Review of the Financial Plan of the City of New York

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New York State
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Contents

I. Executive Summary

New York City is managing its way through its greatest fiscal challenge in decades as the recession ripples through the local economy and takes a heavy toll on tax collections. To help balance the FY 2010 budget in the face of a $6.8 billion drop in anticipated tax revenue, as well as to narrow the out-year budget gaps, the City has raised property taxes, slashed agency and capital spending, obtained extraordinary federal assistance, reached agreement with the municipal unions to reduce health care costs, and drawn down reserves built up during the last economic boom.

To close the remaining budget gap for FY 2010, the Mayor has proposed tax increases and less costly pension plans for new employees. These actions, with an estimated value of more than $1 billion in FY 2010, have yet to receive State approval. Although the City has made impressive progress toward balancing the FY 2010 budget, it still faces $1.9 billion in budget risks over the balance of this year and next.

The recession began later in New York State than in the nation, but the downturn is expected to be deeper in the State. The nation’s real Gross Domestic Product (GDP) declined at an annual rate of 6 percent in the fourth quarter of 2008 and the first quarter of 2009—the deepest declines in any two consecutive quarters in more than 30 years. While New York State’s economy also contracted at an annual rate of 6 percent during the fourth quarter of 2008, it contracted at an estimated annual rate of 8 percent in the first quarter of 2009. While there are signs that the recession is easing at the national level, the recovery, which could begin toward the end of calendar year 2009, is expected to be weak and protracted.

The securities industry—the economic engine of New York City—lost $42.6 billion in 2008 and has shed 21,900 jobs since employment in that industry peaked in November 2007. The industry’s high employment multiplier is now working in reverse, fueling job losses in other sectors of the City’s economy. New York City has lost 103,500 jobs since area employment peaked in August 2008, and is expected to lose 328,000 jobs by the end of 2010. As job losses mount, the unemployment rate could exceed 10 percent during calendar year 2010, compared to 5 percent a year ago.

Tax collections in FY 2010 are now expected to be $4 billon less than projected one year ago, and $6.8 billion less than projected two years ago. The economic crisis is also taking a toll on the investments of the City’s pension systems, which are heavily concentrated in the equity and real estate markets. Last year the systems lost 5 percent, and the City expects a loss of 20 percent in FY 2009.

Despite the recession and an unanticipated tax revenue shortfall of more than $900 million in FY 2009, the City still expects to end the current fiscal year with a surplus of more than $3 billion—$2.2 billion more than forecast at the beginning of the fiscal year. The additional resources come from extraordinary actions taken by the City, as well as the federal and State governments, to help balance the FY 2010 budget, including a mid-year real property tax increase; a sharp reduction in planned operating and capital spending; benefits from the federal economic stimulus program; and the use of federal aid by the State to rescind planned cuts in education aid and local assistance. The City intends to use the surplus to help balance the FY 2010 budget ($2.5 billion) and to pay down debt due in FY 2011 to provide budgetary relief in that year ($530 million).

The Mayor and the City Council recently reached agreement on a package of tax initiatives to help balance next year's budget. The agreement calls for raising the sales tax rate by 0.5 percent (to a total of 8.875 percent); repealing the sales tax exemption for clothing and footwear that cost more than $110; and enacting tax reforms that would generate additional revenue in the short term but provide tax relief to businesses over the long term. In addition, the Mayor continues to urge the State to enact less costly pension plans for new City employees. If these proposals are not approved by the State Legislature before it adjourns in late June, the City will need to identify alternative gap-closing actions that generate recurring resources, or the out-year gaps will widen.

The City's May 2009 four-year financial plan (the "May Plan") shows a balanced budget for fiscal years 2009 and 2010 and budget gaps of $4.6 billion in FY 2011, $5.2 billion in FY 2012, and $5.4 billion in FY 2013 (see Figure 1). Our review concludes that, despite the potential for further tax revenue shortfalls in FY 2009 ($350 million), New York City will end the current fiscal year in balance given a $3 billion projected surplus.

The proposed budget for FY 2010, however, includes $1.4 billion in budget risks (see Figure 2), and the budget gap for FY 2011 could grow to more than $7 billion—or 17 percent of City fund revenues—if these risks are not addressed with actions that generate recurring resources. In addition, the City could be called upon to offset a possible shortfall in anticipated State education aid in FY 2011 and to replace, beginning in FY 2012, federal economic stimulus funds that are being used to support ongoing education programs.

Although the City still has substantial reserves that it can draw upon to help balance the FY 2010 budget, the out-year budget gaps remain formidable—despite the substantial actions already taken by the City to raise revenues and reduce costs—because the FY 2010 budget is balanced with nearly $6.3 billion in nonrecurring resources. The loss of these nonrecurring resources unmasks the imbalance between recurring revenues and spending, and underscores the continued need for governmental reform.

Figure 1
New York City Executive Budget
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
REVENUES					
Taxes					
General Property Tax	$ 14,408	$ 16,127	$ 17,173	$ 17,762	$ 18,150
Other Taxes	20,162	16,606	18,194	19,565	20,925
Discretionary Transfers [1,2]	546	546	- - -	- - -	- - -
Debt Defeasance [3]	362	382	530	- - -	- - -
Tax Audit Revenue	980	596	596	595	594
Subtotal – Taxes	**36,458**	**34,257**	**36,493**	**37,922**	**39,669**
Miscellaneous Revenue without anticipated State actions	6,131	5,874	5,653	5,685	5,723
Anticipated State Actions	88	1,046	1,141	1,187	1,248
Unrestricted Intergovernmental Aid	340	340	340	340	340
Less: Intra-City Revenues	(1,689)	(1,601)	(1,525)	(1,524)	(1,524)
Disallowances against Categorical Grants	(15)	(15)	(15)	(15)	(15)
Subtotal - City Funds	**$ 41,313**	**$ 39,901**	**$ 42,087**	**$ 43,595**	**$ 45,441**
Other Categorical Grants	1,113	1,028	1,029	1,033	1,031
Inter-Fund Revenues	472	475	449	439	439
Total City Funds, Capital IFA and Other Categorical Grants	**$ 42,898**	**$ 41,404**	**$ 43,565**	**$ 45,067**	**$ 46,911**
Federal Categorical Grants	6,198	6,422	6,327	5,360	5,349
State Categorical Grants	12,083	11,617	12,015	12,359	13,010
Total Revenues	**$ 61,179**	**$ 59,443**	**$ 61,907**	**$ 62,786**	**$ 65,270**
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 21,947	$ 22,590	$ 23,563	$ 23,109	$ 23,677
Pensions without anticipated labor actions	6,392	6,700	7,234	7,558	7,831
Fringe Benefits without anticipated labor actions [1]	6,814	7,201	7,370	7,450	8,432
Anticipated Labor Actions	--	(400)	(757)	(786)	(818)
Subtotal - Personal Service	**$ 35,153**	**$ 36,091**	**$ 37,410**	**$ 37,331**	**$ 39,122**
Other Than Personal Service					
Medical Assistance	$ 5,191	$ 4,907	$ 5,621	$ 6,090	$ 6,271
Public Assistance	1,313	1,299	1,299	1,299	1,299
All Other [1,2]	18,862	18,397	18,713	19,357	19,846
Subtotal - Other Than Personal Service	**$ 25,366**	**$ 24,603**	**$ 25,633**	**$ 26,746**	**$ 27,416**
General Obligation and Lease Debt Service [1,2,3]	3,650	4,313	4,667	5,095	5,373
General Obligation and TFA Debt Defeasances (Net) [3]	252	(2,313)			
FY 2008 Budget Stabilization & Discretionary Transfers [1]	(4,089)	- - -	- - -	- - -	- - -
FY 2009 Budget Stabilization & Discretionary Transfers [2]	2,496	(1,950)	- - -	- - -	- - -
General Reserve	40	300	300	300	300
Subtotal	**$62,868**	**$61,044**	**$68,010**	**$69,472**	**$72,211**
Less: Intra-City Expenses	(1,689)	(1,601)	(1,525)	(1,524)	(1,524)
Total Expenditures	**$ 61,179**	**$ 59,443**	**$ 66,485**	**$ 67,948**	**$ 70,687**
Gap To Be Closed	**$ - - -**	**$ - - -**	**$ (4,578)**	**$ (5,162)**	**$ (5,417)**

1) Fiscal Year 2008 Budget Stabilization and Discretionary Transfers total $4.635 billion, including prepayments of subsidies of $500 million, Budget Stabilization of $3.073 billion, Retiree Health Benefits of $460 million, lease debt service of $46 million, net equity contribution in bond refunding of $10 million, and a TFA grant which increases FY 2009 revenues by $546 million.
2) Fiscal Year 2009 Budget Stabilization and Discretionary Transfers total $2.496 billion, including Budget Stabilization of $1.286 billion, lease debt service of $110 million, subsidies of $554 million and a TFA grant which increases FY 2010 revenues by $546 million.
3) FY 2007 GO debt defeasance of $536 million reduced debt service by $27 million, $279 million and $277 million in FY 2008 through FY 2010, respectively. FY 2008 GO Debt Defeasance of $1.986 billion reduced debt service by $2.036 billion in FY 2010. FY 2007 TFA Debt Defeasance of $718 million increases revenues by $33 million, $362 million and $382 million in FY 2008 through FY 2010, respectively. FY 2009 TFA debt defeasance increases revenues by $530 million in FY 2011.

Source: NYC Office of Management and Budget

Figure 2
OSDC Risk Assessment of the NYC Financial Plan

(in millions)

			Better/(Worse)		
	FY 2009	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Surplus/(Gaps) per May Plan	**$ - - -**	**$ - - -**	**$ (4,578)**	**$ (5,162)**	**$ (5,417)**
Actions Outside the Mayor's Direct Control:					
Raise NYC Sales Tax Rate by 0.5 Percentage Point	(49)	(518)	(536)	(570)	(606)
Repeal Sales Tax Exemption on Clothing Over $110	(10)	(119)	(124)	(133)	(141)
Business Tax Reforms	- - -	(167)	(150)	(164)	(140)
Other Tax Initiatives	(30)	(242)	(330)	(321)	(361)
Restructure Employee Health Insurance Costs	- - -	- - -	(357)	(436)	(468)
Enact Lower-Cost Pension Plans for New Employees	- - -	(200)	(200)	(200)	(200)
Agency Actions	- - -	(40)	(50)	(55)	(56)
Subtotal	**(89)**	**(1,286)**	**(1,747)**	**(1,879)**	**(1,972)**
Estimation:					
Tax Revenues	(350)	75	- - -	- - -	- - -
MTA Mobility Tax	(25)	(77)	(80)	(79)	(81)
Higher Special Education Costs	- - -	(70)	(70)	(70)	(70)
Uniform Agency Overtime Costs	- - -	(50)	(50)	(50)	(50)
Implementation of GASB 49 for Budgetary Purposes[1]	- - -	- - -	(500)	(500)	(500)
Higher Public Assistance Costs	- - -	- - -	- - -	- - -	(58)
Subtotal	**(375)**	**(122)**	**(700)**	**(699)**	**(759)**
OSDC Risk Assessment	**(464)**	**(1,408)**	**(2,447)**	**(2,578)**	**(2,731)**
Remaining Gap to be Closed Per OSDC [2]	**$ (464)**	**$ (1,408)**	**$ (7,025)**	**$ (7,740)**	**$ (8,148)**
Additional Risks and Offsets					
State and Federal Education Aid	- - -	- - -	(350)	(950)	(950)
Wage Increases at the Projected Inflation Rate	- - -	- - -	(110)	(318)	(590)

[1] The City had estimated that compliance with GASB 49 for budgeting purposes would increase expense budget costs by up to $500 million annually, because certain environmental remediation costs would no longer be eligible for capital reimbursement. The Financial Control Board deferred the City's implementation of GASB 49 for budgeting purposes for two years, until July 1, 2010.

[2] The May Plan includes an annual general reserve of $40 million in FY 2009 and $300 million in each of fiscal years 2010 through 2013.

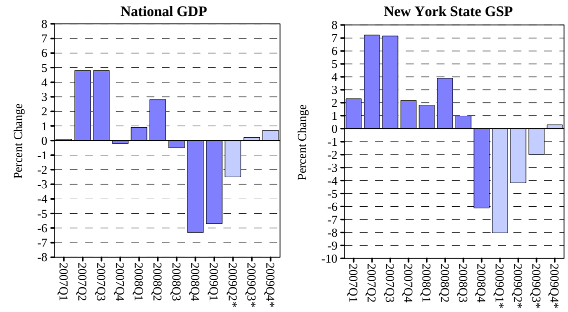
II. Economic Trends

The nation's real Gross Domestic Product (GDP) declined at an annual rate of 6.3 percent in the fourth quarter of 2008 and 5.7 percent in the first quarter of 2009. These declines were the deepest in any two consecutive quarters since the fourth quarter of 1957 and the first quarter of 1958. Nevertheless, there are indications that the rate of economic decline has been moderating.

According to the May 2009 forecast by IHS Global Insight, the GDP will decline at a rate of 2.5 percent during the second quarter of 2009, and growth will resume in the third quarter of 2009 (see Figure 3). Growth in the GDP is expected to remain weak—under 3 percent—until the fourth quarter of 2010. On an annual basis, the GDP is forecast to contract by 3.1 percent in 2009 but then grow by 1.5 percent in 2010.

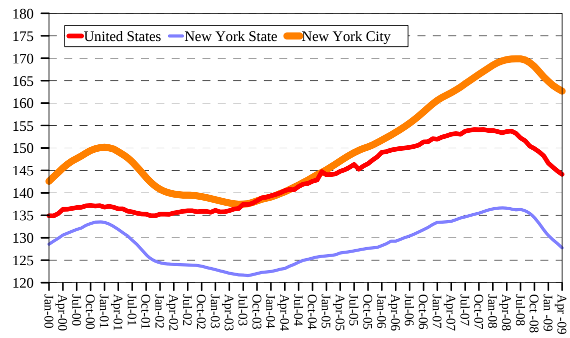
In New York State, IHS Global Insight estimates that the Real Gross State Product (GSP) contracted at an annual rate of 6.1 percent during the fourth quarter of 2008 and at an 8 percent rate during the first quarter of 2009—deeper than the national decline (see Figure 3). IHS Global Insight predicts that the State's GSP will begin to recover during the fourth quarter, but the recovery will be weaker than in the nation.

Figure 3
Economic Growth



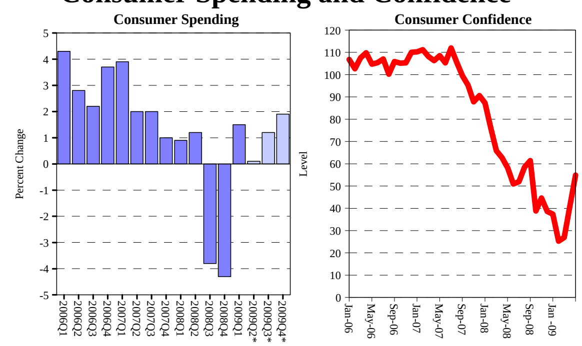
* Forecast by IHS Global Insight
Source: U.S. Bureau of Economic Analysis

Figure 4
Coincident Indices



Sources: Federal Reserve Bank of NY; Economic Cycle Research Institute

Figure 5
Consumer Spending and Confidence

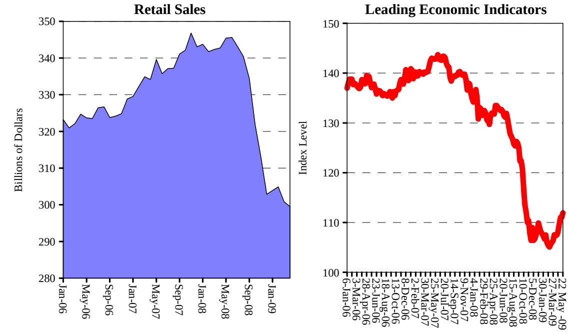


* Forecast by IHS Global Insight
Sources: U.S. Bureau of Economic Analysis; The Conference Board

The economies of both New York State and New York City deteriorated quickly as the national recession deepened. According to the Federal Reserve Bank of New York's Coincident Indices, the economic expansion peaked in the nation in November 2007, but growth continued in New York State until March 2008 and in New York City until September 2008. Since the respective peaks were reached, the indices show that declines in the State and the City have been sharper than in the nation (see Figure 4).

Figure 6

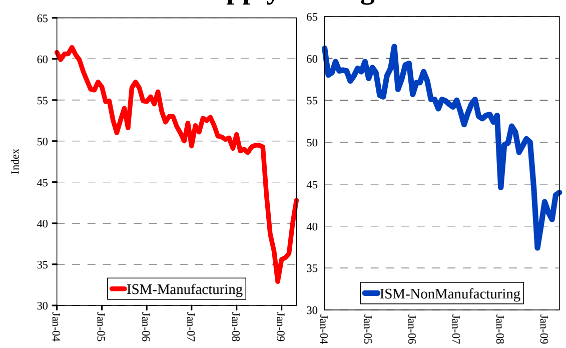
U.S. Retail Sales and Leading Indicators



Sources: U.S. Census Bureau; Economic Cycle Research Institute

Figure 7

Institute for Supply Management Indices

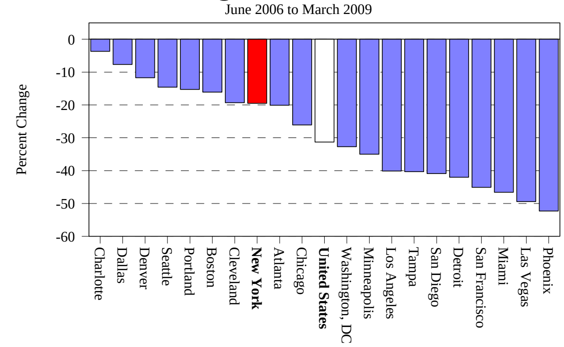


Sources: Institute for Supply Management; OSDC analysis

Figure 8

Changes in Home Values

June 2006 to March 2009



Sources: Moody's Economy.com; S&P/Case-Shiller Home Price Index

Growth in consumption, which accounts for two thirds of the GDP, has resumed. After contracting at an annual rate of 4.1 percent in the second half of 2008, consumption grew by 1.5 percent in the first quarter of 2009 (see Figure 5). Consumer confidence also has begun to rise, although it still remains below levels associated with economic growth. Improving confidence, lower energy costs, and deep discounting by retailers has slowed the decline in retail sales (see Figure 6).

Although consumer spending is recovering, business spending plunged in the first quarter of 2009. Nevertheless, some signs indicate that business conditions may be starting to improve. The weekly index of leading economic indicators is improving (see Figure 6), and the Institute for Supply Management's nonmanufacturing and manufacturing indices have begun to rise from their historic lows (see Figure 7).

The housing markets are showing some improvement as well. Although the S&P/Case-Shiller Home Price Index shows that the average national home price fell by 31.3 percent between June 2006 and March 2009, the pace of recent declines has moderated. During the same time period, home prices in the New York City metropolitan area fell by 19.5 percent (see Figure 8).

The fall in home prices, historically low mortgage rates, and a federal tax credit for first-time home purchases have begun to attract buyers. Pending home sales have risen in recent months, and sales of new and existing homes have shown some gains (see Figure 9). For current home owners, low mortgage rates have fueled a surge in refinancings (see Figure 10).

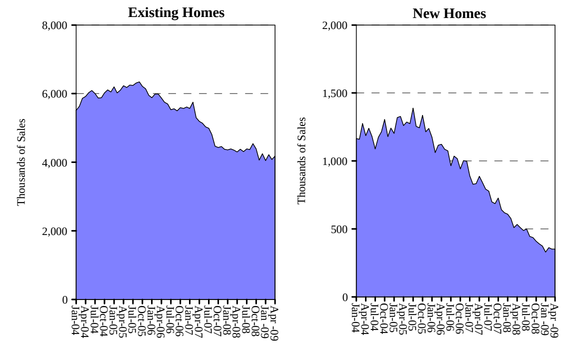
Between December 2007 and April 2009, the nation lost 5.7 million jobs, with more than half the job losses occurring since November 2008 (see Figure 11). In January 2009, job losses totaled 741,000—the worst monthly loss since September 1945. The City forecasts that the nation's total job losses will reach 7.3 million by the first quarter of 2010 and that its unemployment rate will exceed 10 percent.

Between August 2008 and April 2009, New York City lost 103,500 jobs (see Figure 11). In November and December 2008, the City lost an average of 31,000 jobs each month—the worst two-consecutive-month losses since September and October 2001. Monthly losses eased in February and March 2009, registering less than half of the average losses in November and December 2008, and then paused in April.

As job losses mounted, the unemployment rate rose rapidly. In April 2009, the unemployment rate reached 8.9 percent in the nation and 8 percent in the City, compared to around 5 percent a year ago (see Figure 12). Initial claims for

Figure 9

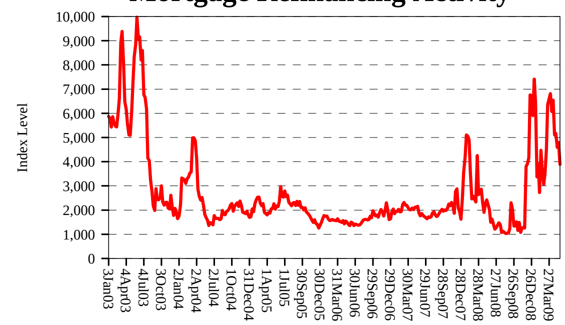
Home Sales



Sources: U.S. Census Bureau; National Association of Realtors

Figure 10

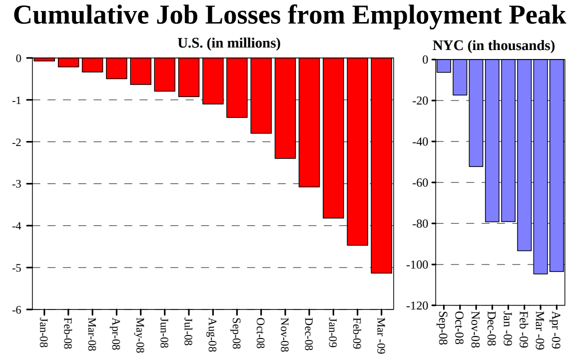
Mortgage Refinancing Activity



Note: Data are seasonally adjusted.
Source: Mortgage Banker's Association

Figure 11

Cumulative Job Losses from Employment Peak



Note: Data are seasonally adjusted.
Sources: U.S. Bureau of Labor Statistics; NYS Department of Labor; OSDC analysis

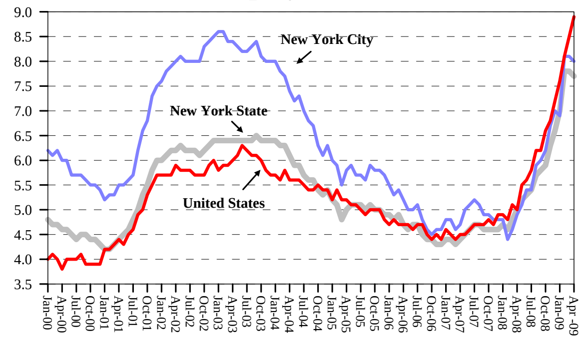
unemployment insurance benefits soared to 674,000 in the week ending March 28, 2009—a 26-year high—and rose to nearly 40,000 in New York State in the week ending February 21, 2009—a 28-year high. Nevertheless, the numbers of initial claims have lessened somewhat in recent weeks (see Figure 13).

The securities industry—the economic engine of New York City—has been affected by the worst financial crisis in decades, losing 21,900 jobs since employment in the industry peaked in November 2007. The industry's high employment multiplier is now working in reverse, fueling job losses in all other sectors of the City's economy except education and health care.

The May Plan assumes that the City will lose 328,000 jobs (including 47,000 securities industry jobs) across eight quarters, through the third quarter of 2010 (see Figure 14). Job losses of this magnitude would exceed those in the recession of the early 2000s, and stay slightly lower than those in the recession of the early 1990s, while the duration would be two or three quarters shorter than in the previous two recessions. The City anticipates that the smaller size of the local manufacturing base and the more timely responses by businesses will help limit the severity and duration of the job losses.

Figure 12

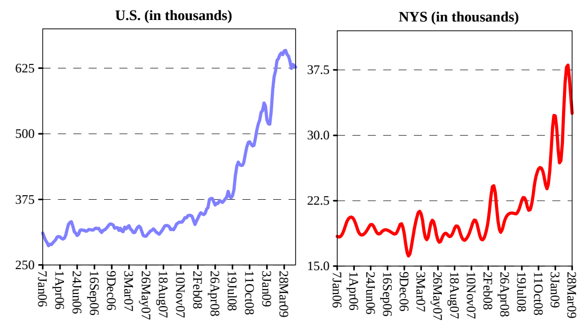
Unemployment Rate



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

Figure 13

Initial Claims for Unemployment Insurance

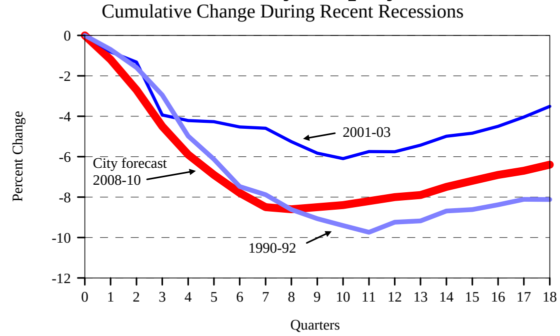


Notes: Four-week moving average; data are seasonally adjusted.
Sources: U.S. Bureau of Labor Statistics; Moody's Economy.com; OSDC analysis

Figure 14

New York City Employment

Cumulative Change During Recent Recessions



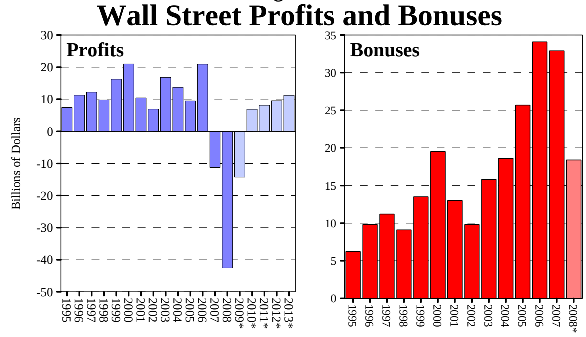
Sources: NYC Office of Management and Budget; NYS Department of Labor; OSDC analysis

Losses on Wall Street are expected to be reduced as the financial markets gradually stabilize and the effects of federal government programs begin to emerge. In the first quarter of 2009, only one of the remaining four major financial firms headquartered in New York City reported a loss, while the others showed modest profitability. In 2008, Wall Street experienced huge write-offs, posted a record loss of $42.6 billion, lost three major firms to failures or mergers, and the State Comptroller estimated that Wall Street bonuses declined by 44 percent to $18.4 billion (see Figure 15).

The public outcry over the industry's compensation practices as well as calls for new regulations will continue the transformation that is currently underway. This transformation is likely to reduce the industry's ability to take risks, as well as its profitability—the May Plan projects that Wall Street will lose another $14.3 billion in 2009 before profitability resumes in 2010.

Figure 15

Wall Street Profits and Bonuses



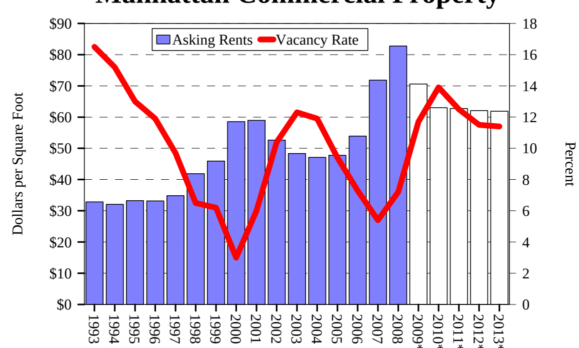
* Profits forecasts are City forecasts; bonuses are OSDC estimates.
Note: Profits are for broker/dealer operations of NYSE member firms.
Sources: NYS Department of Labor; New York Stock Exchange; Securities Industry and Financial Markets Association; OSDC analysis

Job losses, coupled with lower Wall Street bonuses, will drive down total wages paid in the City. After growing by 1.6 percent in 2008, total wages are projected to drop by 10.7 percent in 2009—the largest decline since data first became available in 1985—and then fall another 4.8 percent in 2010.

Retrenchment among financial firms, law firms, and media firms, coupled with the ongoing credit crisis, have precipitated a falloff in Manhattan's commercial property market. According to Colliers ABR, in the first quarter of 2009 the average asking rent in the primary office market in Manhattan declined to $69.60 per square foot—its lowest level since the fourth quarter of 2006—from the record high of $87.40 per square foot reached one year earlier. Meanwhile, the vacancy rate rose to 10.8 percent—the highest in more than four years.

Figure 16

Manhattan Commercial Property



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

The May Plan assumes that the average rent in Manhattan's primary office market will decline to $70.60 per square foot in 2009 and $63.00 per square foot in 2010, from a record average of $82.80 per square foot in 2008 (see Figure 16). It also assumes that the vacancy rate will nearly double, from 7.2 percent in 2008 to 13.9 percent in 2010. In subsequent years, the market should stabilize as the City's economy starts to create jobs. Overall, the City expects that the lack of overbuilding in recent years will limit available inventory and thus limit the depth of the commercial real estate downturn.

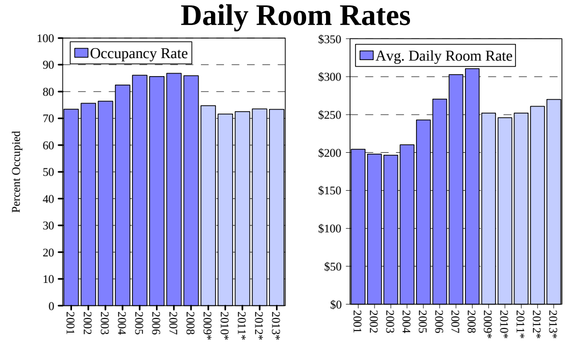
The demand for Manhattan apartments has fallen with the drop in Wall Street profits and the tightening of credit. Prudential Douglas Elliman reported that in the first quarter of 2009, compared to one year earlier, Manhattan cooperative apartment sales fell by 58.8 percent and the median sales price fell by 21.7 percent. During the same period, Manhattan condominium apartment sales dropped by 38.9 percent, although the median sales price rose by 5.8 percent. This price increase reflects sales among the large number of new developments that have been built—many of which were contracted more than one year ago—rather than broader current market conditions.

The City projects that cooperative apartment sales will decline by an additional 30 percent through the third quarter of 2009. Condo sales are projected to slump through the third quarter of 2012 as prices fall by 44 percent between the first quarter of 2008 and the fourth quarter of 2010. For one- to three-family homes, the City projects that sales will drop by 64 percent between the third quarter of 2005 and the third quarter of 2009, while the median price declines by 34 percent from its peak in the third quarter of 2007 to the fourth quarter of 2011. This assumption may be overly conservative given that home prices are stabilizing in the rest of the nation.

The City's once-booming tourism sector is now faltering. In 2008, the number of international visitors (whose average spending exceeds that of domestic visitors by a multiple of at least four) reached a record high. The average daily room rate for hotels reached an all-time high of $311 as the occupancy rate stayed over 85 percent. The City projects that the number of visitors will decline in 2009, and that the average daily room rate for hotels will drop to $252 in 2009 and $246 in 2010, while hotel occupancy will decline to 74.7 percent and 71.6 percent, respectively (see Figure 17).

Figure 17

New York City Hotel Occupancy and Daily Room Rates



* City forecast
Source: PKF Consulting

The federal government has taken extraordinary efforts to revive the financial system and stimulate the economy. While the deterioration in the economy appears to have ceased, significant risks remain. Credit standards remain tight for businesses and consumers. Though consumer confidence may have begun to improve, consumers remain constrained by losses in income and personal wealth. Rising delinquency rates for credit cards and mortgages highlight this stress and the potential for future losses in the financial system. While the risk of a deeper recession appears to have diminished, the pace of recovery is still uncertain. At the same time, concerns are beginning to be voiced over how the Federal Reserve will scale back the massive stimulus before it begins to fuel inflation and create future economic imbalances.

III. Fiscal Year 2009

The City's June 2008 financial plan, which was based on the FY 2009 adopted budget, projected budget gaps of $2.3 billion in FY 2010, $5.2 billion in FY 2011, and $5.1 billion in FY 2012. These estimates, however, reflected the benefit of $812 million in surplus resources transferred from FY 2008, a proposed increase in real property taxes, and savings from a proposal to restructure the municipal health insurance program. Excluding these actions, FY 2009 was expected to end with a surplus of $812 million, and the budget gaps in subsequent years were expected to total $4.2 billion in FY 2010, $7 billion in FY 2011, and $6.7 billion in FY 2012.

Over the course of FY 2009, the City has significantly revised its forecasts in response to a succession of unprecedented events stemming from the global financial crisis and the deterioration in the economy. As a result of these developments—which have significantly lowered expected tax revenue collections and increased pension costs—the projected budget gaps have grown by an average of nearly $4.6 billion annually to reach $8.6 billion in FY 2010, $11.5 billion in FY 2011, and $11.6 billion in FY 2012 (see Figure 19, next page).

At the same time, despite the shortfall in tax revenues, the projected surplus for FY 2009 has grown by $2.2 billion to exceed $3 billion. The growth reflects the implementation of a mid-year real property tax increase; savings from agency cost-reduction actions; additional Medicaid funding from the federal economic stimulus program; a drawdown from reserves; debt service savings; and unanticipated audit collections (see Figure 18).

Figure 18
Sources of the FY 2009 Surplus
(in millions)

FY 2008 Surplus Transfer	$ 812
Tax Revenues Shortfall	(918)
Mid-Year Property Tax Increase	576
Agency Program Savings	507
Prior-Year Payable Savings	500
Federal Stimulus for Medicaid	447
Tax Audits	400
General Reserve Drawdown	260
Debt Service Savings	242
Reestimate of Agency Expenses	104
Hotel Tax Increase	15
Other Savings and Resources	81
Total	**$ 3,026**

Sources: NYC Office of Management and Budget; OSDC analysis

The FY 2009 surplus will be transferred to fiscal years 2010 ($2.5 billion) and 2011 ($530 million) to help narrow the budget gaps projected for those years. In addition, the May Plan assumes the successful implementation of budget-balancing actions (see the "Program to Eliminate the Gap" section of this report for further details), which would close the FY 2010 budget and narrow the out-year gaps to $4.6 billion in FY 2011 and $5.2 billion in FY 2012.

Figure 19
Financial Plan Reconciliation
June 2008 Plan vs. May 2009 Plan

(in millions)

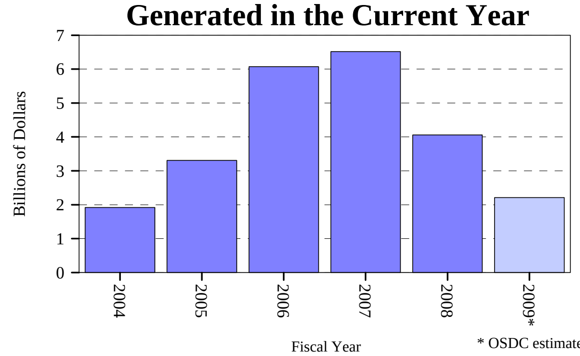
	Better/(Worse)			
	FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
Surplus/(Gap) per June 2008 Plan	**$ - - -**	**$ (2,344)**	**$ (5,158)**	**$ (5,108)**
Proposed Gap-Closing Actions				
Property Tax Increase	- - -	(1,223)	(1,298)	(1,359)
Health Care Restructuring	- - -	(200)	(200)	(200)
Surplus Transfer	812	(462)	(350)	- - -
Restated Surplus/(Gap) per June 2008 Plan	**812**	**(4,229)**	**(7,006)**	**(6,667)**
Revenues				
Tax Revenues	(922)	(4,274)	(3,968)	(4,233)
Tax Audit	400	- - -	- - -	- - -
Non-Tax Revenues	194	89	(69)	(26)
Total	**(328)**	**(4,185)**	**(4,036)**	**(4,259)**
Expenditures				
Pension Contributions	(96)	110	(348)	(615)
Debt Service	242	54	134	232
Energy	94	134	63	13
Other	(157)	(577)	(282)	(301)
Total	**84**	**(280)**	**(433)**	**(671)**
Drawdown of Reserves				
General Reserve	260	- - -	- - -	- - -
Prior Years' Expenses	500	- - -	- - -	- - -
Pension Audit Reserve	- - -	200	- - -	- - -
Total	**760**	**200**	**- - -**	**- - -**
Enacted State Budget Impact	**(45)**	**(68)**	**(15)**	**(16)**
Net Change During FY 2009	**472**	**(4,332)**	**(4,484)**	**(4,945)**
Baseline Surplus/(Gap) as of May 2009	**$ 1,284**	**$ (8,561)**	**$ (11,490)**	**$ (11,612)**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

IV. Current-Year Operating Results

In recent years, surging Wall Street profits and rising real estate values and transactions, combined with conservative revenue forecasts, resulted in large amounts of unanticipated resources during the fiscal year. As shown in Figure 20, these resources peaked at $6.5 billion in FY 2007. In the current year, the City generated $2.2 billion that was not anticipated when the fiscal year began. In contrast to recent years, most of the additional resources were generated from cost-cutting actions, higher taxes, and additional federal assistance. The City will transfer these surplus resources, together with resources generated in prior years, to narrow future budget gaps.

Figure 20
Surplus Resources Generated in the Current Year

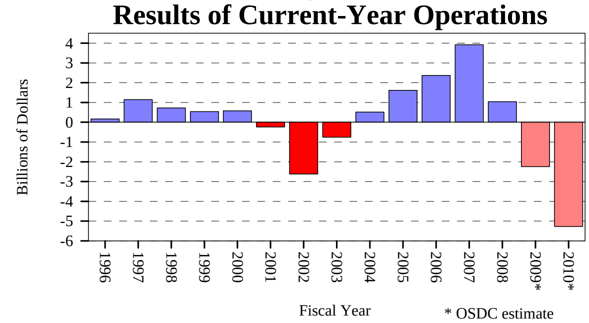


Sources: NYC Office of Management and Budget; OSDC analysis

This transfer of resources between years masks the relationship between recurring revenues and expenditures. A clearer picture of the City's fiscal condition can be obtained by examining the results of current-year operations—the difference between revenues and expenditures in the current year. This entails adjusting for surplus transfers and other factors that impede transparency, such as discretionary actions.

As shown in Figure 21, the size of the current-year surplus grew each year after the end of the last recession, and peaked in FY 2007 at $3.9 billion. The current-year surplus declined sharply in FY 2008 because spending increased rapidly, despite the beginning of the economic slowdown. Spending in FY 2009 is projected to exceed current-year resources by $2.3 billion, and the FY 2009 budget will be balanced using surplus resources accumulated in prior years.

Figure 21
Results of Current-Year Operations



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

In spite of the actions taken by the City to increase revenues and reduce costs, the City is on track for a $5.3 billion deficit in FY 2010, reflecting the City's reliance on resources generated in prior years to balance the budget. The FY 2010 budget includes a total of nearly $6.3 billion in nonrecurring resources, of which $5.3 billion was generated in prior years (see

Figure 22). Nearly $2.7 billion of this amount represents surplus resources generated during fiscal years 2007 and 2008 from extraordinary Wall Street and real estate activity and used to defease debt due in FY 2010. The City also intends to use $2.5 billion of the $3 billion surplus projected for FY 2009 to help balance the FY 2010 budget. Finally, the FY 2010 budget will benefit by $850 million in additional Medicaid assistance under the federal economic stimulus program, which will benefit the City's operating budget during fiscal years 2009 through 2011.

Figure 22
Nonrecurring Resources in FY 2010
(in millions)

FY 2009 Surplus Transfer[3]	$ 2,496
FY 2008 Debt Defeasance	2,036
Federal Medicaid Assistance	850
FY 2007 Debt Defeasance	659
Health Insurance Stabilization Fund	117
TFA Transfer[4]	100
Total	**$ 6,258**

Source: OSDC analysis

3 The remaining $530 million of the FY 2009 surplus will be transferred to FY 2011 to reduce the budget gap projected for that year.

4 These funds were retained by the Transitional Finance Authority (TFA), but are no longer needed to pay debt service on bonds backed by State building aid.

V. Impact of the State Budget

In December 2008, the Governor projected a budget gap of $1.6 billion for the State fiscal year (SFY), which ended on March 31, 2009, and gaps of $13.7 billion for SFY 2009-2010, $17.1 billion for SFY 2010-2011, and $18.6 billion for SFY 2011-2012. To balance the budget and narrow the projected gaps, the Governor proposed large aid reductions, which would have adversely affected the City's budget. The Governor and the State Legislature raised taxes and used federal funds from the American Recovery and Reinvestment Act of 2009 (i.e., the federal stimulus bill) to rescind many of the proposed cuts.

Figure 23
Impact of the State Budget on New York City's Financial Plan
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenue Enhancements	4	90	99	102	108
Social Services	(36)	(51)	(56)	(56)	(56)
Insurance Assessments	(5)	(91)	(50)	(54)	(58)
Other	(8)	(16)	(8)	(8)	(9)
Total[5]	**$ (45)**	**$ (68)**	**$ (15)**	**$ (16)**	**$ (15)**

Sources: NYS Division of the Budget; NYC Office of Management and Budget; OSDC analysis

Major initiatives adopted by New York State in April 2009 include the following.

School Aid: The Governor's proposal to reduce education aid would have provided the City's public schools with $766 million less than anticipated in the City's financial plan for the school year beginning September 1, 2009, and $1 billion less annually in later years. Instead, the State used federal stimulus funds to offset the proposed cuts, and education aid to the City will rise next year by $593 million; this will avert the need for teacher layoffs.[6] While stimulus resources will fund an increase of more than $800 million for the 2010-2011 school year, the May Plan assumes education aid will grow by nearly $1 billion in the 2011-2012 even after stimulus funding is exhausted. An increase of this magnitude will be difficult to fund in the absence of additional federal aid or a strong economic recovery.

Medicaid: Federal stimulus funds also increased Medicaid funding to the states as a way to help states and localities balance their budgets. New York State announced that New York City could receive up to $1.9 billion over a two-year period, but the actual amount may be as low as $1.6 billion, which is the amount reflected in the May Plan.

5 The City continues to benefit from actions taken by the State in past years that capped the growth in the local share of Medicaid costs at 3 percent and assumed the local cost of the Family Health Plus program. Together, these actions are expected to generate $500 million in savings for the City in FY 2010.

6 These estimates exclude EXCEL aid, which are debt service payments made by the State for the construction and renovation of City schools. EXCEL aid does not flow through the City's budget but does benefit the City's education capital program.

Aid and Incentives to Municipalities (AIM) Program: The Governor proposed eliminating assistance to New York City under the AIM program, but the enacted budget used federal stimulus funding to allocate $328 million in AIM payments to the City, which is the amount assumed in the City's adopted budget for 2009 (and $85 million more than received in FY 2008).

Revenue Enhancements: The State broadened the sales tax to include nonresident and out-of-state third-party purchases of motor vehicles, aircraft, or luxury vessels for in-state use; and certain Internet purchases (to generate $45 million annually beginning in FY 2010). The State also limited itemized deductions for filers with adjusted gross incomes of more than $1 million, and broadened the definition of residency for State income tax purposes ($48 million annually beginning in FY 2010). The State will allow the City to increase the number of red-light cameras, but by far fewer than the City had requested. The Mayor and the City recently reached agreement on a package of tax initiatives that require State approval, which would raise nearly $900 million in FY 2010 (see the "Revenue and Expenditure Trends" section of this report for a detailed discussion of the proposed package).

Social Services: The State reduced State and federal funding to certain City social services programs, which resulted in an increase in City funding of $36 million in FY 2009 and more than $50 million annually in subsequent years. The State also increased public assistance benefit levels by 10 percent annually over three years, and temporarily funded the local share of these costs with federal stimulus funds. In the absence of further federal resources, these costs would shift to the City, which estimates the cost at $58 million in FY 2013.

Insurance Assessments: The State increased assessments and surcharges on insurance carriers and health care providers, and reclassified for-profit health maintenance organizations as insurance corporations in order to tax premiums. The May Plan assumes that these costs will be passed on to the City and reflected in higher costs for health insurance.

City-Related Entities: The State raised tuition for the City University of New York and reduced State operating aid to community colleges. In addition, a reduction in Medicaid reimbursement rates and changes in reimbursement formulas will more rapidly deplete the cash reserves of the Health and Hospitals Corporation.

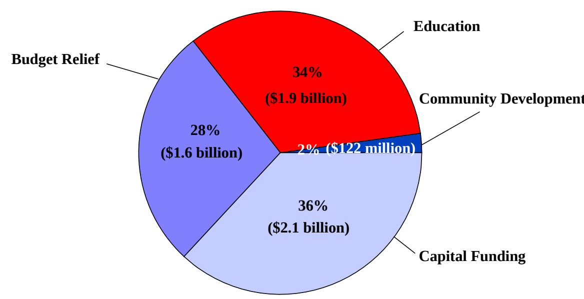
Mandate Relief: The State Legislature has not yet acted on a number of mandate relief proposals that would benefit the City's budget. The Governor has proposed that new State and local civilian employees contribute 3 percent of their wages for the duration of employment, compared with ten years for employees in Tiers III and IV; increase the minimum retirement age from 55 to 62 (excluding New York City employees); and increase the amount of time needed to vest from five years to ten years. At the request of the Mayor, the Governor also proposed a new plan for City uniformed employees that would raise the retirement age to 50 with 25 years of service; base benefits on the average salary of the final three years of service; and require higher employee contributions than currently mandated.

The Governor also proposed that the State allow the Transitional Finance Authority (TFA) to issue additional debt as long as the total of TFA and general obligation debt remains within the State constitutional debt limit. This would allow the City to realize savings from diversifying its financing vehicles. In addition, the Governor proposed granting the City greater flexibility in the issuance of bond anticipation notes, and raising the Wicks Law threshold from $3 million to $10 million, which would generate savings to the capital program.

VI. The Federal Stimulus Bill

In February 2009, Congress approved the American Recovery and Reinvestment Act of 2009, which was designed to reinvigorate the economy by creating jobs, preventing layoffs, providing tax relief, and offering fiscal relief to state and local governments. The City expects to receive $5.7 billion in federal funding during fiscal years 2009 through 2011. Of this amount, $3.6 billion will be reflected in the operating budget to provide budget relief, maintain and enhance education spending, and support new community development initiatives (see Figure 24). The City's capital budget is expected to benefit by $2.1 billion.

Figure 24
Allocation of the Federal Stimulus Funds in City's Executive Budget



Sources: NYC Office of Management and Budget; OSDC analysis

Budget Relief: The federal economic stimulus bill will provide New York State with about $5 billion in additional federal Medicaid assistance, which is intended to help the State and its localities balance their budgets. The State estimates that New York City will receive $1.9 billion, but the actual amount could be as low as $1.6 billion. The May Plan reflects the lower estimate, which is $400 million less than anticipated in the City's January 2009 financial plan.

Education Aid: The May Plan assumes the receipt of $1.9 billion in additional federal education aid over the 2009-2010 and 2010-2011 school years. Of this amount, $927 million is allocated over the two years to offset planned cuts in State education aid proposed by the Governor in his executive budget, which will avert the need for some 14,000 teacher layoffs, at least until FY 2012. In addition, the City expects to receive $669 million in additional federal Title 1 funding, which targets economically and socially disadvantaged students, and $315 million in funding for the federal Individuals with Disabilities Education Act (IDEA), which targets students with disabilities for the two-year period.

Community Development: The May Plan assumes the receipt of $122 million in federal funding to finance new community development initiatives, such as increased maintenance of the Staten Island Ferry terminals ($30 million) and housing preservation programs ($26 million). In addition, the City plans to replace City funding allocated for foster care and child adoption programs ($30 million).

Capital Funding: The May Plan assumes the capital budget will benefit by a total of $2.1 billion (see Figure 25). The majority of these resources ($1.7 billion) represent the issuance of school tax credit bonds to build and repair school facilities. The balance will be used to finance a variety of projects, such as repairs to the Staten Island Ferry terminals ($175 million), the Brooklyn Bridge ($47 million), the docks at Newtown Creek ($38 million), and waste treatment facilities in Hunts Point ($30 million).

Figure 25
Potential Impact of Federal Economic Stimulus Funds
On New York City
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	Total
Budget Relief	$ 447	$ 850	$ 295	- - -	$ 1,592
Education	-	951	961	- - -	1,912
Capital Funding	378	1,049	350	295	2,072
Community Development	-	92	20	10	122
Total	**$ 825**	**$ 2,942**	**$ 1,626**	**$ 305**	**$ 5,698**

Sources: NYC Office of Management and Budget; OSDC analysis

VII. Program to Eliminate the Gap

Since the beginning of FY 2009, the City has taken (or plans to take) actions to balance the FY 2010 budget. The May Plan values these actions at $3 billion in FY 2009—which will be transferred to fiscal years 2010 and 2011—and more than $6 billion thereafter (see Figure 26). Some of these actions have been implemented, some are in progress, and others have not yet received the necessary approvals. Since the May Plan was released, the Mayor and the City Council reached agreements on a new package of tax initiatives and to rescind the proposed fee on plastic bags. In total, the City is seeking State approval for initiatives with a combined value of more than $1 billion in FY 2010. In addition, the City announced an agreement with the municipal unions that would achieve all of the planned health insurance savings in FY 2010 and a substantial portion in subsequent years.

Figure 26
Budget-Balancing Actions
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Implemented				
Increase Real Property Taxes by 7 Percent	$ 576	$ 1,223	$ 1,298	$ 1,359
Obtain Higher Federal Medicaid Reimbursement	447	850	295	- - -
Raise Hotel Tax Rate	15	62	66	35
Curtail Planned Capital Commitments by 27 Percent	5	25	54	77
Eliminate $400 Property Tax Rebate	- - -	256	256	256
Subtotal	**1,043**	**2,416**	**1,969**	**1,727**
In Progress				
FY 2009 Projected Surplus	1,284	- - -	- - -	- - -
Implement Agency Actions[7]	611	2,121	2,120	2,079
Restructure Employee Health Insurance Costs	- - -	200	200	150
Drawdown from Retiree Health Benefits Trust	- - -	82	395	672
Subtotal	**1,895**	**2,403**	**2,715**	**2,901**
Proposed				
Increase Sales Tax Revenue	88	946	981	1,047
Restructure Employee Health Insurance Costs	- - -	- - -	357	436
Enact Lower-Cost Pension Plans for New Employees	- - -	200	200	200
Impose Fee on Consumers' Plastic Bag Use	- - -	100	160	140
Subtotal	**88**	**1,246**	**1,698**	**1,823**
Total	**3,026**	**6,065**	**6,382**	**6,451**
Surplus and Discretionary Transfers	(3,026)	2,496	530	- - -
Available Resources	**$ - - -**	**$ 8,561**	**$ 6,912**	**$ 6,451**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

7 Includes $104 million in transfers between fiscal years 2009 and 2010.

Real Property Taxes: In December 2008, the City Council approved the Mayor's proposal to rescind, effective January 1, 2009, the 7 percent real property tax cut that was enacted at the beginning of FY 2008. This action will generate $576 million in FY 2009 and about $1.3 billion annually thereafter. Raising the tax rate automatically eliminated the $400 property tax rebate beginning in FY 2010, which will raise an additional $256 million annually beginning that year.

Federal Medicaid Match: The May Plan assumes that the City will receive $1.6 billion in additional federal Medicaid funds during fiscal years 2009 through 2011, which is consistent with current State estimates. The actual amount will be determined by the growth in the caseload, the demand for services, and the cost of those services.

Hotel Tax: In December 2008, the City Council also enacted a temporary increase in the hotel tax rate, from 5 percent to 5.875 percent, which will generate $15 million in FY 2009, more than $60 million in each of fiscal years 2010 and 2011, and $35 million in FY 2012. (The provision expires in November 2011.)

Drawdown from Retiree Health Benefits Trust (RHBT): The Mayor has proposed using, over a three-year period, $1.1 billion of the $2.5 billion deposited in the RHBT to help fund an increase in future pension contributions arising from poor pension fund investment performance. While using the RHBT to help balance the operating budget is within the City's discretion, it is a setback in the City's efforts to fund health insurance costs for retirees, and shifts the burden to future taxpayers.

Increase Sales Tax Revenues: The May Plan reflected the Mayor's proposals to raise the sales tax rate by 0.5 percentage points to 8.875 percent, effective June 1, 2009, and to repeal New York City's sales tax exemption on clothing and footwear. Subsequently, the Mayor and the City Council reached an agreement on a new package of tax initiatives that replaces the one in the May Plan. The new package requires State approval and would generate $887 million in FY 2010, which is $59 million less than anticipated in the May Plan.

Restructure Employee Health Insurance Costs: The City has proposed that municipal employees and retirees shoulder a greater share of health insurance costs, which could reduce the City's costs by $200 million in FY 2010 and by about $600 million annually beginning in FY 2011. On June 2, 2009, the City and the municipal unions announced an agreement that would permit the City to realize savings of $200 million in each of fiscal years 2010 and 2011, and $150 million in subsequent years. The City and the municipal unions have yet to reach an agreement that would permit the City to realize the balance of the anticipated savings.

Pension Plan: The Governor has proposed a less costly pension plan for new State and City civilian employees, and the Mayor has proposed a less costly plan for new City uniformed employees. New civilian employees would be required to contribute 3 percent of their salaries for the entire length of their service instead of for ten years, and to serve for ten years (instead of five) before qualifying for a vested pension benefit. Uniformed employees would be eligible to retire at age 50 with 25 years of service, instead of no age minimum with 20 years of service. These proposals will require the approval of the State Legislature.

Agency Actions: Since January 2008, agency actions have reduced planned City spending by $1.7 billion in FY 2009, $3.4 billion in FY 2010, $3.3 billion in FY 2011, and $3.2 billion annually in subsequent years. Actions proposed during the current fiscal year would generate $507 million in FY 2009 and over $2 billion annually thereafter (see Figure 27). The Department of Education and the Police Department would generate 43 percent of these resources. Most of the resources would come from actions that are within the City's control to implement, but a number of initiatives require State approval.

Figure 27
Agency Program
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Department of Education	$ 176.1	$ 792.8	$ 691.6	$ 691.6	$ 691.6
Police Department	37.7	284.8	298.2	243.5	255.0
Fire Department	35.0	109.0	115.7	118.5	122.2
Social Services	27.0	96.5	88.2	88.7	88.9
Sanitation	25.0	93.8	60.1	42.2	43.9
Transportation	23.3	69.2	69.0	67.9	64.7
Admin. for Children's Services	19.3	112.3	115.2	106.7	106.7
Information Technology	17.5	39.1	38.1	37.5	37.5
Citywide Admin. Services	16.7	27.7	20.3	31.6	36.5
Health & Mental Hygiene	10.3	56.3	58.0	58.1	58.2
Correction	9.7	54.3	55.0	61.1	61.9
Libraries	8.0	46.5	46.5	46.5	46.5
Homeless Services	7.9	46.3	46.2	46.3	46.4
Finance	7.7	31.8	33.0	33.0	33.0
Parks	6.7	42.0	40.0	40.1	40.3
Elected Officials	6.6	8.8	8.9	8.9	8.9
Youth	4.6	28.8	28.8	28.8	28.8
Cultural Affairs	3.8	22.1	22.1	22.1	22.1
District Attorneys & Prosecutors	3.0	10.8	28.4	28.6	28.9
CUNY	0.8	22.2	22.2	22.2	22.2
Consumer Plastic Bag Use Fee	- - -	100.0	160.0	140.0	140.0
Procurement Savings	- - -	55.5	55.5	55.5	55.5
Pension Contributions	- - -	- - -	6.7	49.2	51.4
Other	60.7	174.5	172.3	150.2	150.1
Total	**$ 507.4**	**$ 2,325.2**	**$ 2,279.8**	**$ 2,218.7**	**$ 2,241.1**

Source: NYC Office of Management and Budget. Totals may not add due to rounding.

The following initiatives, with a value of $140 million in FY 2010 and of about $200 million in subsequent years, require State approval.

- The May Plan anticipated $100 million in FY 2010 and about $150 million in subsequent years from charging consumers $0.05 per plastic bag. On June 1, 2009, the Mayor and the City Council announced an agreement on a new package of tax initiatives that does not include this proposal.
- The City has proposed increasing the tax on fire insurance premiums from 2 percent to 4 percent, which would generate $21 million annually beginning in FY 2010.
- The Department of Correction plans to transfer to State jails City prisoners with sentences of more than 90 days, which would save the City $10 million in FY 2010, $19 million in FY 2011, and $25 million annually in subsequent years. The department also seeks to develop programs to reduce the time spent by inmates in custody, expedite the bail process, speed up hearings for certain criminal cases, and increase supervised releases for low-risk defendants; these actions would reduce costs by $9 million annually beginning in FY 2010.

The FY 2010 agency program is expected to reduce planned staffing levels by 13,541 positions, including 3,759 through layoffs. Of these amounts, the mayoral agencies are expected to eliminate 10,330 positions and the City-supported agencies—such as public libraries, cultural institutions, the Health and Hospitals Corporation, and the New York City Housing Authority—are expected to eliminate 3,211 positions.

- The Police Department will reduce the size of the police force by 2,067 officers by reducing the size of recruit classes. In addition, 989 civilian positions will be eliminated, including 395 layoffs.
- The Department of Education will reduce staffing by 1,915 positions, including 344 layoffs (non-pedagogical employees). The department has not yet determined which programs will be affected.
- The Administration for Children's Services will reduce staffing by 969 positions, including 608 layoffs. The reductions will occur primarily in protective and preventive services.
- The Department of Correction will reduce uniform staffing by 832 positions, the Department of Social Services will reduce staffing by 653 positions, and the Parks Department will reduce staffing by 605 positions, each through attrition.

VIII. Revenue and Expenditure Trends

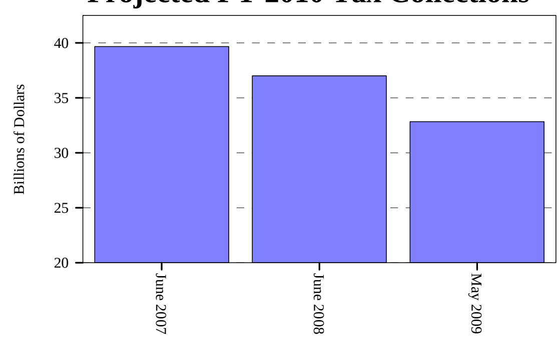
In FY 2008, revenues and expenditures were essentially balanced after adjusting for surplus transfers from prior years, but revenues declined precipitously in FY 2009 as the recession began to ripple through the local economy. The May Plan assumes that City fund revenues will decline in fiscal years 2009 and 2010 as the recession takes its toll on collections, before growth resumes in FY 2011. During the same period, spending is expected to grow. Even assuming successful implementation of all the City's gap-closing proposals, large budget gaps remain—City-funded spending is projected to grow at an average annual rate of 3.4 percent during fiscal years 2009 through 2013, while City fund revenues are projected to grow at an average annual rate of 0.8 percent.

A. Revenue Trends

Although the national economy continues to contract, recent indicators suggest that the rate of deterioration has begun to ease. The pace of job losses has slowed, consumer confidence is no longer falling, and Wall Street firms—although still beset by problems—showed some profitability in the first quarter of calendar year 2009. The recession has been severe, however, and has had a significant impact on City tax revenues.

Figure 28

Projected FY 2010 Tax Collections

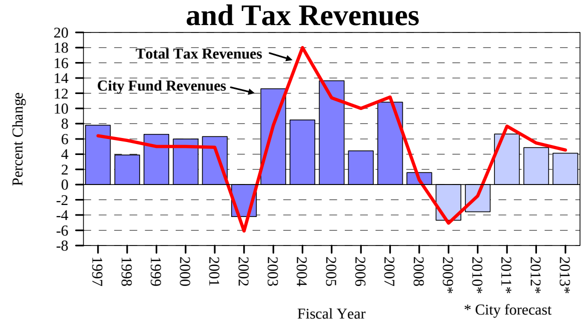


Note: Excludes tax changes enacted and proposed since June 2007.
Sources: NYC Office of Management and Budget; OSDC analysis

Excluding an increase in real property taxes that was enacted during FY 2009, tax collections in FY 2010 are expected to be $4.2 billion lower than projected in June 2008, and $6.8 billion lower than projected two years ago (see Figure 28). This decline—centered in the personal and business income, real estate transaction, and sales taxes—is the primary cause of the City's budget gaps. To help balance the budget, the City raised property taxes and the hotel tax rate, and is now asking the State to approve a package of tax increases (a more detailed discussion of City actions appears later in this chapter).

Implementation of these revenue initiatives, however, would not prevent a decline in City fund revenues. Revenues would still decline by $2 billion, or 4.7 percent, in FY 2009, and $1.5 billion, or 3.6 percent, in FY 2010 (see Figure 29). If the State does not approve the City's revised tax program,[8] revenues will decline by 5.9 percent in FY 2010—the largest decline since the City's budget was first balanced according to Generally Accepted Accounting Principles in FY 1981.

Figure 29
Annual Change in City Fund Revenues and Tax Revenues



Note: Includes proposed tax changes and gap-closing program. Adjusted for debt service on TFA and tobacco bonds and the transfer of TSASC revenues.
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

Figure 30
City Fund Revenues
(in millions)

	FY 2009	FY 2010	Annual Growth	FY 2011	FY 2012	FY 2013	Average Three-Year Growth Rate
Taxes							
Property Tax	$ 14,408	$ 16,127	11.9%	$ 17,173	$ 17,762	$ 18,150	4.0%
Personal Income Tax	7,186	5,893	-18.0%	6,793	7,232	7,685	9.3%
Sales Tax	4,593	4,069	-11.4%	4,205	4,469	4,762	5.4%
Business Taxes	5,012	3,957	-21.0%	4,448	5,012	5,381	10.8%
Real Estate Transaction Taxes	1,346	1,088	-19.2%	1,200	1,310	1,488	11.0%
Other Taxes	3,103	2,637	-15.0%	2,666	2,699	2,767	1.6%
Audits	980	596	-39.2%	596	595	594	-0.1%
Subtotal	**36,628**	**34,367**	**-6.2%**	**37,081**	**39,079**	**40,827**	**5.9%**
Miscellaneous Revenues	4,531	4,347	-4.1%	4,202	4,235	4,273	-0.6%
Unrestricted Intergovernmental Aid	340	340	N.A.	340	340	340	N.A.
Grant Disallowances	(15)	(15)	N.A.	(15)	(15)	(15)	N.A.
Total Before Gap-Closing Actions	**$ 41,484**	**$ 39,039**	**-5.9%**	**$ 41,608**	**$ 43,639**	**$ 45,425**	**5.1%**
Revised Tax Program	88	1,046	N.A.	1,141	1,187	1,248	N.A
Total	**$ 41,572**	**$ 40,085**	**-3.6%**	**$ 42,749**	**$ 44,826**	**$ 46,673**	**5.2%**

Note: Personal income tax includes the portion of those revenues used to pay debt service on bonds issued by the TFA.
Sources: NYC Office of Management and Budget; OSDC analysis

During fiscal years 2011 through 2013, City fund revenues (including the benefit of enacted and proposed revenue initiatives) will grow at an average annual rate of 5.2 percent (see Figure 30). Although collections from business and personal income, real estate transaction, and sales taxes are forecast to grow during these years, they are expected to remain below the peak levels reached in FY 2008. Details of the City's revenue trends are discussed below and shown in Figure 30.

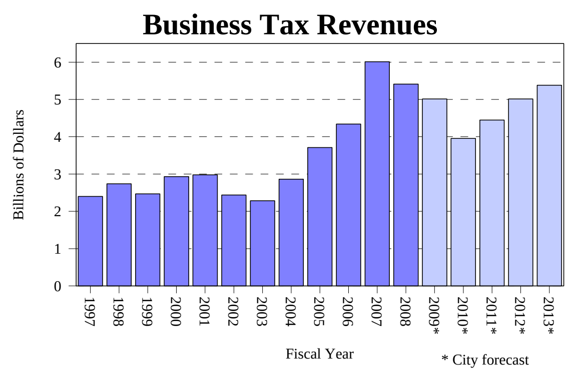
8 The revised tax program is $59 million smaller in FY 2010 than the one in the May Plan. In addition, the City rescinded the proposed fee on consumer plastic bags, which was expected to generate $100 million in FY 2010.

Based upon our analysis of year-to-date collection patterns, tax revenue collections are likely to be $350 million lower in FY 2009 than forecast by the City in the May Plan. Estimated and extension payments, which were due on April 15, 2009, were much weaker than the City had anticipated. Collections from the general corporation and real estate transaction taxes were also less than expected, but these shortfalls were offset by slightly better receipts from the unincorporated business and sales taxes.

1. Business Taxes

Business tax collections (excluding audits) declined by 10 percent in FY 2008 and by an estimated 7.4 percent in FY 2009 (see Figure 31). Collections have been depressed by the large losses on Wall Street—which totaled $11.7 billion in 2007 and a record $42.6 billion in 2008—and the overall impact of the recession on the rest of the economy. The City expects collections to drop another 21 percent, or $1 billion, in FY 2010.

Figure 31



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

Many firms are opting to receive any tax overpayments owed to them as refunds (as a way to improve their cash positions) rather than using their overpayments as credits against future tax liabilities. The City forecasts that business tax refunds will total $926 million in FY 2009 and $732 million in FY 2010, up from $354 million in FY 2007. While this surge is exacerbating the City's expected decline in business tax collections through FY 2010, it will also allow collections to recover more rapidly when the economy improves. The City expects business taxes will grow by 12.4 percent in FY 2011, 12.7 percent in FY 2012, and 7.4 percent in FY 2013.

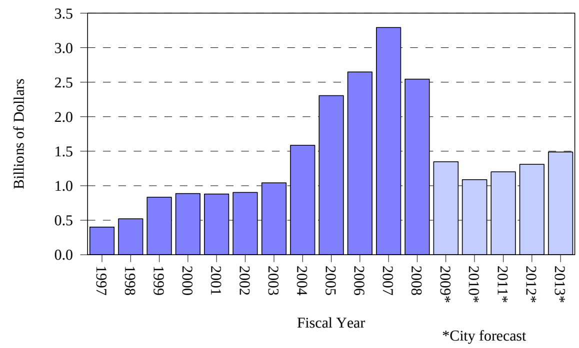
2. Real Estate Transaction Taxes

Collections from the mortgage recording tax and the real property transfer tax depend on transaction activity and sale prices. Both components are in decline as a result of declining personal income, difficulty in obtaining financing, weaker demand for office space, and a falloff in foreign investment. The May Plan assumes that collections from these taxes will fall by almost half in FY 2009 and by another 19.1 percent in FY 2010. The City does not expect conditions to stabilize until FY 2010, when collections are expected to return to levels experienced at the beginning of the decade (see Figure 32). The May Plan forecasts that collections will grow at an average annual rate of 11 percent in fiscal years 2011 through 2013. An increase in collections from real estate transaction taxes will depend to a large degree on the availability of credit to finance the purchase of commercial properties.

According to the S&P/Case-Shiller Home Price Index, home values in the New York City metropolitan area have declined by 19.5 percent since June 2006—considerably less than in many areas of the country. The City reports that the number of transactions involving one-, two-, and three-family homes fell by more than one third in the first quarter of 2009 compared with one year earlier. The combined effects of falling property values and fewer transactions have resulted in the total value of transactions related to one-, two-, and three-family homes declining by nearly half during this period.

Figure 32

Real Estate Transaction Taxes



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

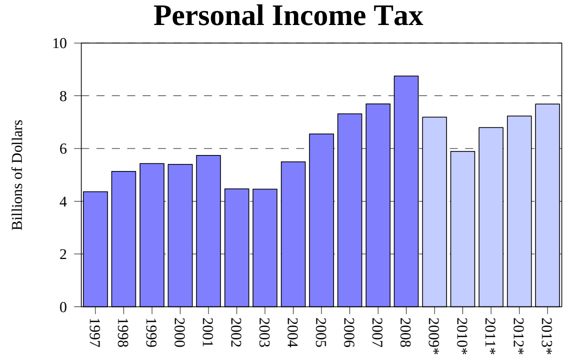
In past years, the strong demand for condominiums and cooperative apartments in Manhattan was a significant factor behind the strong growth in real estate transaction tax collections, but sales are now declining. During the first quarter of 2009, both the number of transactions for Manhattan apartments and the total value of these transactions fell by more than 60 percent—and the median values have also begun to decline. In addition, transactions for Manhattan office properties have nearly ceased, especially for properties valued at $50 million or more.

3. Personal Income Tax

The recession's most significant impact on City tax collections has been on the personal income tax. The cumulative impact of the recession has resulted in an expected revenue decline of $2.9 billion, or nearly one third, between fiscal years 2008 and 2010 (see Figure 33). The decline is the result of a sharp reduction in Wall Street bonuses, a steep drop in capital gains realizations, and sizable employment losses. The City now expects the local economy to lose 328,000 jobs between the third quarter of 2008 and the third quarter of 2010. Unfavorable conditions in the financial markets has also led the City to forecast a 14 percent decline in capital gains realizations in 2009, which follows a decline of more than 50 percent in 2008.

Figure 33

Personal Income Tax



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

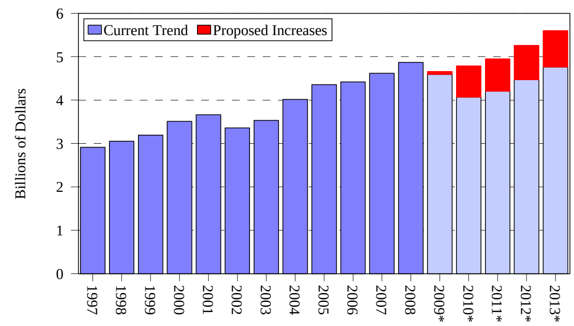
The effects of increases in employment and wages—including higher Wall Street bonuses—are not expected to result in increases in personal income tax revenues until FY 2011, when revenues are forecast to increase by 15.3 percent. Growth is expected to continue in the remaining years of the financial plan, with gains of 6.5 percent in FY 2012 and 6.3 percent in FY 2013.

4. Sales Tax

At the beginning of FY 2009, it appeared that tourism would cushion sales tax collections during the recession, but a reduction in the number of visitors (including international travelers) is exacerbating the effects of retrenchment in domestic consumer spending on the City's sales tax collections. Revenues are now forecast to fall by $800 million during fiscal years 2009 and 2010 (see Figure 34). As the economy recovers, growth is expected to resume with gains of 3.3 percent in FY 2011, 6.3 percent in FY 2012, and 6.6 percent in FY 2013. Collections will be higher by more than $700 million annually beginning in FY 2010 if the State Legislature approves the sales tax proposals that were recently agreed to by the Mayor and the City Council.

Figure 34

Sales Tax



* City forecast

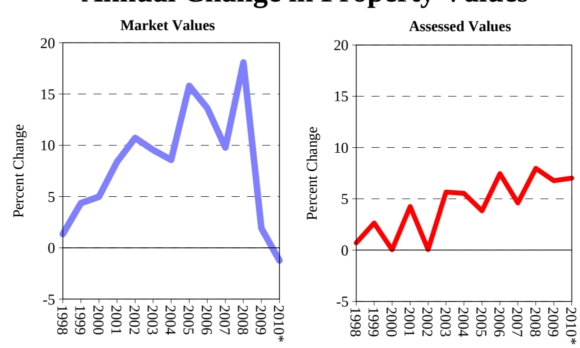
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

5. Real Property Tax

The real property tax is the only major tax that is forecast to grow during each year of the financial plan period, and it would have grown even without the rate increase passed in January 2009. Despite the easing of property values in recent years, revenues will still rise as the result of provisions of State law that phase in the impact of large market value changes on assessments. Large increases from previous years are still being phased in. The tentative tax roll for FY 2010 shows that although market values have declined by 1.2 percent, assessed values will increase by 7 percent (see Figure 35).

Figure 35

Annual Change in Property Values



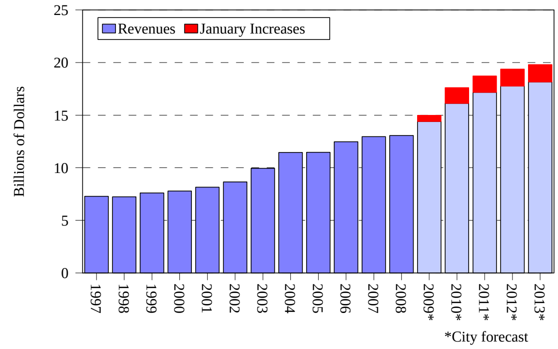
*Tentative

Source: NYC Department of Finance

During the previous recession, the City increased real property tax rates by 18 percent in order to close its projected budget gaps. As economic conditions improved, the City provided home owners with a rebate of $400 beginning in FY 2005, and then cut the average real property tax rate by 7 percent in FY 2008. Faced with declining nonproperty tax revenues, the City rescinded the average tax rate cut beginning in the second half of FY 2009, and rescinded the rebate beginning in FY 2010. These revenue increases raised the average annual growth rate for property taxes between fiscal years 2008 and 2013 from 4.8 percent to 6.8 percent (see Figure 36). As a result of the combination of the growth in real property taxes and the decline in nonproperty taxes, the property tax is expected to comprise 44.5 percent of all City tax revenues in FY 2013 (excluding proposed sales tax increases), compared to 33.7 percent in FY 2008.

Figure 36

Real Property Tax Revenues



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

6. Revenue Initiatives

Enacted and proposed tax and fee increases in the May Plan were expected to generate a total of nearly $2.6 billion in FY 2010, and higher amounts in subsequent years (see Figure 37). Actions taken in December 2008—including raising the real property tax by 7 percent, eliminating the $400 home rebate program beginning in FY 2010, and increasing the hotel tax from 5 percent to 5.875 percent—will generate nearly $600 million in FY 2009 and about $1.6 billion in subsequent years.[9] The May Plan also included the Mayor's proposals to raise the sales tax rate in New York City by 0.5 percentage points to reach 8.875 percent, to repeal the sales tax exemption on all clothing and footwear purchases, and to impose a five-cent fee on plastic bag use.

On June 1, 2009, the Mayor and the City Council agreed on a revised package of tax initiatives, which require State approval. The agreement calls for raising the sales tax rate as proposed; repealing the sales tax exemption on clothing and footwear that cost more than $110; extending the sales tax to energy purchases from nonutility companies; and enacting business tax reforms. These initiatives would generate $887 million in FY 2010, which is $82 million less than anticipated in the May Plan for fiscal years 2009 and 2010. In addition, the City rescinded, but did not replace, the proposed fee on plastic bags, which was valued at $100 million in FY 2010.

[9] The enacted State budget includes several provisions that will benefit personal income and sales tax collections in the City by almost $100 million beginning in FY 2010.

Figure 37
Revenue Initiatives
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Enacted					
Increase Real Property Tax Rate	$ 576	$ 1,223	$ 1,298	$ 1,359	$ 1,359
Increase Hotel Tax Rate	15	62	66	35	- - -
Eliminate Property Tax Rebate	- - -	256	256	256	256
Subtotal	**591**	**1,541**	**1,620**	**1,650**	**1,615**
Tax Proposals					
Increase Sales Tax Rate	49	518	536	570	606
Repeal Sales Tax Exemption for Clothing Over $110	10	119	124	133	141
Impose Sales Tax on Nonutility Energy Purchases	7	83	84	87	89
Business Tax Reforms	- - -	167	150	164	140
Subtotal	**65**	**887**	**895**	**953**	**976**
Total	**656**	**2,428**	**2,515**	**2,603**	**2,591**
Impact of Revised Tax Program on May Plan	**23**	**59**	**86**	**94**	**132**
Rescind Proposed Fee on Plastic Bags	**- - -**	**100**	**160**	**140**	**140**
Total Tax Initiatives in May Plan	**$ 679**	**$ 2,587**	**$ 2,761**	**$ 2,837**	**$ 2,863**

Sources: NYC Office of Management and Budget; OSDC analysis. Totals may not add due to rounding.

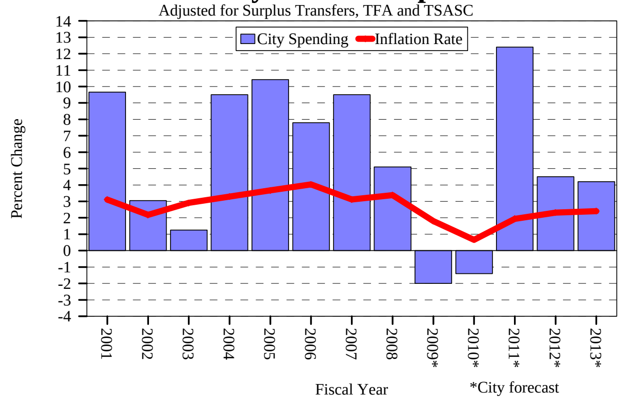
B. Expenditure Trends

City-funded expenditures grew at average annual rates of nearly 10 percent during fiscal years 2004 and 2005, and 8.6 percent during fiscal years 2006 and 2007 (see Figure 38).[10] Most of the growth was due to the rising cost of debt service, Medicaid, and employee fringe benefits. The City also contributed $2.5 billion to the Retiree Health Benefits Trust ($1 billion in FY 2006 and $1.5 billion in FY 2007), and retired nearly $1.3 billion in outstanding debt in FY 2007 that was due in fiscal years 2009 and 2010. Excluding these discretionary actions, spending would have grown more slowly (by 2.5 percent in FY 2006 and by 7.4 percent in FY 2007). In FY 2008, expenditures increased by 5.1 percent, including amounts set aside by the City to pre-fund $2 billion of FY 2010 debt service.

Figure 38

Growth in City-Funded Expenditures

Adjusted for Surplus Transfers, TFA and TSASC



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

[10] Adjusted for surplus transfers and for debt service on PIT-backed bonds issued by the Transitional Finance Authority and by TSASC.

Spending is projected to decline by 2 percent during FY 2009 and by 1.4 percent during FY 2010, reflecting the benefit of discretionary actions taken in prior years and actions taken in FY 2009 to help balance the FY 2010 budget. Without these gap-closing actions, spending would have grown by 3.5 percent in FY 2010.

In FY 2011, spending will accelerate to 12.4 percent because of the expiration of the benefit of discretionary actions to reduce debt service costs in FY 2010; the impact of collective bargaining agreements; and higher pension fund contributions required to offset investment losses in fiscal years 2008 and 2009. City-funded spending will grow more slowly during fiscal years 2012 and 2013 (at an average annual rate of 4.3 percent), but still faster than the local projected inflation rate for those years. Nondiscretionary spending (debt service, pension contributions, Medicaid, and health insurance costs) is projected to consume 54.3 percent of City fund revenues by FY 2013, up from 39.9 percent in FY 2002.

Figure 39
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers)
(in millions)

	FY 2009	FY 2010	Annual Growth	FY 2011	FY 2012	FY 2013	Average Three-Year Growth Rate
Salaries and Wages	$ 12,345	$ 12,594	2.0%	$ 13,281	$ 13,453	$ 13,629	2.7%
Debt Service	4,083	2,690	-34.1%	5,721	6,191	6,472	34.0%
Medicaid	5,044	4,793	-5.0%	5,507	5,976	6,157	8.7%
Pension Contributions	6,224	6,535	5.0%	7,053	7,376	7,647	5.4%
Health Insurance	3,237	3,651	12.8%	4,345	4,697	5,089	11.7%
Other Fringe Benefits	2,617	2,331	-10.9%	2,126	2,398	2,317	-0.2%
Judgments and Claims	638	663	3.9%	720	781	844	8.4%
Public Assistance	489	490	0.1%	490	490	490	0.0%
General Reserve	40	300	650.0%	300	300	300	0.0%
Energy	829	875	5.5%	945	988	1,031	5.6%
Drawdown from Retiree Health Benefits Trust	- - -	(82)	**NA**	(395)	(672)	- - -	**NA**
Other	7,635	7,940	4.0%	8,320	8,646	8,782	3.4%
Subtotal	**43,181**	**42,780**	**-0.9%**	**48,414**	**50,624**	**52,758**	**7.2%**
Actions that Require Outside Approval							
Less Costly Pension Plans for New Workers	- - -	(200)	**NA**	(200)	(200)	(200)	**NA**
Restructure Health Insurance Benefits	- - -	- - -	**NA**	(357)	(436)	(468)	**NA**
Total	**$ 43,181**	**$ 42,580**	**-1.4%**	**$ 47,857**	**$ 49,988**	**$ 52,090**	**7.0%**

Note: Debt service includes bonds issued by the Transitional Finance Authority that are backed by the City's personal income tax, and bonds issued by TSASC. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

The May Plan is premised on the assumptions shown in Figure 39; these and other trends in the expenditure budget are discussed below.

1. Salaries and Wages

Salary and wage costs, including overtime, are projected to total $12.6 billion in FY 2010, an increase of 2 percent compared to the current year, reflecting the impact of proposed staffing reductions. Despite these staff reductions, salary and wage costs are projected to grow by 3.4 percent, on average, during fiscal years 2011 and 2012, reflecting the recurring impact of wage increases provided to workers in prior years.[11]

The May Plan assumes that wages will increase by 1.25 percent in each of fiscal years 2011, 2012, and 2013 for all employees (see Figure 40). If wages were to rise at the projected inflation rate instead, the City would incur additional costs of $110 million in FY 2011, $318 million in FY 2012, and $590 million in FY 2013.

Figure 40
Wage Increase Patterns
(Percent Change)

	Civilian	Uniform
2005	3.00	4.50
2006	3.15	5.00
2007	2.00	4.00
2008	4.00	4.00
2009	4.00	4.00
2010	4.00	4.00
2011	1.25	1.25
2012	1.25	1.25
2013	1.25	1.25

Source: NYC Office of Management and Budget

2. Overtime

Overtime spending in the uniform agencies comprises 85 percent of citywide overtime costs, and has grown from $684 million in FY 2008 to a projected $778 million in FY 2009. These costs are projected to decline by $89 million in FY 2010 and then to rise to about $710 million annually in subsequent years. Our review indicates that in the Police Department these costs could be higher than planned by $50 million annually.

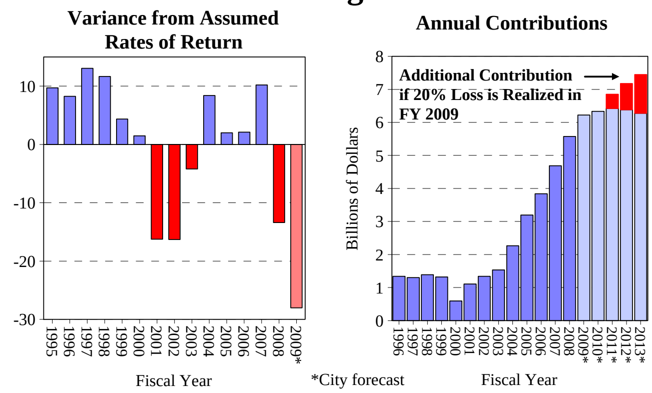
[11] The terms of the May 2008 arbitration award for the Patrolmen's Benevolent Association (PBA) were extended by the City to all other uniformed employees.

3. Pension Contributions

Current State law requires the actuarial pension systems to assume an 8 percent annual rate of return on investments. As shown in Figure 41, the pension systems earned significantly more than the assumed rates of return that were in effect during the second half of the 1990s, but then fell far short of expectations during fiscal years 2001 through 2003 as a recession took hold. Investment returns exceeded the actuarial rates of return during fiscal years 2004 through 2007 with strong growth in the equity and real estate markets, but the pension funds lost 5.4 percent during FY 2008—a shortfall of 13.4 percentage points from the expected rate of return. Due to the sharp downturn in the equity and real estate markets, the May Plan assumes the pension funds will lose 20 percent of their value for the entire year, which would require the City to increase its planned actuarial contribution by $2.4 billion through FY 2013.[12]

Figure 41

Pension Earnings and Costs



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

City contributions to the five actuarial pension systems have grown from about $1.5 billion annually in the late 1990s to $6.2 billion in FY 2009, reflecting actual investment performance, benefit enhancements, and labor agreements. Contributions are projected to total $6.3 billion in FY 2010 and then rise to $7.4 billion by FY 2013 as the impact of pension fund investment shortfalls in fiscal years 2008 and 2009 is reflected in the calculations of the City Actuary (see Figure 41).[13] These estimates also assume that the State Legislature will approve the Mayor's proposals for less costly pension plans for new City employees, which the City estimates will generate savings of $200 million beginning in FY 2010.

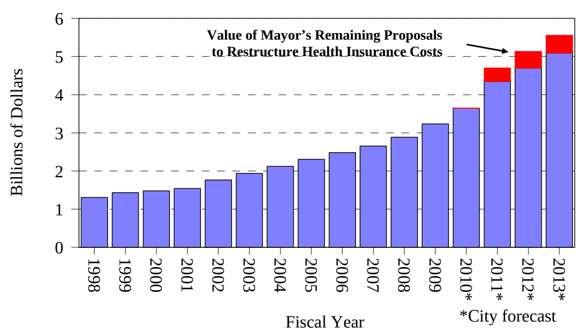
[12] As of May 22, 2009, we estimate that the pension funds have lost about 18 percent of their value.

[13] The November 2008 financial plan assumed that the City would use $1.1 billion of the resources in the Retiree Health Benefits Trust ($82 million in FY 2010, $395 million in FY 2011, and $672 million in FY 2012) to fund higher pension contributions from an 8 percent pension fund investment loss in FY 2009, and to help fund the higher contributions that arose from the 5.4 percent loss in FY 2008. Although the May Plan assumes a higher investment loss for FY 2009 than the November Plan did, the City currently does not plan to use any additional resources from the RHBT to fund the higher future contributions that will be required.

4. Health Insurance

Health insurance costs for active employees and retirees are projected to grow by 57.2 percent during the financial plan period, from $3.2 billion in FY 2009 to $5.1 billion in FY 2013 (see Figure 42).[14] The growth is based on the assumption that health insurance premiums will increase by 9.43 percent in FY 2009, 12.8 percent in FY 2010, and 8 percent annually through FY 2013.

Figure 42
Health Insurance Costs



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

The May Plan assumes that these costs will be reduced by $200 million in FY 2010, $557 million in FY 2011, $586 million in FY 2012, and by more than $600 million annually in subsequent years, as a result of the Mayor's proposals to shift a greater share of the cost to employees and retirees. On June 2, 2009, the Mayor and the municipal unions announced an agreement that would save the City $200 million in each of fiscal years 2010 and 2011, and $150 million thereafter. While a portion of the savings will initially come from drawing down the Health Insurance Stabilization Account, the unions agreed to copayments for certain services; the creation of hospital and ambulatory surgery networks; and administrative measures. The City and the unions have yet to reach agreement on the balance of the savings anticipated in the May Plan.

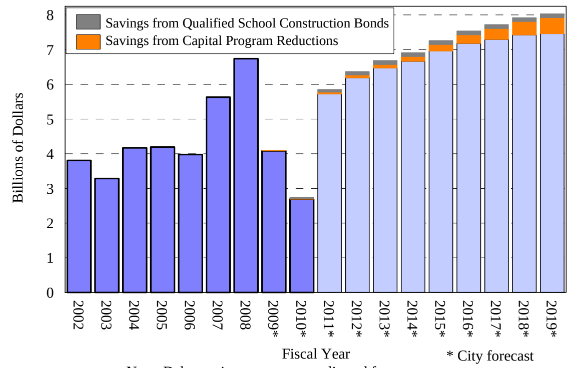
The cost of municipal health insurance also could be affected by the outcome of the State's review of a proposed conversion of the not-for-profit health insurers Health Insurance Plan of New York (HIP) and Group Health Incorporated (GHI) to a single, for-profit entity. Together, HIP and GHI cover 93 percent of the municipal workforce. While the Mayor opposes the conversion on the premise that a for-profit entity would drive up the cost of health insurance premiums and lower the quality and extent of coverage for municipal employees, he had previously stated that the City should receive some of the proceeds from any conversion. The conversion requires the approval of the Superintendent of the New York State Insurance Department, but the process has stalled because of concerns about the economy. The State's financial plan assumes that a conversion would generate $912 million for the State over a four-year period; this is less than half the amount that was anticipated before the economic slowdown.

[14] These estimates reflect savings anticipated from the recently announced agreement with the municipal unions to reduce the City's health insurance costs, but exclude additional savings anticipated from future actions and the impact of funds drawn from the RHBT to help fund the cost of health insurance for retirees during fiscal years 2010 through 2012.

5. Debt Service

The Mayor has set a goal to bring the annual average growth rate of City debt service costs to 3.5 percent—in line with projected growth in City revenues—by FY 2019. To achieve this goal, the City's new ten-year capital plan includes a targeted reduction in City-funded capital commitments of 27 percent during fiscal years 2010 through 2019. This follows a 20 percent cut implemented last fall.[15]

Figure 43
Debt Service



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

Debt service is projected to grow from $4.1 billion in FY 2009 to $6.5 billion in FY 2013—an increase of 58 percent—and then grow more slowly to $7.5 billion by FY 2019 as the cumulative impact of the cut in planned capital commitments is reflected in the City's debt service estimates (see Figure 43).[16] The debt service burden (i.e., debt service as a percent of City fund revenues) is projected to rise from 9.8 percent in FY 2009 to 13.9 percent in FY 2013.

The May Plan also assumes the issuance of $1.7 billion in Qualified School Construction Bonds (QSCBs) during the financial plan period. QSCBs, which were authorized as part of the federal stimulus bill, will provide tax credits to investors and are designed to be issued without interest cost to the issuer. In addition, the May Plan assumes the City will reenter the short-term borrowing market in FY 2010 for a total of $2.4 billion as the economic downturn reduces tax collections and forces the City to exhaust the large cash reserve it accumulated over the past five years from extraordinary Wall Street and real estate activity.

15 We estimate that the Mayor's plan to curtail City-funded capital commitments will save $262 million during the financial plan period and $2 billion cumulatively through FY 2019.

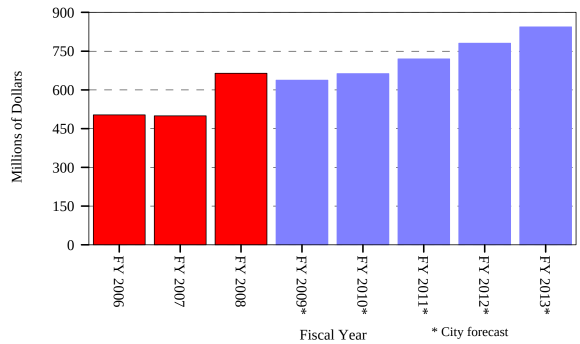
16 The City used $1.3 billion in surplus resources in FY 2007 to pay down debt due in fiscal years 2009 and 2010, which reduced debt service in those years. In FY 2008, the City used $2 billion in surplus resources to pre-fund FY 2010 debt service, and the City plans to use $530 million in surplus resources in FY 2009 to pay down debt in FY 2011.

6. Judgments and Claims

Judgments and claims are expected to total $663 million in FY 2010 and rise to $844 million by FY 2013 (see Figure 44), reflecting an increase in the average cost and number of settlements, including those that cost more than $1 million. Expenditures declined slightly in FY 2009 after a surge in FY 2008 (reflecting unplanned costs for special education settlements, which are typically paid out of the Department of Education's budget).

Figure 44

Judgments and Claims



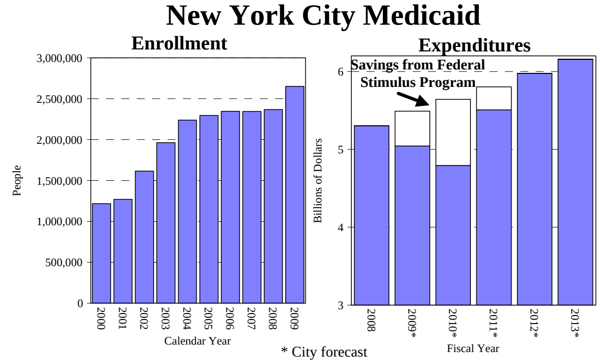
Source: NYC Comptroller; NYC Office of Management and Budget

7. Medicaid

Between calendar years 2000 and 2008, the number of New York City residents enrolled in Medicaid nearly doubled to 2.4 million, fueled by the 2000-2003 recession and the implementation of a new public health insurance program known as Family Health Plus. Through the first quarter of 2009, Medicaid enrollment has grown another 12 percent to 2.7 million (see Figure 45).

Figure 45

New York City Medicaid



Sources: NYS Department of Health; NYC Human Resources Admnistration; NYC Office of Management and Budget; OSDC analysis

In June 2008, the City projected that its share of these costs would total $5.5 billion in FY 2009, $5.6 billion in FY 2010, and $5.8 billion in FY 2011. The receipt of additional federal Medicaid funds under the stimulus bill will reduce the City's costs by $447 million in FY 2009, $850 million in FY 2010, and by $295 million in FY 2011 (see Figure 45). Although the State capped the growth in the local share of Medicaid at 3 percent in January 2006, the City will experience a jump in costs of 15 percent, or $715 million, as these federal funds are exhausted during FY 2011.[17]

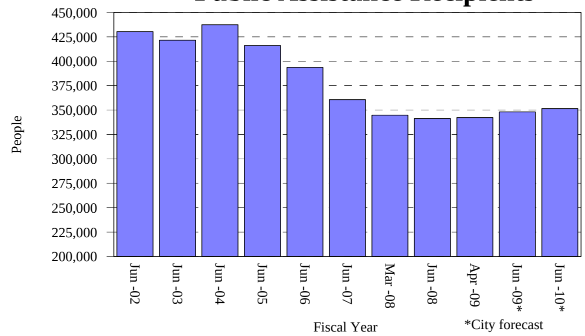
[17] The City budget will still benefit from State actions of assuming the local costs of Family Health Plus and capping localities' Medicaid growth. These initiatives will provide estimated City savings of $500 million in FY 2010, $700 million in FY 2011, and about $1 billion in each of fiscal years 2012 and 2013.

8. Public Assistance

Between March 1995 and June 2002, the public assistance caseload declined by more than half. The caseload rose by 16,000 people during the 2000-2003 recession (see Figure 46), and although the caseload resumed its decline beginning in FY 2005, it rose by 9,000 individuals during the second and third quarters of FY 2009 as the current recession deepened. The May Plan assumes that the caseload will rise by 9,119 individuals by December 2009, and then remain at that level.

Figure 46

Public Assistance Recipients



Sources: NYC Human Resources Administration; NYC Office of Management and Budget; OSDC analysis

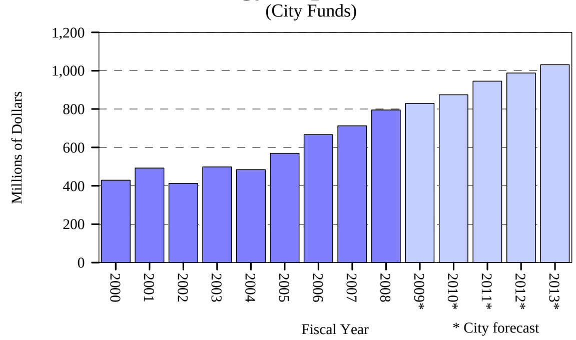
9. Energy Costs

Since FY 2004, energy costs have been rising rapidly (see Figure 47). The May Plan assumes that energy costs will increase from $829 million in FY 2009 to more than $1 billion by FY 2013, which is much lower than previous estimates due to the steep drop in oil prices. The price of oil has fallen from a record high of $147.27 per barrel in July 2008 to $56.34 per barrel as of May 15, 2009, and the May Plan assumes that oil will average $50.30 per barrel during fiscal years 2010 through 2013, which is consistent with the latest forecast from IHS Global Insight. In April 2009, the Public Service Commission approved a request from Con Edison to increase its charges for the transmission and delivery of electricity, which pushed up City energy costs by $30 million annually beginning in FY 2010.

Figure 47

Energy Expenditures

(City Funds)



Sources: NYC Comprehensive Annual Financial Report; NYC Office of Management and Budget; OSDC analysis

IX. Semi-Autonomous Agencies

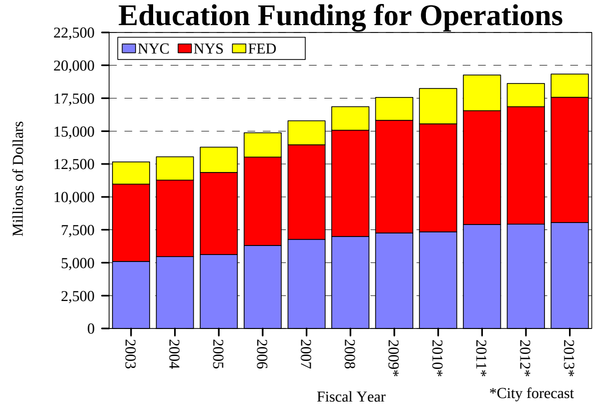
The following public authorities and other entities have a financial relationship with the City that could affect the City during the financial plan period.

A. Department of Education

The May Plan allocates $18.3 billion to the Department of Education (DOE) to cover operating costs in FY 2010 (excluding pensions and debt service)—an increase of $654 million over the current school year. While State assistance is expected to decline by $359 million, from $8.5 billion in FY 2009 to $8.2 billion in FY 2010—the first decline in six years—the reduction will be offset by $951 million in federal assistance under the federal stimulus bill (see Figure 48). In total, the City's public schools will receive $2.7 billion in federal aid in FY 2010—the highest level ever.

Figure 48

Education Funding for Operations



Sources: NYC Office of Management and Budget; OSDC analysis

City funding for education (excluding pensions and debt service) is expected to total $7.3 billion in FY 2010, an increase of only $85 million reflecting the funding constraints imposed by the economic downturn and the receipt of extraordinary federal assistance.[18] The City, however, may be called upon to offset a potential shortfall in anticipated State aid in FY 2011 ($350 million) and to replace federal economic stimulus funding during fiscal years 2012 and 2013, when the benefits of the program will be exhausted ($950 million). The DOE was exempted from a citywide initiative to reduce planned capital commitments by 27 percent because the federal economic stimulus bill allows the issuance of $1.7 billion in federal school tax credit bonds, which will reduce the City's borrowing costs for school projects.

18 The City also allocated $3.7 billion for pensions and debt service, which is $336 million more than in FY 2009. In addition, the May Plan adds $70 million to cover private special education costs in FY 2009, and our analysis indicates that these costs could be higher by similar amounts in each of the following years.

B. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) expects to end FY 2010 with a cash balance of $922 million, but the HHC's May 2009 financial plan assumes that its year-end cash balance will decline to $6 million by the end of FY 2013. The drop is a result of the structural imbalance between the cost of providing medical services and the amount the HHC collects from patients, health insurance companies, and the City, State, and federal governments. The State's enacted 2009-2010 budget will reduce HHC's revenues by $200 million in FY 2009, $268 million in FY 2010, and $600 million annually in subsequent years due to Medicaid reimbursement rate and formula changes, increased hospital assessments, the loss of recruitment and retention grants, a smaller-than-expected allocation of Disproportionate Share Hospital (DSH) revenues in fiscal years 2009 and 2010, and no agreement on DSH allocations for subsequent years. In response, the HHC has proposed a gap-closing program that will generate $340 million annually by closing community clinics and school-based mental health clinics, reducing staffing and judgment and claims costs, and improving procurement and billing.

The City is scaling back its capital commitments in an effort to bring the growth in debt service in line with revenue growth. As part of this effort, the City's support for the HHC's capital program has been reduced by a total of $320 million during fiscal years 2009 through 2013, and $65 million for projects planned to begin after FY 2013. Thus far, the HHC has not identified all of the projects that will be affected, but it has already eliminated planned expansions and renovations to ambulatory care clinics, emergency rooms, and outpatient services. The HHC is also considering scaling back on major modernization projects at Harlem Hospital and Gouverneur Healthcare Services. The HHC has requested federal stimulus aid to help meet its capital objectives, but has not yet received approval.

C. New York City Housing Authority

The New York City Housing Authority (NYCHA) has been under fiscal stress for years because rent and government subsidies have not kept pace with costs. NYCHA has increased rent, drawn down funds intended for capital improvements, and taken a number of steps to reduce costs. Nevertheless, NYCHA still projects operating deficits of $45 million for calendar year 2009 and $137 million for calendar year 2010.

NYCHA expects to receive $423 million in federal economic stimulus money, which it intends to use to repair brickwork and roofs ($181 million), renovate apartments and grounds ($133 million), repair and replace elevators ($67 million), and cover other capital costs ($42 million). Of these amounts, the Whitman-Ingersoll housing development will receive $108 million to renovate elevators and apartments.

Appendix
City-Funded Staffing Levels

City-funded full-time and full-time-equivalent staffing levels are expected to decline by a net of 8,688 employees between June 30, 2009, and June 30, 2010 (see Figure 49). The reduction reflects the implementation of the agency cost-reduction program, which is expected to reduce planned staffing in the mayoral agencies by 10,330 employees and reduce personal service costs by $573 million in FY 2010.

- The Police Department projects that it will reduce staffing by 2,940 employees (1,911 officers and 1,029 civilians) by the end of June 2010, including 395 civilian layoffs. The police force is forecast to decline to 33,217 officers by the end of FY 2010—the lowest level since FY 1990.

  As of March 2009, however, the department employed 35,846 officers, and the rate of attrition declined during FY 2009. The department has a staffing target of 35,128 by the end of the fiscal year (June 30, 2009), but at this point it appears unlikely that the department can meet that target through attrition.

- The Department of Education will reduce its teaching staff, through attrition, by 1,178 employees by the end of June 2010.
- The Department of Social Services will reduce staffing by eliminating 606 vacant positions by June 2010.
- The Administration for Children's Services will reduce staffing by 737 employees (including 608 layoffs) by June 2010.
- The Fire Department will reduce the number of firefighters by 451 through attrition, while the size of its civilian workforce will decline by 144 employees.
- The Department of Correction will reduce uniform staffing by 517 employees and will add 14 civilian employees by the end of June 2010.
- The Department of Sanitation will reduce staffing by 218 uniformed positions by June 2010, and by 21 civilians by the end of June 2010.
- The Department of Homeless Services will reduce staffing by 341 positions in FY 2010, mostly through layoffs.

Figure 49
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalent)

Increase/(Decrease)

	Actual	City Forecast		Change from June 2009 to June 2010
	June 2008	June 2009	June 2010	
Public Safety	**83,016**	**82,724**	**78,617**	**(4,107)**
Police Dept. Uniform	35,405	35,128	33,217	(1,911)
Civilians	16,467	16,441	15,412	(1,029)
Fire Dept. Uniform	11,578	11,223	10,772	(451)
Civilians	4,770	4,916	4,772	(144)
Correction Uniform	8,413	8,658	8,141	(517)
Civilians	1,411	1,477	1,491	14
District Attys. & Prosecutors	3,582	3,292	3,292	- - -
Probation Department	931	925	899	(26)
Other	459	664	621	(43)
Health and Welfare	**25,208**	**25,974**	**24,298**	**(1,676)**
Social Services	10,478	11,347	10,741	(606)
Children's Services	7,101	6,761	6,024	(737)
Health and Mental Hygiene	5,298	5,240	5,281	41
Homeless Services	2,055	2,228	1,887	(341)
Other	276	398	365	(33)
Environment & Infrastructure	**19,736**	**18,906**	**17,920**	**(986)**
Sanitation Uniform	7,556	7,452	7,234	(218)
Civilians	1,943	2,036	2,015	(21)
Dept. of Transportation	2,345	2,321	2,199	(122)
Parks & Recreation	7,417	6,817	6,242	(575)
Other	475	280	230	(50)
General Government	**9,167**	**9,470**	**9,235**	**(235)**
Finance	2,203	2,222	2,172	(50)
Law Department	1,370	1,318	1,321	3
Citywide Admin. Services	1,387	1,618	1,721	103
Taxi & Limo. Commission	422	466	462	(4)
Investigations	241	271	240	(31)
Board of Elections	550	377	377	- - -
Info. Technology & Telecomm.	1,057	1,172	1,056	(116)
Other	1,937	2,026	1,886	(140)
Housing	**1,937**	**2,115**	**1,984**	**(131)**
Buildings	1,240	1,355	1,317	(38)
Housing Preservation	697	760	667	(93)
Department of Education	**121,083**	**119,743**	**118,566**	**(1,177)**
Pedagogues	97,189	96,921	95,743	(1,178)
Non-Pedagogues	23,894	22,822	22,823	1
City University of New York	**6,931**	**6,504**	**6,315**	**(189)**
Pedagogues	4,406	4,126	4,049	(77)
Non-Pedagogues	2,525	2,378	2,266	(112)
Elected Officials	**2,520**	**2,555**	**2,368**	**(187)**
Total	**269,598**	**267,991**	**259,303**	**(8,688)**

Sources: NYC Office of Management and Budget; OSDC analysis