY 2018, of which $1.3 billion is expected to be recurring.[17] If health care savings exceed $3.4 billion during the four-year period, up to $365 million (the equivalent of a 1 percent wage increase) would be used to provide a one-time lump-sum payment to employees. Any additional savings during the financial plan period would be shared equally between the City and the municipal unions, and after FY 2018 the use of any additional recurring savings above $1.3 billion would be subject to negotiation. The agreement also permits the City to transfer $1 billion in unneeded resources from the Health Stabilization Fund to the operating budget during FY 2015 to help fund wage increases.

Pursuant to the MLC agreement, a joint labor-management committee has been formed to identify actions to reduce the cost of health care. A number of different possibilities have been suggested, including negotiating agreements with the City's health insurance carriers to hold down the growth in health insurance premiums, and conducting audits of health benefits coverage for dependents to reduce the possibility of fraud. The unions will be credited with any savings that result from health insurance premiums growing more slowly than assumed in the City's financial plan.[18] The agreement does not exclude the possibility of higher employee health insurance premiums or higher co-payments, but the City and its unions are focused on reducing the cost to the City, rather than shifting the cost to employees.

The City and the MLC have agreed to hire an independent health care actuary to measure the savings resulting from the agreement. If the City and the MLC are unable to resolve any dispute on their own, the agreement calls for arbitration and a decision within 90 days. The arbitrator has the authority to enforce the terms of the agreement. The City has agreed to report on the progress of the labor-management committee on a regular basis, which will build confidence that the agreement is generating the anticipated savings.

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16 The City estimates that the lump-sum payments will total $7.1 billion during fiscal years 2014 through 2021, of which $4.2 billion will be included in the budgets for fiscal years 2019 through 2021. Even after all the lump-sum payments are made, the City will incur additional pension contributions of $128 million annually beginning in FY 2023.

17 The agreement calls for savings of $400 million in FY 2015, $700 million in FY 2016, $1 billion in FY 2017 and $1.3 billion in FY 2018.

18 The June Plan assumes, for example, that health insurance premiums for active employees will grow by 9 percent annually beginning in FY 2016.

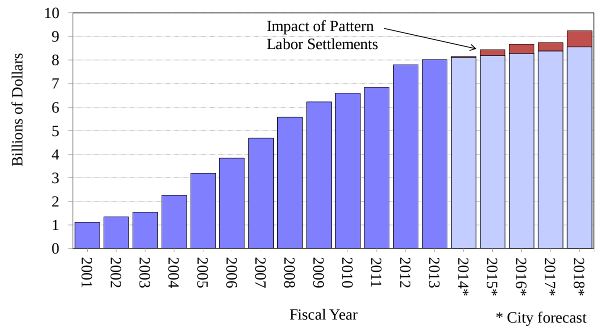
2. Pension Contributions

As discussed above, the June Plan assumes that the recent agreement with the UFT will set a pattern for negotiations with the rest of the municipal workforce. The City estimates that these agreements will increase pension contributions by a total of $1.7 billion during fiscal years 2014 through 2018. As a result, pension contributions are projected to rise from $8.2 billion in FY 2014 to reach nearly $9.3 billion by FY 2018 (see Figure 22).

Figure 22

New York City Pension Systems

Annual Contributions



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

These estimates also reflect changes in assumptions and methodologies that became effective in FY 2012. The changes include a reduction in the investment earnings assumption from 8 percent to 7 percent; a different methodology to determine the cost of future pension benefits; a market value restart;[19] and a longer amortization period, which frees up resources during the financial plan period but will result in higher costs over the longer term.

The City has engaged the services of an independent actuarial consultant, as required under the City Charter, to conduct a biennial audit of the pension systems. The audit, which is expected to be released during FY 2015, may recommend additional changes to the actuarial assumptions and methodologies that are used to calculate City pension contributions, which could increase (or decrease) planned City pension contributions.

In FY 2013, the City's pension systems earned 12.1 percent on their investments (compared to an expected annual return of 7 percent). The better-than-expected return on investments permitted the City to reduce its planned contributions to the pension systems. According to the City Comptroller, the pension systems earned 17.4 percent on their investments in FY 2014, which could reduce planned pension contributions by $178 million in FY 2016, $356 million in FY 2017 and $534 million in FY 2018.

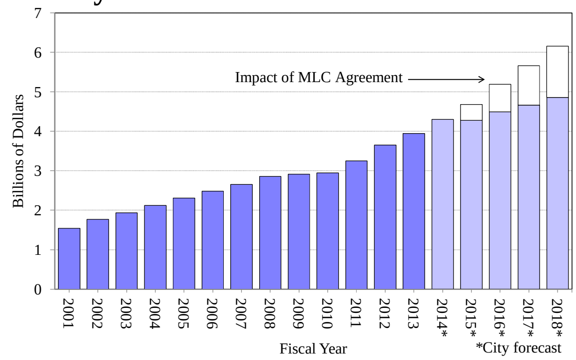
As of June 30, 2011 (the most recent date of pension valuation data reported by the City Actuary), the City's five pension systems had sufficient assets to fund, on average, 61 percent of their accrued liabilities. The New York City Employees' Retirement System, for example, had assets to cover 65 percent of its liabilities, while the New York City Fire Pension Fund had assets to fund 50 percent of its liabilities.

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

3. Health Insurance

As previously discussed, an agreement with the Municipal Labor Committee is expected to generate $3.4 billion in health insurance savings through FY 2018. If the savings are realized as planned, the growth in health insurance costs would slow from an average annual rate of 9.4 percent to 3.1 percent, but the cost would still reach $4.9 billion by FY 2018 (see Figure 23), 23.2 percent more than the cost in FY 2013.

Figure 23
City-Funded Health Insurance Costs



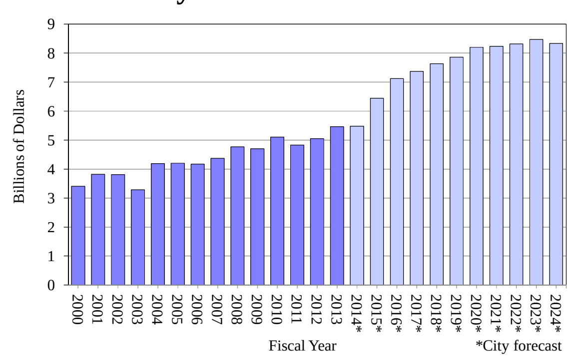
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

4. Debt Service

OSC estimates that City-funded capital commitments will total $34.9 billion during fiscal years 2014 through 2018, or $3.8 billion more than anticipated in February 2014. The increase reflects a number of new initiatives, including a new affordable housing program, efforts to reduce school overcrowding, and repairs to roads and bridges.

City-funded debt service (adjusted for surplus transfers) is projected by the City to grow by nearly $1 billion in FY 2015 to reach $6.4 billion (see Figure 24), an increase of 17.6 percent. These estimates reflect considerably higher interest rates for both variable-rate and fixed-rate debt than current market conditions. The City made a similar assumption at the beginning of FY 2014, but interest rates remained low and the City realized more than $600 million in savings. The Federal Reserve has indicated that it intends to keep interest rates low until it meets its employment and inflation objectives. Interest rates are not expected to begin to rise until the second half of FY 2015. Thus, the City could realize substantial debt service savings in FY 2015 (at least $150 million) because interest rates are likely to remain low and because the City is unlikely to need to borrow to meet its short-term cash flow needs (for more detail, see Section IX).

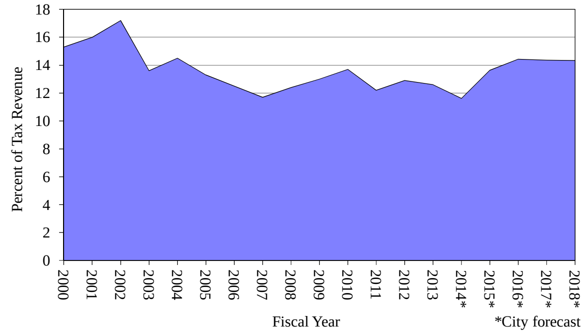
Figure 24
City-Funded Debt Service



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

The debt service burden (i.e., debt service as a percent of tax revenues) will rise from 11.6 percent in FY 2014 to 14.3 percent by FY 2018 (see Figure 25). If recent economic trends continue, OSC projects that the debt service burden will remain relatively stable at that level through FY 2024, despite the increase in planned capital commitments.

Figure 25
Debt Service Burden



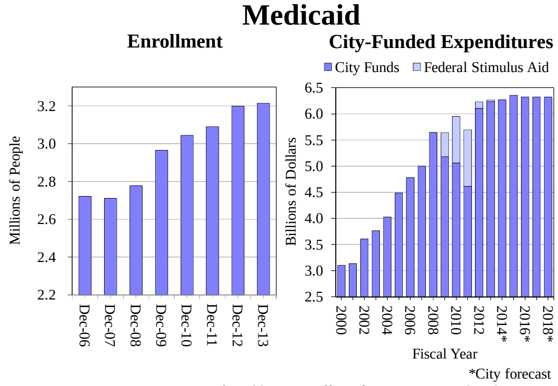
Note: Debt service amounts are adjusted for prepayments and defeasances, and include about $175 million annually in federal and State subsidies.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

5. Medicaid

Enrollment in the Medicaid program in New York City rose by 16 percent between December 2008 and December 2013 to reach almost 3.2 million people (see Figure 26), or about one of every three residents. While enrollment has increased over the past year, it has grown at a slower rate as the economy has slowly improved and the unemployment rate has gradually declined. Enrollment growth will likely continue because the Affordable Care Act expands Medicaid eligibility.

Despite the expected growth in enrollment, the City-funded cost of Medicaid will remain relatively flat because of actions taken by the State to provide financial relief to localities. The June Plan assumes that the City's share of the cost of Medicaid will grow slowly in FY 2015 and then level off at $6.3 billion in FY 2016 as the State completes a three-year takeover in the growth in the local share of Medicaid.

Figure 26
Medicaid



Sources: NYS Department of Health; NYC Office of Management and Budget; OSC analysis

In April 2014, the federal government approved New York State's Medicaid waiver application, which allows the State to reinvest about half ($8 billion) of the savings that the federal government will receive from actions the State intends to implement to lower the cost of health care. The State intends to use these resources to improve quality of care and preserve essential safety-net providers across the state.[20] In addition, resources would be available for distressed hospitals in New York City and other parts of the State. The State would offer these hospitals near-term financial support in return for reforms that ensure long-term financial viability.

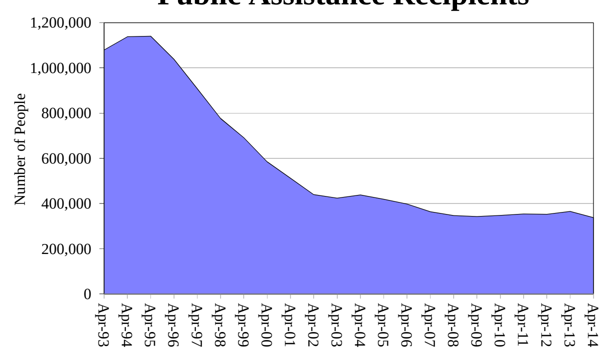
[20] Essential safety-net providers are providers that serve large numbers of Medicaid and uninsured patients.

6. Public Assistance

The public assistance caseload grew by only 5 percent during the recent recession, and declined by 8 percent over the past year to total 337,374 recipients in April 2014 (see Figure 27).[21] The Commissioner of the New York City Human Resources Administration has attributed the small increase during the recession to policies that have made it difficult for people to receive public assistance. The new administration proposes to make it easier for people to receive benefits (which will likely lead to higher caseloads), and plans to develop training and education programs that could lead to better-paying jobs. The June Plan assumes that City-funded expenditures for public assistance will total $600 million in FY 2015, including $29 million for a new initiative to provide rent relief to public assistance recipients living with HIV/AIDS.

Figure 27

Public Assistance Recipients



Sources: NYC Office of Management and Budget; OSC analysis

In 2012 (the most recent year for which data are available), 21 percent of the City's population lived below the federal poverty line, and about one in every five City residents received public assistance and/or Supplemental Nutrition Assistance Program (SNAP) benefits. In response to the economic downturn, the American Recovery and Reinvestment Act of 2009 temporarily increased SNAP benefits (i.e., food stamps) for all households, but this increase expired on November 1, 2013. Furthermore, on February 7, 2014, Congress passed and the President signed a farm bill that will cut $8.7 billion in food stamp benefits over the next ten years. The Governor has reallocated federal funds in a way that will mitigate the impact in New York State. In 2014, the City will align its policies with those of the other social service districts in the State and permit nonworking adults to receive food stamps.

7. Homeless Services

A federal assessment found that among the 50 largest cities in the United States, New York City had the largest homeless population (both sheltered and unsheltered) in 2013, which increased by 13 percent from 2012. This was the second-highest rate of increase in a major city behind Los Angeles, which showed a 27 percent increase in its homeless population. Although the number of homeless veterans in New York City

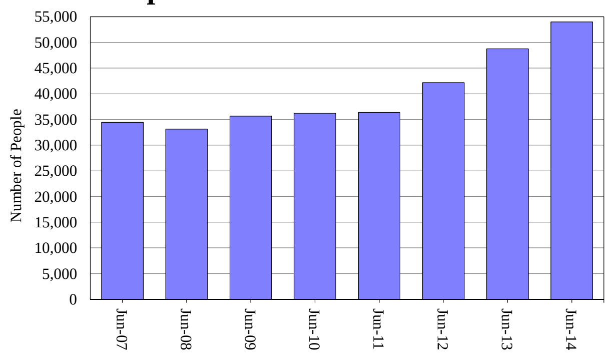
[21] The April 2014 caseload was 823,219 lower than the peak in March 1995, largely as a result of federal welfare reform measures implemented in the late 1990s that enforced work requirements.

declined by 24 percent between 2011 and 2013, the City had the second-largest population of this group among the nation's 50 largest cities (behind Los Angeles).

The population of homeless people in shelters managed by New York City's Department of Homeless Services (DHS) reached record-high levels in June 2014, at 53,986 people (see Figure 28), which was 49 percent higher than three years earlier. The growth in this population results in part from the termination of a rent subsidy program for homeless families and individuals by the City in April 2011, following the State's withdrawal of funding. In January 2014, the Mayor established a new policy that guarantees shelter to homeless families (regardless of their eligibility) on the coldest nights of the year. The City estimates that the City-funded cost of sheltering homeless people in DHS facilities will be $393 million annually through FY 2018.

Figure 28

People in DHS Homeless Shelters



Sources: NYC Department of Homeless Services; OSC analysis

Over the past five months, the City has announced a number of initiatives to prevent homelessness and to reduce the number of people in shelters. In FY 2015, the DHS will expand its Homebase prevention program, which provides families and individuals on the brink of homelessness with assistance, to serve 8,000 more families. The DHS will also work with the State to expand services to families at risk of becoming homeless.

The City is also working with the State to develop two rental assistance programs. The Working Families Rental Assistance program, a joint City-State pilot, will help working families exit shelters.[22] The City also plans to reduce reimbursement rates to certain landlords who operate the City's shelters (those which offer limited social services and whose rents are well above market rates) and to use these savings to fund a new rental assistance program for homeless families.

In addition, the New York City Housing Authority will give priority to families in shelters, reinstituting a policy that was terminated in 2005. The City has also aligned itself with the federal government's goal to end homelessness among military veterans by the end of 2015, and plans to meet this goal by enhancing its coordinated efforts among City agencies and the U.S. Department of Veterans Affairs.

22 The program will target families with children and at least one adult household member who works full-time, and will provide a rent subsidy for three years with the possible option of another two years.

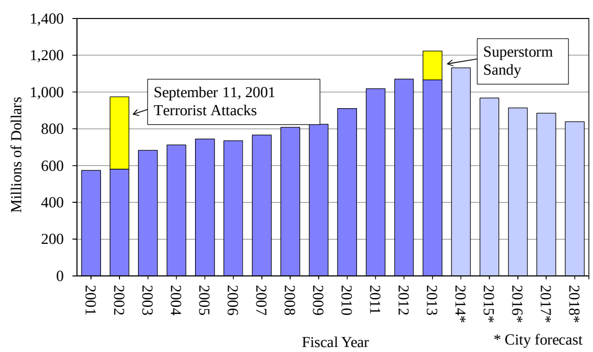
Other City agencies provide shelter targeted to specific needs within New York City's homeless population. The New York City Human Resources Administration shelters more than 2,500 people in facilities for victims of domestic violence, and another 2,400 people in facilities for homeless people with HIV/AIDS. The City's Department of Housing Preservation and Development provides emergency housing to about 1,700 people who have become homeless as a result of extraordinary circumstances, such as fires. Since January 2014, the Department of Youth and Community Development has added funding for an additional 100 shelter beds (for a total of 353 shelter beds) operated by community-based and faith-based organizations for runaway and homeless youths aged 16 to 21.

8. Uniformed Agencies

Overtime costs in the uniformed agencies (i.e., the Police, Fire, Correction and Sanitation departments) grew by 30 percent between fiscal years 2009 and 2012 (see Figure 29), largely as a result of staff shortages in the Fire and Correction departments. Excluding costs associated with Superstorm Sandy, overtime declined slightly in FY 2013.

Figure 29

Overtime Costs in the Uniformed Agencies



Sources: NYC Office of Management and Budget; OSC analysis

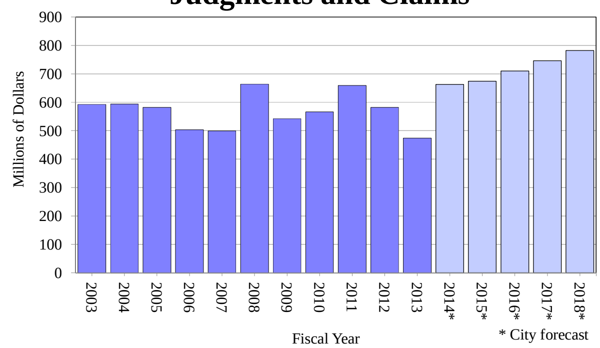
Although the City estimates that overtime increased by $64 million in FY 2014 to $1.1 billion, the June Plan then assumes a sharp decline of $163 million in FY 2015. More than half of the decline is expected to result from increased staffing in the Fire and Correction departments (which is expected to reduce overtime), and the assumption of a less severe winter. The remainder of the decline is attributable to the receipt of federal grants, which fund overtime, but which the City recognizes later in the budget cycle. However, OSC estimates that overtime in the Police Department could be higher by $50 million annually based on historical spending patterns.

9. Judgments and Claims

As shown in Figure 30, the cost of judgments and claims is expected to grow by \$189 million (40 percent) to \$663 million in FY 2014 (\$523 million excluding costs associated with the Health and Hospitals Corporation), and then continue to grow in subsequent years at more than twice the projected inflation rate. In March 2014, the City reached a settlement in principle in an antidiscrimination case against the Fire Department, which stipulates that the City will pay approximately \$98 million for back pay and benefits. In addition, a still-unspecified amount will cover compensatory damages to claimants who alleged emotional, financial or related harm beyond the loss of pay they would have received from the Fire Department. In June 2014, the City reached a \$41 million settlement with the "Central Park Five," relating to alleged wrongful conviction and imprisonment.

Figure 30

Judgments and Claims



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

VII. Superstorm Sandy Recovery

According to the City's most recent estimates, the effects of Superstorm Sandy could cost about $5.8 billion. Of this amount, $2.1 billion represents storm-related operating expenses (such as emergency repairs, debris removal and overtime), and $3.7 billion represents capital costs for permanent work to repair or replace damaged infrastructure.

As shown in Figure 31, the largest capital need is to restore public hospitals ($1 billion), including more than $700 million in projects that would harden damaged facilities against future storm damage. Other significant capital needs are repairs to parks, beaches and boardwalks ($710 million); roads, bridges and transportation infrastructure ($565 million); schools ($402 million); and public housing ($399 million). Most of the Department of Environmental Protection's estimated expense of $696 million is for the Rapid Repairs program, which provided emergency repairs (such as the restoration of heat, power and hot water) at no cost to private home owners.

Figure 31
Estimated Superstorm Sandy Expenses and Capital Costs
(in millions)

Agency	Expense	Capital	Total
Health and Hospitals Corporation	$ 384	$ 1,027	$ 1,411
Department of Parks and Recreation	105	710	815
Department of Environmental Protection	696	58	754
Department of Transportation	48	565	613
Dept. of Education/School Construction Authority	68	402	470
Police Department	199	22	221
Fire Department	38	168	206
Department of Sanitation	144	10	154
Department of Cultural Affairs	1	128	129
Department of Correction	5	83	88
All Other	261	87	348
Subtotal	**$ 1,949**	**$ 3,260**	**$ 5,209**
New York City Housing Authority	150	399	549
Total Estimated Cost	**$ 2,099**	**$ 3,659**	**$ 5,758**
Estimated NYCHA Insurance Recovery	(135)	(245)	(380)
Net City Cost	**$ 1,964**	**$ 3,414**	**$ 5,378**

Sources: NYC Office of Management and Budget; OSC analysis

The June Plan assumes that all of the costs related to the storm will be funded from non-City sources (i.e., federal funds). Federal law requires a local match of 10 percent of the cost of any claim deemed eligible for reimbursement by the Federal Emergency Management Agency (FEMA). While the June Plan assumes that this cost will be covered with other federal funds, no assurance can be given that the City will be reimbursed for all of its costs, as discussed below.

So far, FEMA (and other federal agencies) has agreed to reimburse the City $1.5 billion (mostly for operating expenses), which is approximately $500 million less than the estimate of storm-related operating expenses not covered by insurance. The reimbursement process for capital projects is proceeding more slowly, but the City will be required to cover about $340 million of the estimated cost of capital repairs even if all claims are deemed eligible for reimbursement by FEMA and insurance. The City is working with FEMA and other federal agencies to maximize reimbursement.

The City has been allocated $4.2 billion in Community Development Block Grant-Disaster Recovery (CDBG-DR) funding, with $805 million of that amount available to fill gaps in FEMA funding. The City, however, has already used $183 million of that amount to cover the cost of storm-related services provided by the Health and Hospitals Corporation, leaving $622 million to fill gaps in FEMA reimbursement. Thus, currently allocated federal funding may not be sufficient to cover all of the costs associated with Superstorm Sandy.[23] In addition, federal law requires the City to obtain flood insurance for certain properties repaired with FEMA assistance.

The City plans to use some CDBG-DR funds to help owners of single-family and multifamily residences (who have not received sufficient recoveries from FEMA and/or private insurance) to repair and rehabilitate their damaged properties. The City has allocated $1.4 billion for this purpose through its Build it Back program, and intends to allocate additional resources in the near future. More than 16,000 property owners are currently registered for the program, but construction has begun on 132 properties. The Mayor has announced plans to improve the process, and the City Comptroller intends to audit the program. The State has approved legislation that will provide property tax relief for home owners who rebuilt their homes after the storm but now face large property tax increases.

The City is also considering a number of resiliency projects to help protect it from future storms. The City plans to use $579 million in CDBG-DR funding to begin priority coastal protection projects, such as constructing floodwalls, and raising bulkheads and installing berms in low-lying neighborhoods. The City has submitted to the State an additional $550 million in proposed resiliency projects, including hardening public housing, hospitals and other City infrastructure. If State approval is granted, these projects will be forwarded to FEMA for final consideration. If all of the projects are approved by FEMA, the City will need to fund up to $138 million of the cost.

[23] Additional resources may become available in the future, but other jurisdictions would be eligible to apply.

VIII. Semi-Autonomous Entities

As discussed below, a number of semi-autonomous entities have a financial relationship with the City.

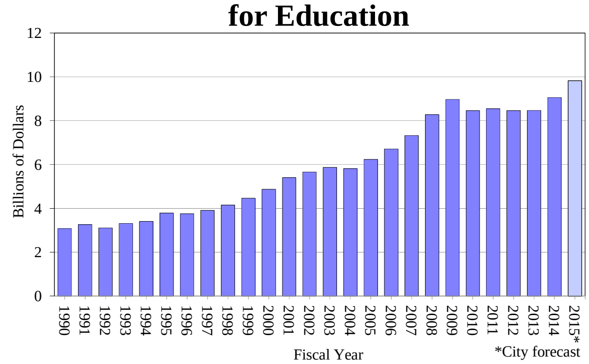
1. Department of Education

The June Plan allocates $26.1 billion to the Department of Education (DOE) in FY 2015, which reflects the cost of the recent labor agreement with the United Federation of Teachers and the Mayor's initiatives to expand full-day prekindergarten and after-school programs for middle-school students, which are being funded by an increase in State education aid. The June Plan also includes funding for other initiatives, such as a pilot program to provide free lunches to approximately 170,000 middle-school students, teacher reimbursement for school supplies and the Urban Advantage Science Education program.

In 2007, the State agreed to increase education aid to the City by $3.2 billion over a four-year period as a result of the resolution of the Campaign for Fiscal Equity lawsuit (CFE).[24] However, the State was unable to fulfill its commitment in the wake of severe budgetary pressures resulting from the Great Recession. Now that the State's finances have improved, State education aid to the City is scheduled to increase by $763 million in FY 2015, the largest increase since FY 2008 (see Figure 32).

Figure 32

State Funding to New York City for Education



Sources: NYC Office of Management and Budget; OSC analysis

In January 2014, the Mayor advocated for the State to increase the personal income tax rate for the City's highest earners so the City could fund an expansion of full-day prekindergarten and after-school programs for middle-school students. Instead, the State increased education aid to the City, and intends to allocate $1.5 billion over five years to support full-day universal prekindergarten programs statewide. The Mayor's prekindergarten initiative will provide high-quality full-day services to 70,000 children during the 2015-2016 school year. In the first phase, the City would provide full-day services to more than 50,000 children by September 2014.[25]

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24 In June 2003, the New York State Court of Appeals ruled that New York State had failed to fulfill its constitutional mandate to provide a sound, basic education to New York City schoolchildren.

25 The Mayor's prekindergarten initiative calls for adding 21,000 full-day seats and enhancing 32,600 existing seats by September 2014. The City currently provides full-day prekindergarten services to about 19,500 children and part-day services to another 39,000 children. Services are provided by a mix of public elementary schools and community-based organizations.

At the beginning of FY 2013, the City anticipated $167 million in Medicaid reimbursement for services provided to students with special needs, but it now anticipates only $15 million because the department had not overcome all of its problems in preparing adequately documented claims.[26] Although the City reduced its Medicaid revenue forecast to $50 million in FY 2014, so far the DOE has submitted claims totaling less than $13 million. The June Plan assumes that the amount of Medicaid reimbursement will rise to $67 million in FY 2015 and $97 million annually thereafter. Until the DOE demonstrates that it has solved the problems in the reimbursement process, the amounts above last year's level remain at risk.

The City and the United Federation of Teachers have reached a labor agreement covering calendar years 2009 through 2018. The agreement raises starting salaries from $45,530 to $56,709 by May 2018, and raises the top salary to $119,471. The agreement could reduce the number of teachers assigned to the Absent Teacher Reserve, which could generate savings, and teachers could receive bonuses for leadership roles (such as mentoring) and for assignment to certain schools in low-income neighborhoods. Teachers will receive additional time for professional development and parent-teacher interaction, but at the expense of time that had been previously set aside for tutoring students. The City and the teachers' union have also agreed to streamline the teacher evaluation process, which will require State approval. The DOE will be responsible for the implementation and net cost, if any, of these initiatives.

[26] A series of federal audits, beginning in 2005, found that the State and City failed to properly document Medicaid reimbursement claims for students with special needs. As a result, in July 2009 the State, City and federal government reached an agreement that called for the State to repay $440 million to the federal government and for the City to repay $100 million. The settlement also required the State and City to reform the documentation process.

2. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC), the largest municipal hospital system in the country, faces serious financial challenges. The HHC served almost 1.4 million patients in FY 2013, and is the single-largest provider of health care to uninsured City residents (476,000 of its patients were uninsured last year). The HHC relies heavily on Medicaid (which currently provides 74 percent of total patient revenue), and is significantly affected by State and federal government actions that impact Medicaid.

The HHC has struggled for years with an ongoing, significant structural imbalance in its finances. Since FY 2009, the HHC has attempted to address this by instituting cost-saving measures, including a hiring freeze that reduced staff by about 3,850 employees. In spite of these efforts, the HHC has yet to solve the underlying imbalance.

At the end of FY 2007, the HHC had a cash balance of more than $1 billion (its highest ever). Since then, however, it has drawn on these reserves to balance its budget, and by the end of FY 2014 it had a cash balance of $287 million (enough to meet its cash needs for just 18 days).

In light of the HHC's poor cash position, the City has agreed to once again allow the HHC to defer repayment (until later in FY 2015) of $765 million for payments made by the City on the HHC's behalf during fiscal years 2013 and 2014 (largely for debt service and medical malpractice reimbursement). To repay the City, the HHC is counting on the federal government to approve a large Medicaid payment, which is expected to temporarily ease its cash flow problems. The City has also set aside resources in its labor reserve to fund collective bargaining costs at the HHC, which are expected to total $1.4 billion during fiscal years 2014 through 2018.

The State and federal governments have finalized an $8 billion Medicaid plan to transform the State's health care system, largely by reducing preventable hospitalizations and avoidable emergency room visits. The HHC is counting on the receipt of $2 billion ($400 million annually over five years, starting in FY 2015). So far, the HHC has been awarded $152 million from a pool of funds intended to provide short-term financial relief for hospitals with limited available cash. In order to receive additional funding, the HHC will have to establish partnerships with other community providers and submit a plan by December 2014 for the State's approval.

3. Metropolitan Transportation Authority

The financial plan for the Metropolitan Transportation Authority (MTA) projects a balanced budget for calendar years 2014 through 2016, and a budget gap of $255 million in 2017. This financial outlook is greatly improved over the MTA's forecasts from only a few years ago, when the Great Recession had sharply reduced ridership and tax revenues. Since then ridership has largely recovered, and tax collections continue to improve. When combined with additional cost-cutting initiatives, the MTA has been able to reduce planned fare and toll increases in 2015 and 2017, from 7.5 percent to 4 percent. The MTA is scheduled to release an update to its financial plan on July 28, 2014.

The outcome of collective bargaining was one of the largest financial uncertainties facing the MTA. In April 2014, the MTA reached a labor agreement with Local 100 of the Transport Workers Union (TWU), which represents about half of the MTA's workforce. Under the agreement, workers will receive wage increases of 8 percent over five years as well as improved benefits. Increased employee health care contributions and other savings will help reduce the cost of the agreement. The MTA estimates that the agreement will cost $525 million more than budgeted in its financial plan but it does not expect the agreement to adversely impact fares and tolls, or service levels. The MTA recently reached a tentative agreement with the unions that represent most employees of the Long Island Rail Road (LIRR). The MTA has indicated that it expects to fund the LIRR agreement with available resources.

Despite progress on labor matters, the MTA still has to address funding for its 2015-2019 capital program. The MTA's capital needs assessment identified $26.6 billion in capital investments for the 2015-2019 period, just to maintain and modernize the existing system. Billions more would be needed to complete the East Side Access project and other expansion projects. The MTA has impaneled, at the Governor's request, a Transportation Reinvention Commission to provide input for preparing the next capital program, which is expected to be submitted to the State for approval by October 1, 2014. A recent report by the Office of the State Comptroller found that the next capital program could have an initial funding gap that exceeds $12 billion. The current capital program had an initial funding gap of $9.9 billion, which was closed mostly by reducing the size of the program and by increasing borrowing.

4. New York City Housing Authority

The New York City Housing Authority (NYCHA) is a critical component of the City's current supply of affordable housing. As the City's largest landlord, NYCHA manages approximately 179,000 apartments with more than 400,000 residents (including 176,000 families). In total, these units account for more than 8 percent of the rental units citywide. NYCHA also manages the nation's largest Section 8 housing program, which provides rent subsidies for 93,000 private apartments that house 225,000 residents. On average, NYCHA residents pay 30 percent or less of their annual incomes on rent.[27] Currently, more than 247,000 families are on the waiting list for a NYCHA apartment.

Over the years, NYCHA has faced significant fiscal and management challenges that have threatened its ability to provide safe and affordable housing. For example, NYCHA has experienced significant cuts in federal subsidies (which make up 50 percent of its operating budget and 70 percent of its capital budget) and difficulties making timely repairs. Over the past six months, the City has dedicated more than $210 million to improve maintenance and safety in NYCHA developments. The strategy includes more targeted law enforcement; extending the hours of community and senior centers; improved security lighting; and additional security cameras.

NYCHA last revised its four-year financial plan in December 2013, and at that time it projected a budget gap of $191 million in calendar year 2014, and even larger gaps in subsequent years. Although NYCHA has not updated its financial plan, it reports that it has reduced its budget deficit for the current fiscal year (which ends on December 31, 2014) to $77 million. NYCHA is considering additional actions to close the remaining budget gap.

27 According to federal guidelines, a family that pays more than 30 percent of its annual income toward housing may have difficulty affording other necessities, such as food and clothing.

IX. Other Issues

As discussed below, a number of other issues could affect the June Plan.

1. Sale of Taxi Medallions

State law authorizes the City to sell up to 2,000 new taxi medallions for wheelchair-accessible vehicles.[28] The law includes other provisions to improve accessibility for passengers throughout the City by creating a new class of designated livery vehicles, known as "boro taxis" (painted apple green), which may pick up street-hail passengers in areas of the City considered underserved by yellow taxis (such as northern Manhattan and the other boroughs). The City is permitted to issue up to 18,000 of these new boro taxi licenses.

In November 2013, the Taxi and Limousine Commission (TLC) reached a settlement agreement, which has received preliminary court approval, in a federal class action lawsuit filed by a coalition of disabilities rights organizations. As per the agreement, on April 30, 2014, the TLC unanimously passed rules that will raise the number of wheelchair-accessible vehicles to half of the medallion fleet, or 7,500 vehicles, by 2020. To help fund this transition, the rules authorize a new $0.30 surcharge beginning in 2015.[29]

The City auctioned the first 400 taxi medallions in FY 2014, generating $409 million (of which $72 million will be received in FY 2015). The City, however, cannot sell the remaining 1,600 medallions until the State Department of Transportation approves its disabled accessibility plan (DAP), which was submitted on June 11, 2014. The law requires the State to approve or reject the DAP within 60 days of submission.

The June Plan anticipates the receipt of $1.2 billion during fiscal years 2015 through 2017 from the sale of the remaining taxi medallions, on the assumption that the DAP will be approved in a timely manner.[30] (OSC estimates that sale proceeds could be $400 million higher based on the strength of medallion sales during FY 2014.) The City has overcome a number of hurdles in its efforts to sell the remaining 1,600 taxi medallions, and State approval is expected shortly.

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[28] When the law was enacted, fewer than 2 percent of the City's yellow taxis were wheelchair-accessible.

[29] For each surcharge in a yellow taxi, $0.25 will go into a taxicab improvement fund and $0.05 will go to the driver to offset costs of additional training related to accessible vehicles. Similarly, the TLC created a street-hail livery improvement fund, which will be financed by each $0.30 surcharge in a boro taxi.

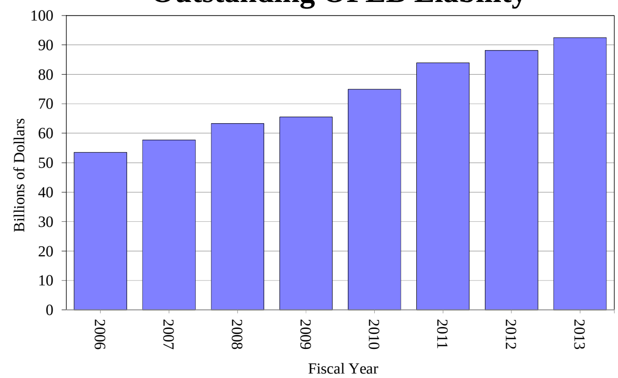
[30] The June Plan anticipates $553 million in FY 2015, $360 million in FY 2016 and $400 million in FY 2017.

2. Other Post-Employment Benefits

In June 2014, the Governmental Accounting Standards Board (GASB) issued two draft statements that would revise the standards for measuring and reporting the expense and related liabilities of other post-employment benefits (OPEB), such as health insurance, on an actuarial basis. The proposed changes are designed to conform the standards for measuring OPEB liabilities with those for pension liabilities. The GASB plans to finalize the standards by June 2015.

Figure 33

Outstanding OPEB Liability



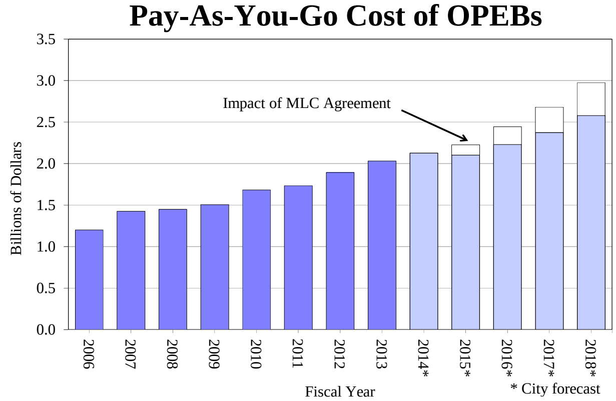
Sources: NYC Actuary; OSC analysis

Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of services, it is not required to fund OPEB on a similar basis. Under the proposed GASB standards, entities that do not fund their OPEB liabilities on an actuarial basis would be required to discount future costs using an interest rate that is lower than the entity's assumed rate of return on investments. If adopted, this change could increase the City's outstanding OPEB liability, which reached $92.5 billion in FY 2013 (see Figure 33).

The City, like many employers, pays the annual cost of benefits provided to current retirees on a pay-as-you-go (PAYGO) basis. OPEB costs, on a PAYGO basis, are projected to rise from $2 billion in FY 2013 to nearly $2.6 billion in FY 2018 (see Figure 34), an increase of nearly 27 percent in five years. In May 2014, the City and the Municipal Labor Committee, which represents the City's municipal workforce, reached an agreement to create a process for the City to realize $3.4 billion in health insurance savings during the financial plan period (for more detail, see Section VI), which could reduce the rate of growth in the cost of OPEB benefits.

Figure 34

Pay-As-You-Go Cost of OPEBs

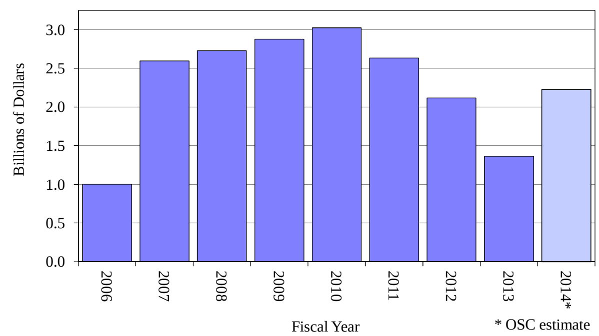


Sources: NYC Actuary; NYC Office of Management and Budget; OSC analysis

In FY 2006 the City established the Retiree Health Benefits Trust (RHBT), and deposited $2.5 billion of surplus resources into the Trust in fiscal years 2006 and 2007 to help fund the future cost of OPEB. These resources were invested and earned interest, with the balance peaking at more than $3 billion in FY 2010 (see Figure 35). Although the RHBT was intended to help fund a future liability, in recent years the City instead used it as a rainy-day fund to help balance the budget. The City drew down much of the resources in the RHBT during fiscal years 2011 through 2013, leaving future taxpayers to fund the full cost of services provided in those years. The City had planned to transfer $1 billion from the RHBT to help balance the FY 2014 budget, but revenues grew much faster than the City had anticipated at the beginning of the fiscal year, which permitted the City to rescind the planned transfer and to add $864 million to the RHBT (leaving a balance of more than $2.2 billion).

Figure 35

Balance of RHBT Resources



Note: Adjusted for prepayments.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSC analysis

3. Impact of the State Budget

The June Plan reflects the impact of the State enacted budget for State Fiscal Year (SFY) 2014-2015. Nearly all of the benefit came in the form of an increase of State education aid.[31] The City also could benefit from the Smart Schools Bond Act, which, if approved by voters in November 2014, would allocate $2 billion statewide to fund technology investments in schools as well as space for new prekindergarten programs. The City's capital plan anticipates the receipt of $783 million from the bond act. The June Plan assumes that the State will increase education aid to the City by $368 million in FY 2016 and similar amounts in subsequent fiscal years.

In January 2014, the Mayor advocated for the State to increase the personal income tax rate for the City's highest earners to fund an expansion in full-day prekindergarten and after-school programs for middle-school students. Instead, the State increased education aid to the City by an estimated $763 million in FY 2015, which is the largest increase in education aid in eight years. The State dedicated $300 million of the increase to fund an expansion in prekindergarten (similar to the amount sought by the City), and authorized the use of State education aid to fund an expansion of after-school programs for middle-school students ($145 million).

[31] The State will also provide rental relief to public assistance recipients living with HIV/AIDS and a small increase in transportation aid. In addition, the State eliminated certain resident trust loopholes, which will increase tax revenues.

4. Impact of the Federal Budget

In August 2011, the President and Congress agreed to implement across-the-board spending cuts (known as the sequester) that became effective on March 1, 2013, in an effort to reduce the federal deficit. These cuts reduced funding to the City's budget by a total of $148 million in federal fiscal year (FFY) 2013, which affected City fiscal years 2013 and 2014.[32] In May 2013, the City revised its four-year financial plan to reflect the impact of these cuts on the City's budget, and mitigated most of the effects with City, State and other federal funds. In some cases the City chose not to relieve the impact of federal budget cuts, and some programs, such as Head Start and certain health services (e.g., services for people living with HIV/AIDS, and disease control and immunizations), experienced a loss in funding and reduced services.

Congress was unable to reach agreement on a new budget for FFY 2014, which began on October 1, 2013, and this resulted in a government shutdown that lasted 16 days. Government operations resumed only after Congress approved an appropriations bill that funded operations at last year's level through January 15, 2014.

In December 2013, a two-year budget agreement revised discretionary spending caps, rescinding two-thirds ($22 billion) of the cuts scheduled to take effect in FFY 2014.[33] The agreement maintains federal spending at that level through FFY 2015, but it does not rescind budget cuts planned for subsequent years. The agreement also does not extend unemployment benefits for some 1.3 million people who have been out of work for more than six months (including approximately 73,000 New York City residents), and whose benefits expired on December 31, 2013.

The June Plan does not reflect any additional federal budget cuts because congressional appropriations for FFY 2014 have largely restored funding for discretionary programs. Cuts to discretionary spending in FFY 2015 and subsequent years, however, will be determined by future federal budget negotiations, and could be larger or smaller than those in FFY 2013.

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[32] These estimates exclude cuts to programs and agencies outside of the City's financial plan, such as the New York City Housing Authority and the New York City Health and Hospitals Corporation.

[33] The agreement maintains cuts in spending for mandatory programs; these are programs required by law to provide certain benefits (rather than discretionary spending, which is determined by the annual congressional budget process). The June Plan estimates a loss of $20 million annually because of the cuts to mandatory programs that affect the City of New York.

5. Housing New York

In response to the lack of affordable housing in New York City, the Mayor has announced Housing New York, a $41 billion plan to create and preserve a total of 200,000 units of affordable housing over ten years.[34] The City estimates that the plan will create 194,000 construction jobs and 7,100 permanent jobs.

Funding for the Mayor's plan is expected to come from a mix of City, State, federal and private sources. The City's contribution is expected to total $8.2 billion, including $6.7 billion in capital funds and $1.5 billion in other City funding. Private financing, which makes up the largest funding component, is expected to total $30 billion. Private financing includes the issuance of taxable and tax-exempt bonds ($13 billion) on behalf of developers (which lowers the cost of construction), direct investment from private entities ($11 billion), the sale of housing tax credits ($5 billion) and City pension fund investments ($1 billion). The State and federal governments are expected to provide the remaining balance of $2.9 billion.

The Mayor's housing plan consists of more than 50 initiatives, some of which are still in the planning phase and will require State and federal approval. Among the key initiatives are a requirement that developers include a percentage of affordable apartments in exchange for zoning changes, and a petition to the State to strengthen and preserve protections for rent-regulated apartments (approximately 46 percent of City apartments are regulated under the rent-stabilization law).[35] Of the 200,000 affordable housing units in the plan, 20 percent are targeted to households that are in the lowest income brackets.[36] The City is also seeking to reduce the rising homeless population through various efforts that include working with the State to develop two rental subsidy programs for homeless people in shelters.

6. Building Aid Revenue Bonds

The State-funded portion of the Department of Education's capital plan is financed through Building Aid Revenue Bonds (BARBs) issued by the TFA and secured by State building aid. State law currently limits the amount of BARBs that can be outstanding at any time to $9.4 billion. Without an increase in State authorization, OSC estimates that the City will exceed this limit during FY 2017, putting at risk $2.8 billion in State-funded commitments planned for fiscal years 2018 and 2019.

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34 The affordable housing plan is intended to preserve 120,000 units and create another 80,000 units.

35 The State law governing rent stabilization is scheduled to expire in June 2015, but will likely be extended as it has been in past years.

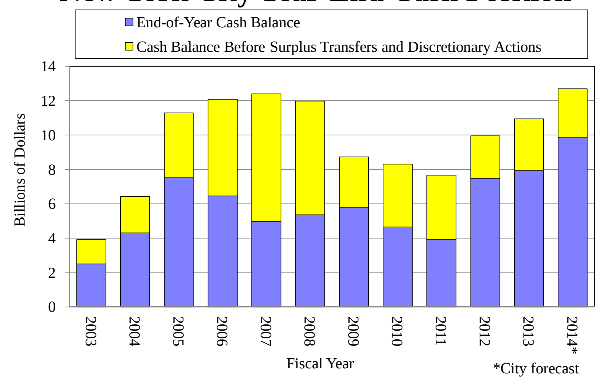
36 Based upon guidelines of the U.S. Department of Housing and Urban Development, this includes households with incomes that are no higher than 50 percent of the area median income.

7. Cash Flow

The City's year-end cash balance rose sharply between fiscal years 2003 and 2007, reflecting the strength of the economy, and remained at about $12 billion (before surplus transfers and other discretionary actions) through the end of FY 2008 (see Figure 36). Even though the year-end cash balance declined during the recession, the City has not needed to borrow to meet its short-term cash needs since FY 2004.

Figure 36

New York City Year-End Cash Position



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

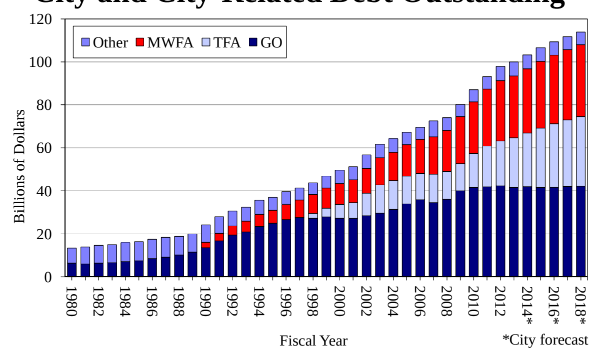
Since FY 2012 the City's year-end cash balances have been rising, and the New York City Office of Management and Budget estimates that the City ended FY 2014 with a balance of nearly $10 billion ($12.7 billion before discretionary transfers), which would be the highest year-end balance on record. In its June 2014 credit rating report, Standard & Poor's cited the City's "very strong liquidity position" as a positive factor. The City Comptroller's office expects monthly balances through November 2014 to exceed those of the previous fiscal year. Given these trends, it is unlikely that the City will need to borrow to meet cash flow needs in FY 2015, which would result in debt service savings of $75 million.[37]

8. Debt Outstanding

The outstanding debt of the City and City-related entities has risen steadily over the past three decades.[38] During the current financial plan period, the City plans to issue $32.3 billion in debt through its general obligation (GO), Transitional Finance Authority (TFA) and Municipal Water Finance Authority credits, which is $1.1 billion more than anticipated in February 2014.

Figure 37

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; OSC analysis

37 The June Plan assumes the City will borrow $2.4 billion during FY 2015 to meet its cash flow needs.

38 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).

Debt outstanding reached $100 billion at the end of FY 2013, an increase of 56 percent over the past decade (see Figure 37), and is projected to reach nearly $114 billion by FY 2018. The amount of debt outstanding at the end of FY 2013 was about $12,000 per capita, or $4,000 more than ten years earlier.

9. Credit Rating

The City-funded portion of the City's capital program is expected to be financed through GO bonds secured by the City's full faith and credit, and TFA bonds secured by personal income tax and, if needed, sales tax revenues. The City's GO ratings were last upgraded in the summer of 2007, and the City has been able to maintain its ratings through the recession.[39] According to the City Comptroller, GO bonds are at their highest rating in more than 70 years. The City's strong credit ratings contribute to its ability to access the capital markets to meet its financing needs, and help keep its borrowing costs at reasonable rates. The City's GO credit is rated "AA" by Standard & Poor's, "AA" by Fitch Ratings and "Aa2" by Moody's Investors Service, while the TFA credit is rated higher ("AAA" by S&P, "AAA" by Fitch and "Aaa" by Moody's).[40] Both credits have a stable outlook from the three rating agencies.

The TFA's credit rating benefits from the strong statutory revenue streams used to secure its bonds, while GO ratings reflect the City's broad economic base, sound financial planning practices and demonstrated ability to close anticipated budget gaps. However, the rating agencies have expressed concern over the City's continued reliance on the financial services sector (although it is not as pronounced as in the past); a high debt burden; and pressure from rising nondiscretionary costs.

Moody's has noted that the out-year budget gaps "are lower than the gaps the City faced during the recession (which for some years exceeded $5.5 billion) and are manageable given the time horizon it has to work to close them." Fitch has commented that the UFT labor agreement represents a "sizeable but manageable funding need" and would reduce budgetary uncertainty. Standard & Poor's noted that the City's "history of conservative financial projections and ability to close projected budget gaps" would partially mitigate pressure the agreement places on the budget.

39 Fitch Ratings and Moody's Investors Service recalibrated their ratings in April 2010 so that municipal ratings are comparable with ratings in other sectors. As a result, GO and TFA ratings were adjusted upward by one notch, though the adjustment does not reflect a change in credit quality.

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

Appendix A:
Nonrecurring Resources

In recent years the City has relied heavily on nonrecurring resources to balance the budget. OSC estimates that the June Plan includes $3.2 billion in nonrecurring resources in FY 2014 and nearly $4 billion in FY 2015, as shown in Figure 38 and discussed below.

Figure 38
Nonrecurring Resources
(in millions)

	FY 2014	FY 2015
Prior-Year Payables	$ 993	$ - - -
Net Surplus Transfers	855	1,983
Debt Refinancings–Net	532	341
Health Stabilization Fund	- - -	1,000
Taxi Medallion Sales	337	553
Sale of City-Owned Buildings	256	- - -
Health Insurance Refunds	103	- - -
Verizon Settlement	50	- - -
Uncashed Paychecks	44	- - -
Educational Construction Fund	32	- - -
TFA Redemption	7	99
Total	**$ 3,209**	**$ 3,976**

Sources: NYC Office of Management and Budget; OSC analysis

- Surplus resources accumulated in prior years have been used to help balance the FY 2014 and FY 2015 budgets.
- Historically low interest rates in recent years have permitted the City to refinance outstanding debt, generating savings of $532 million in FY 2014 and $341 million in FY 2015.
- The City plans to transfer $1 billion from the Health Stabilization Fund to help fund the anticipated cost of labor settlements.
- Over the past ten years, the City has realized average annual savings of $515 million from an overestimation of prior years' expenses. The City anticipates $993 million in such savings in FY 2014, but the June Plan does not anticipate any future savings.

- The sale of additional taxi medallions is expected to generate $337 million in FY 2014, $553 million in FY 2015, $360 million in FY 2016 and $400 million in FY 2017, for a total of more than $1.6 billion.
- As part of a plan to consolidate City-owned real estate, the City expects to generate $256 million in FY 2014 from the sale of two buildings in Lower Manhattan.
- The City anticipates a refund of $103 million in health insurance premiums in FY 2014 as a result of the lower-than-expected use of medical services.
- Verizon has agreed to pay the City $50 million in FY 2014 to settle cost overruns resulting from delays to the upgrade of the City's 911 system.
- The City expects $44 million in FY 2014 recovered from paychecks that have not been cashed in more than six years.
- The Educational Construction Fund will transfer $32 million in surplus funds to the Department of Education in FY 2014.
- The City used $196 million in resources generated in FY 2013 to redeem TFA debt due in future years, which lowers debt service by $7 million in FY 2014, $99 million in FY 2015 and $103 million in FY 2016.

Appendix B: Staffing Levels

Between June 2008 and June 2012, the City-funded workforce (full-time and full-time-equivalent employees) declined by 15,666 positions (5.8 percent) to 253,932, reflecting the impact of agency cost-cutting actions in response to the recession. Staffing levels rose, however, by 2,003 positions in FY 2013, and the City added an estimated 3,685 employees in FY 2014 (see Figure 39). The June Plan assumes the City will add an additional 1,675 employees during FY 2015, which would increase staffing to 261,295 employees by the end of June 2015.

As discussed below, the City expects to add 4,593 employees during fiscal years 2014 and 2015 (5,360 employees including 767 temporary hires at the Board of Elections).

- The Department of Education plans to add 1,253 pedagogues, mostly to staff special education programs. (The department plans to add 1,914 employees to staff an expansion of full-day prekindergarten and after-school programs, but these costs will be funded by an increase in State education aid.)
- The Police Department plans to add 611 civilians, including 200 administrative aides to allow police officers to be redeployed to patrol functions and 147 traffic enforcement agents for the Mayor's Vision Zero initiative. The police force will remain at 34,483 officers during the financial plan period, 1,290 fewer officers than the peak in FY 2006 before force levels began to decline.
- The Fire Department is expected to add 602 employees to increase uniformed staffing to 10,780 (the highest level since February 2011).
- The Administration for Children's Services (ACS) plans to add 508 employees, including additional child protective specialists and supervisors to improve investigative practices and monitoring of high-risk cases. The increase is expected to reduce the average number of open child-protective cases assigned to ACS caseworkers in the family services unit, from 12 to 8.
- The Department of Correction plans to add 404 employees, mainly to provide additional mental health services to inmates and to improve security.
- The Department of Transportation plans to add 292 employees, including staff for the Mayor's Vision Zero initiative.
- The Department of Social Services plans to add 186 employees to staff a number of new initiatives. The department plans to reduce staffing by 790 employees between fiscal years 2015 and 2017 once a web-based application process for social services has been implemented.

Figure 39
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalents)

		Actual	*City Forecast*		*Variance* Additions/(Reductions)	
		June 2013	June 2014	June 2015	June 2013 to June 2014	June 2014 to June 2015
Public Safety		**80,700**	**80,670**	**81,262**	**(30)**	**592**
Police	Uniformed	34,708	34,483	34,483	(225)	0
	Civilian	15,598	15,939	16,209	341	270
Fire	Uniformed	10,178	10,779	10,780	601	1
	Civilian	5,293	5,072	5,150	(221)	78
Correction	Uniformed	8,970	8,884	9,109	(86)	225
	Civilian	1,383	1,637	1,648	254	11
District Attorneys & Prosecutors		3,825	3,137	3,137	(688)	0
Probation		730	720	725	(10)	5
Board of Correction		15	19	21	4	2
Health & Welfare		**22,430**	**23,379**	**23,855**	**949**	**476**
Social Services		10,103	10,151	10,289	48	138
Children's Services		5,957	6,463	6,465	506	2
Health & Mental Hygiene		4,224	4,366	4,600	142	234
Homeless Services		1,760	1,983	1,949	223	(34)
Other		386	416	552	30	136
Environmental & Infrastructure		**17,614**	**17,799**	**18,264**	**185**	**465**
Sanitation	Uniformed	7,020	7,119	7,239	99	120
	Civilian	1,867	2,091	2,172	224	81
Transportation		1,938	2,087	2,230	149	143
Parks & Recreation		6,580	6,280	6,404	(300)	124
Other		209	222	219	13	(3)
General Government		**9,254**	**11,579**	**11,468**	**2,325**	**(111)**
Finance		1,802	1,977	1,996	175	19
Law		1,397	1,389	1,390	(8)	1
Citywide Administrative Services		1,338	1,504	1,583	166	79
Taxi & Limousine Commission		514	622	683	108	61
Investigations		197	300	290	103	(10)
Board of Elections		669	1,866	1,440	1,197	(426)
IT & Telecommunications		1,007	1,190	1,266	183	76
Other		2,330	2,731	2,820	401	89
Housing		**1,503**	**1,687**	**1,673**	**184**	**(14)**
Buildings		1,039	1,179	1,162	140	(17)
Housing Preservation		464	508	511	44	3
Department of Education		**113,717**	**114,335**	**114,475**	**618**	**140**
	Pedagogues	92,486	93,362	93,739	876	377
	Non-Pedagogues	21,231	20,973	20,736	(258)	(237)
City University of New York		**8,399**	**7,768**	**7,828**	**(631)**	**60**
	Pedagogues	5,387	5,028	5,116	(359)	88
	Non-Pedagogues	3,012	2,740	2,712	(272)	(28)
Elected Officials		**2,318**	**2,403**	**2,470**	**85**	**67**
Total		**255,935**	**259,620**	**261,295**	**3,685**	**1,675**

Sources: NYC Office of Management and Budget; OSC analysis