Review of the Financial Plan of the City of New York

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Report 16-2010 **December 2009**

Highlights

- **Nonproperty tax revenues dropped by $4 billion in FY 2009 and are projected to drop by $1.7 billion in FY 2010.**
- **Wall Street profits totaled $50 billion through the first nine months of 2009, more than twice the annual record.**
- **The City now expects job losses to total 220,000 by the end of the recession, 108,000 lower than forecast in June 2009.**
- **In October 2009, the unemployment rate was 10.3 percent, more than twice the rate two years earlier.**
- **The City's November Plan optimistically assumes that State education aid will grow by $428 million next year and by a cumulative increase of $2.6 billion over the next three years.**
- **In FY 2012 New York City stands to lose $1 billion in federal stimulus aid that was used to fund education, which the City estimates could result in 14,190 layoffs.**
- **One of the major risks facing the City is the commercial real estate market, which may limit future revenue growth. The vacancy rate for primary Manhattan office space could reach 13.9 percent in 2010, a level not seen since 1994.**
- **The number of large commercial real estate transactions has fallen from 107 in 2007 to 17 through September 2009. The value of all transactions has dropped from $41 billion to $7.6 billion.**
- **The Federal Reserve reports that in the New York City area, commercial mortgage delinquencies are rising.**
- **City-funded spending is projected to grow by 9.6 percent in FY 2011, driven by nondiscretionary costs.**

The nation is emerging from the worst recession since World War II. While New York City was hit hard, the impact has not been as severe as initially feared or as painful as elsewhere in the nation. The City has lost 125,000 jobs, and the November Plan assumes that job losses will peak at 220,000 during the third quarter of 2010—fewer losses than in either of the past two recessions.

Wall Street has recovered much faster than expected, but other industries are still hurting and the recovery is expected to be slower in New York City than in the nation as a whole. Some fear that the recovery will produce few jobs and that the economy may suffer setbacks.

In recent years, New York City has reacted quickly to changing economic conditions, and its four-year financial plan has been based on conservative assumptions. In the current year, these assumptions have resulted in unanticipated revenue gains, which will help close next year's budget gap. In contrast, New York State continues to experience revenue shortfalls.

New York State has taken steps to close this year's budget gap, but many of those actions will produce nonrecurring benefits. Last month, the State Comptroller estimated that the State faced a cumulative three-year budget gap that could approach $27.5 billion. How the State closes these gaps will have serious consequences for New York City and other localities.

The City is counting on a $428 million increase in State education aid next year, and a cumulative increase of $2.6 billion over the next three years—which may be unrealistic given the State's budget crisis. The City also faces the loss of $1 billion in federal education aid in two years and the Mayor has proposed budget cuts, including education. While the revenue outlook is improving, closing the City's budget gaps, which average $5 billion, and preserving gains in education will be challenging in this fiscal environment.

Economic Outlook

The national economy has begun to recover, aided by significant government support. In the third quarter of 2009, the Gross Domestic Product (GDP) grew at an annualized rate of 2.8 percent, after declining in the four previous quarters. Consumer spending, which accounts for about two-thirds of economic activity, grew by 2.9 percent, the fastest pace since the first quarter of 2007. Although consumer confidence has risen from its record low, the rebound has stalled in recent months as consumers remain concerned about jobs.

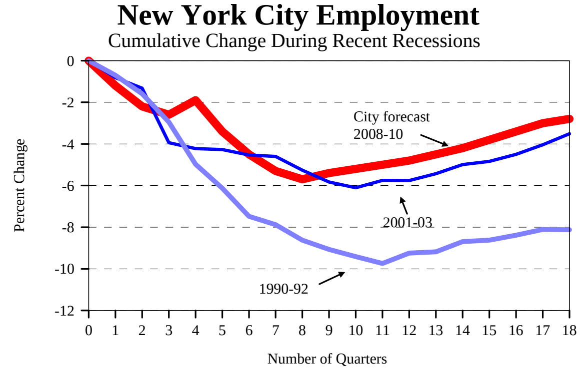
The national economy is still shedding jobs, but the pace has slowed dramatically in recent months. In November, the nation lost 11,000 jobs, bringing the total losses to nearly 7.2 million since December 2007. Initial claims for unemployment insurance benefits have also declined, but still remain high. The housing market is stabilizing, and business profitability—especially on Wall Street—has improved.

The December forecast from IHS Global Insight projects a weak recovery, with GDP growth expected to remain under 3 percent until the second quarter of 2011. Job losses are expected to continue through the first quarter of 2010, with cumulative losses totaling 8.5 million and the unemployment rate peaking at 10.4 percent. Consumer spending is expected to grow only slightly, constrained by high unemployment, high debt burdens, tight credit standards, and limited income growth.

New York City's economy has weathered the recession better than previously expected. The rate of decline in the Federal Reserve Bank of New York's Index of Coincident Economic Indicators is slowing, job losses have been lower than expected, and Wall Street has returned to profitability faster than expected.

Between September 2008 and October 2009, the City lost 125,300 jobs. Losses have been heaviest in finance, professional and business services, and the trade, transportation, and utilities sector, although jobs have continued to be created in educational and health services. The November 2009 financial plan (the "November Plan") assumes that the City will lose about 220,000 jobs by the end of the third quarter of 2010 (compared to a projected loss of 328,000 jobs in the June 2009 financial plan). These losses would be slightly lower than losses in the last recession, and significantly lower than losses in the recession of the early 1990s (see Figure 1). When job growth resumes, however, the pace of gains in the City is still expected to be slower than in the nation.

Figure 1

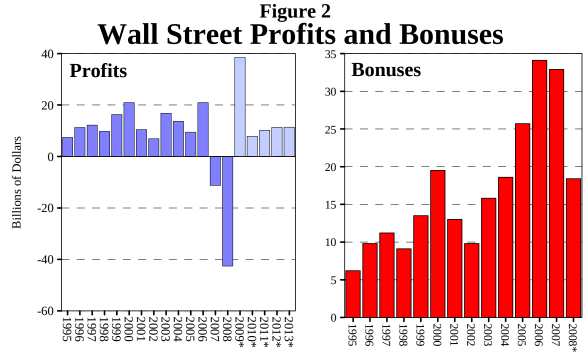


Sources: NYC Office of Management and Budget; NYS Department of Labor; OSDC analysis

Wall Street has rebounded faster than previously expected. After losses of $11.3 billion in 2007 and $42.6 billion in 2008, the broker/dealer operations of New York Stock Exchange member firms posted record profits of $49.7 billion during the first three quarters of 2009—nearly two and a half times the previous annual peak in 2000. Profitability has soared because revenues rose while the costs of doing business—particularly interest costs—declined.

Profitability now exceeds the November Plan forecast of $38.4 billion for all of 2009 (see Figure 2). The November Plan assumes that Wall Street profits will revert to more traditional levels—ranging from $7.8 billion in 2010 to $11.4 billion in 2013—as the industry adjusts to the current economic and regulatory environment.

Figure 2



* City forecast of profits for 2009-2013; OSDC estimate of bonuses for 2008
Note: Profits are for broker/dealer operations of NYSE member firms.
Sources: NYS Department of Labor; NYSE Euronext; Securities Industry and Financial Markets Association; OSDC analysis

Although profitability has returned, Wall Street continues to shed jobs. Between November 2007 and October 2009, the securities industry lost 29,300 jobs. Nevertheless, the pace of job losses has moderated in recent months. The November Plan expects job losses on Wall Street to eventually reach 36,000 jobs.

Despite record losses and the sale or failure of some firms in 2008, the Office of the State Comptroller estimated last January that cash bonuses paid by the securities industry to its employees working in New York City totaled $18.4 billion. Although the cash bonus pool was 44 percent smaller in 2008 than it was in 2007, it was still the sixth-largest on record (see Figure 2).

With securities industry profits on the rise, the bonus pool (including deferred compensation) for employees located in New York City could be higher than last year based on current compensation trends. The average bonus could grow at an even higher rate since there are fewer jobs than last year (some analysts estimate that the average could increase by up to 40 percent).

The federal government is working to introduce compensation reforms as a means of reducing excessive risk-taking in the financial system. Such reforms would restrict the amount paid this year in cash and would increase the amount deferred to future years. Despite the industry's surge in profitability, the possibility of compensation reform increases the uncertainty of levels of cash bonuses this year, making it difficult to predict tax consequences.

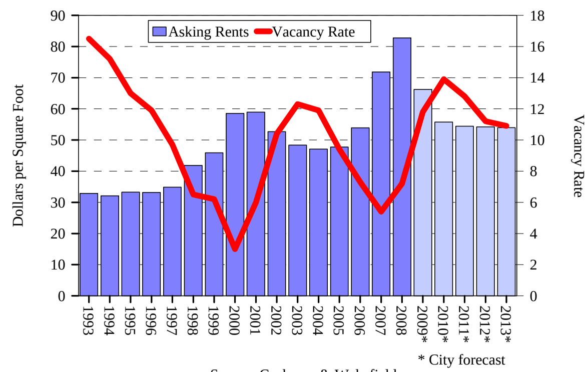
Another bright spot for the City's economy has been its tourism sector. Although there has been a decline in the number of visitors, it is less severe than the declines experienced by many other U.S. cities. Hotel occupancy and room rates are again rising, although they remain below pre-crisis levels, and Broadway attendance and revenues have increased in recent weeks. The City may also benefit from the weakening value of the dollar, which could draw more international travelers, who spend about four times more than domestic travelers.

One of the major risks facing the City is its commercial real estate market, where problems could mirror difficulties in the residential market. The reduction in office-based employment and the impact of the financial crisis is pushing up vacancy rates and reducing the value of properties. According to Colliers ABR, in October 2009 the average asking rent of the primary office market in Manhattan declined to $63.12 per square foot, a drop of $20 from one year earlier. The vacancy rate rose to 12.1 percent, the highest level since June 1997. The New York City Department of Finance reports that sales of large commercial properties have virtually ceased.

The November Plan assumes that the office market downturn will be relatively short and moderate due to a lack of oversupply. The average annual rent in Manhattan's primary office real estate market is projected to decline from a record average of $82.78 in 2008 to $55.73 in 2010 (see Figure 3). The vacancy rate is projected to peak at 13.9 percent in 2010, a level not seen since 1994.

Figure 3

Manhattan Commercial Property



Source: Cushman & Wakefield

Manhattan's office market faces significant risks. A recent Beige Book survey by the Federal Reserve showed that bankers continued to tighten credit standards for commercial mortgages. Furthermore, the default rate for commercial mortgages is rising; nationally, it reached 8.7 percent in the third quarter of 2009, up from 2 percent two years earlier.

The deterioration in the commercial real estate market has resulted in rising default rates for commercial mortgage-backed securities (CMBS). According to Trepp LLC, more than 200 CMBS loans worth more than $7 billion will mature in 2010, and a large portion of these loans may not be refinanced. This could lead to additional write-offs for the banks and new risks to the financial system, which could cut short the recovery on Wall Street.

Changes Since the June 2009 Plan

Compared to the estimates in the City's June 2009 financial plan, revenues are expected to be higher by $683 million in FY 2010 based on stronger-than-anticipated tax collections and proceeds from tax audits (see Figure 4). A portion of these resources were used to fund unplanned costs in the uniformed agencies, mostly in the Police Department. On a net basis, the November Plan projects a surplus of $539 million in FY 2010, which will help close next year's budget gap.

Figure 4
Financial Plan Reconciliation
November 2009 Plan vs. June 2009 Plan
(in millions)

	Better/(Worse)			
	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Gap Per June 2009 Plan	**- - -**	**$ (4,925)**	**$ (4,994)**	**$ (5,633)**
Revenues				
Personal Income Tax	292	- - -	- - -	- - -
Business Taxes	250	- - -	- - -	- - -
Tax Audits	150	- - -	- - -	- - -
Other Taxes	(9)	- - -	- - -	- - -
Total	**683**	- - -	- - -	- - -
Expenditures				
Debt Service	1	218	44	7
Pension Contributions	- - -	25	47	69
Uniformed Agencies	(145)	- - -	- - -	- - -
Total	**(144)**	**243**	**91**	**76**
Net Change	**$ 539**	**$ 243**	**$ 91**	**$ 76**
Surplus Transfer	**(539)**	**539**	- - -	- - -
Gap Per November Plan	**$ - - -**	**$ (4,143)**	**$ (4,903)**	**$ (5,557)**

Sources: NYC Office of Management and Budget; OSDC analysis

Although the City raised its revenue forecast for FY 2010, it did not increase its revenue forecasts for the out-years of the financial plan period—even though it lowered, by one-third, the forecast for job losses. The out-years of the financial plan have benefited from bond refundings, and from pension fund investment losses that were slightly smaller than expected in FY 2009.[1]

The changes made by the City in the November Plan reduced the projected budget gap in FY 2011, from $4.9 billion to $4.1 billion. The projected gaps for fiscal years 2012 and 2013 are essentially unchanged from the forecasts in the June 2009 financial plan.

[1] Last year, the City's five actuarial pension funds lost 18.3 percent on their investments, whereas the financial plan had assumed a 20 percent loss. (The actuarial assumption was for an 8 percent gain.)

Projected Budget Gaps

The FY 2011 budget gap represents 9.7 percent of City fund revenues, which is the largest budget gap as a percentage of City fund revenues at this point in the financial planning process since November 2002. The gaps projected for fiscal years 2012 and 2013 represent 11 percent and 12 percent, respectively, of City fund revenues.

Our review finds that revenues are likely to be higher than the City's revised forecast in FY 2010 based on the strength of year-to-date collections, and in subsequent years based on the City's revised economic outlook (see Figure 5). We have not factored in the potential for additional revenues from Wall Street bonuses, even though compensation trends are favorable, because compensation reform could restrict the amount paid in cash in the current year and increase the amount deferred to future years.

Figure 5
OSDC Risk Assessment of NYC Financial Plan
(in millions)

	Better/(Worse)			
	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Gaps Per November Plan	**$ - - -**	**$ (4,143)**	**$ (4,903)**	**$ (5,557)**
Tax Revenues	200	325	225	275
Prior-Year Expenses	200	- - -	- - -	- - -
Pension Contributions	19	(182)	(183)	(176)
State Budget	(39)	- - -	- - -	- - -
Health Insurance Costs	- - -	(357)	(386)	(418)
GASB 49	- - -	(200)	(200)	(200)
Overtime	- - -	(100)	(100)	(100)
Education Health Insurance	- - -	- - -	- - -	(125)
OSDC Risk Assessment	**$ 380**	**$ (514)**	**$ (644)**	**$ (744)**
Surplus Transfer	(380)	380	- - -	- - -
Gaps to be Closed[1]	**$ - - -**	**$ (4,277)**	**$ (5,547)**	**$ (6,301)**
Additional Risks and Offsets				
State Education Aid	- - -	(428)	(778)	(1,365)
Wage Increases at the Projected Inflation Rate	- - -	(90)	(277)	(519)
Federal Education Aid	- - -	- - -	(1,000)	(1,000)

[1] The City has a general reserve of $300 million annually.

The November Plan assumes annual savings of $200 million from less costly pension plans for new City employees beginning in FY 2011. In December, the State created lower-cost pension plans for new State and local government employees, and for New York City's teachers. City teachers will still be able to retire at age 55 with 27 years of service, but will now be required to contribute a higher percentage of their salary (4.85 percent) for a longer period of time (27 years instead of 10 years). The legislation does not affect the City's uniformed or civilian employees. The City Actuary estimates that these and other changes will reduce pension contributions by

$19 million in FY 2010, $18 million in FY 2011, $17 million in FY 2012, and $24 million in FY 2013, and that the City could realize total savings of $359 million over a ten-year period.

Last June, the City reached an agreement with its unions to reduce health insurance costs by $200 million in each of fiscal years 2010 and 2011, and by $150 million annually thereafter. The November Plan assumes that a new agreement will generate additional savings of $357 million in FY 2011 and even higher amounts in subsequent years. The City and the municipal unions have not reported on the progress of their discussions.

The Governmental Accounting Standards Board (GASB) Statement 49 requires certain environmental remediation costs to be accounted for as expense items, and the Financial Emergency Act prohibits the City from using bond proceeds to fund its expense budget. In April 2008, the Financial Control Board granted the City a waiver from implementing GASB 49 for budgeting purposes for fiscal years 2009 and 2010. We estimate that after the waiver expires, the City could incur operating budget costs of about $200 million annually beginning in FY 2011.

The Governor estimates that the State faces a budget gap of $3.1 billion in the current year, and the State Comptroller has warned that the gap could reach $4.1 billion. Last month, the State Comptroller estimated that the State faced a cumulative three-year budget gap that could approach $27.5 billion.

After months of discussion, the Governor and the Legislature have taken steps to narrow the budget gap in the current year, but most of the actions will produce only one-time benefits. Moreover, the State will now use federal stimulus funds planned for next year to take the place of cuts in education aid, which will exacerbate next year's budget situation. In total, the actions taken by the State could reduce aid to the City by $39 million, though the impact could be offset by additional revenues from the State's tax amnesty initiative.

The State's fiscal crisis puts at risk planned increases in State education aid that were part of the settlement of the Campaign for Fiscal Equity litigation. The November Plan assumes that State education aid will grow by $428 million next year, including $364 million in additional unrestricted Foundation Aid, and then incrementally by $350 million in FY 2012 and by $587 million in FY 2013—a cumulative increase of $2.6 billion over the next three years. At the same time, the City will have to contend with the potential impact of health care reform and the loss of $1 billion in federal stimulus funding for education in FY 2012. Average class sizes have already begun to rise as a result of cuts in educational funding.

The November Plan includes resources to increase wages by 1.25 percent annually beginning in FY 2011 after the expiration of current contracts (except for the contract with City teachers). Costs could be substantially higher if wages were to grow at the projected inflation rate. The November Plan assumes the teachers will reach an agreement with the City that increases their wages by 4 percent in each of fiscal years 2010 and 2011, consistent with the City's prior agreements with the non-uniformed City employee unions.

Closing the Projected Budget Gaps

Since January 2008, the Mayor has reduced planned agency spending by $3 billion annually in fiscal years 2010 and beyond. To help balance next year's budget, the Mayor has instructed the agencies to reduce planned spending by another $566 million in FY 2010 and by $1.2 billion in FY 2011 (see Figure 6).

Figure 6
January 2010 Agency Reduction Targets
(in millions)

	FY 2010	**FY 2011**
Department of Education	$ 113.2	$ 316.8
Social Services and Health Agencies	110.6	210.1
Police Department	98.4	203.2
Fire Department	35.3	70.9
Department of Sanitation	29.0	62.7
Department of Correction	24.0	49.0
Libraries and Cultural Institutions	19.3	32.6
All Other Agencies	136.5	258.8
Total	**$ 566.3**	**$ 1,204.1**

Sources: NYC Office of Management and Budget; OSDC analysis

The Department of Education has been asked to reduce spending by $113 million in the current year (1.5 percent) and by $317 million in FY 2011 (4 percent). The Police Department has been instructed to reduce spending by $98 million this year (2 percent) and by $203 million next year (4 percent). Most other agencies are expected to reduce planned spending by 4 percent this year and by 8 percent in FY 2011. The City's Office of Management and Budget is currently reviewing the agency's cost-cutting proposals, which may be included in the January 2010 financial plan.

Revenue Trends

The City's economic outlook has improved since June, with lower projected job losses and a faster rebound on Wall Street. As a result, the City has increased its revenue forecast for FY 2010, but has not modified its forecasts for subsequent years.

The November Plan projects that City fund revenues will decline by $472 million (1.1 percent) in FY 2010, due to declines in nonproperty taxes and miscellaneous revenues, partly offset by higher real property taxes (see Figure 7). This marks the second consecutive year of decline in City fund revenues, which fell by $2.4 billion (5.5 percent) in FY 2009.

Nonproperty tax revenues dropped by $4 billion in FY 2009 and are projected to drop by $1.7 billion in FY 2010. The decline in FY 2010 would be greater if not for increases in business, sales, and hotel taxes, which will generate $854 million.

Also mitigating the decline in nonproperty taxes is the growth in property taxes. Although property values have been falling, provisions in State laws either limit annual increases in assessed values or require the City to phase in assessment increases. These limitations have resulted in increased assessments even as property values have declined. Property tax collections were also boosted by actions taken last year to raise the tax rate and eliminate the home owner rebate; these yield nearly $1.5 billion in FY 2010.

The November Plan projects that growth in City fund revenues will resume in FY 2011 as tax collections recover. Overall, City fund revenues are forecast to increase at an average annual rate of 4.5 percent during fiscal years 2011 through 2013. While collections from the personal income, sales, and business taxes are expected to rebound beginning in FY 2011, the pace of growth in the property tax will begin to slow as the lower property values of recent years begin to be phased in (growth falls to 2.2 percent by FY 2013).

While trends in year-to-date collections and the economy point to higher receipts for the personal income and business taxes compared to what the City is forecasting, we remain concerned over the impact that problems in the commercial real estate market will have on City revenues.

The November Plan now forecasts that the real estate transaction taxes (the mortgage recording and real property transfer taxes) will yield $1 billion in FY 2010, down from $2.3 billion at their peak in FY 2007. This decline reflects the weakness in the residential real estate market, which reduced sales prices and the number of transactions. It also reflects a sharp drop in commercial activity, especially for large properties. In addition, many leases for commercial properties commenced before the economic downturn, and the full impact of the recession on the cash flow of property owners has not yet been felt.

Figure 7
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	$ 14,338	$ 16,064	12.0%	$ 17,140	$ 17,730	$ 18,118	4.1%
Personal Income Tax	6,588	6,279	-4.7%	6,887	7,326	7,685	7.0%
Sales Tax	4,594	4,789	4.2%	4,950	5,259	5,598	5.3%
Business Taxes	5,204	4,365	-16.1%	4,577	5,162	5,519	8.1%
Real Estate Transaction Taxes	1,258	1,014	-19.4%	1,200	1,310	1,488	13.6%
Other Taxes	3,081	2,737	-11.2%	2,701	2,734	2,802	0.8%
Audits	947	746	-21.3%	596	595	594	-7.3%
Subtotal	**36,011**	**35,993**	**-0.1%**	**38,052**	**40,116**	**41,803**	**5.1%**
Miscellaneous Revenues	4,892	4,441	-9.2%	4,269	4,302	4,339	-0.8%
Unrestricted Intergovernmental Aid	327	340	4.0%	340	340	340	N.A.
Grant Disallowances	0	(15)	N.A.	(15)	(15)	(15)	N.A.
Total	**$ 41,230**	**$ 40,758**	**-1.1%**	**$ 42,646**	**$ 44,743**	**$ 46,467**	**4.5%**

Note: Miscellaneous revenues include debt service on tobacco bonds. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

Figure 8
Estimated City-Funded Expenditures
(Adjusted for Surplus Transfers)
(in millions)

	FY 2010	FY 2011	Annual Growth	FY 2012	FY 2013	Average Two-Year Growth Rate
Salaries and Wages	$ 12,705	$ 13,058	2.8%	$ 13,232	$ 13,684	2.4%
Debt Service	2,605	5,494	110.9%	6,146	6,463	8.5%
Medicaid	4,793	5,507	14.9%	5,976	6,157	5.7%
Pension Contributions	6,535	7,028	7.5%	7,329	7,578	3.8%
Health Insurance	3,528	4,221	19.6%	4,502	4,879	7.5%
Other Fringe Benefits	2,341	2,067	-11.7%	2,380	2,293	5.3%
Judgments and Claims	663	720	8.6%	781	844	8.3%
Public Assistance	490	490	0.0%	490	490	0.0%
General Reserve	300	300	0.0%	300	300	0.0%
Energy	874	944	8.0%	987	1,030	4.4%
Drawdown of Retiree Health Benefits Trust	(82)	(395)	381.7%	(672)	-	**NA**
Other	8,414	8,451	0.4%	8,781	8,923	2.8%
Subtotal	**43,165**	**47,885**	**10.9%**	**50,232**	**52,642**	**4.8%**
Actions that Require Outside Approval						
Enact Less Costly Pension Plans	- - -	(200)	**NA**	(200)	(200)	**NA**
Restructure Health Insurance Benefits	- - -	(357)	**NA**	(386)	(418)	**NA**
Total	**$ 43,165**	**$ 47,328**	**9.6%**	**$ 49,646**	**$ 52,024**	**4.8%**

Notes: Debt service includes bonds issued by TSASC. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

According to the City Department of Finance, the number of large commercial real estate transactions valued at over $50 million has fallen from 107 in 2007 to 17 in the first three quarters of 2009. The value of all transactions has dropped from $41 billion to $7.6 billion during this period. For leased properties, rental rates are also dropping, with many landlords offering concessions to attract or retain tenants.

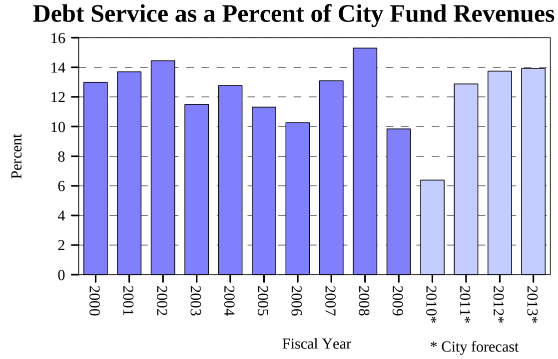
The latest Federal Reserve Beige Book reports that in the New York City area, commercial mortgage spreads have continued to widen and commercial mortgage delinquencies are rising. Nationally, such delinquencies reached 8.7 percent in the third quarter of 2009, the highest level in nearly 16 years. Delinquent properties include multifamily housing—in the City, Stuyvesant Town and Peter Cooper Village are the most noteworthy properties struggling to meet debt payments—as well as retail and office spaces.

As a result, the real estate transaction taxes and the commercial rent tax face some downward risk. The real property tax may also be weaker beyond the current financial plan period, as recent price declines are phased in. Finally, large losses on commercial real estate mortgages could threaten the emerging recovery on Wall Street.

Expenditure Trends

City-funded expenditures are expected to increase only slightly in FY 2010 (0.4 percent), but then grow rapidly (9.6 percent) in FY 2011 because debt service costs are projected to more than double (see Figure 8). Debt service costs were held down in FY 2010 because the City used surpluses generated during the economic boom to retire debt. The debt burden (i.e., debt service as a percent of City fund revenues) is projected to grow from 6.4 percent in FY 2010 to 13.9 percent in FY 2013 (see Figure 9).

Figure 9
Debt Service as a Percent of City Fund Revenues



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

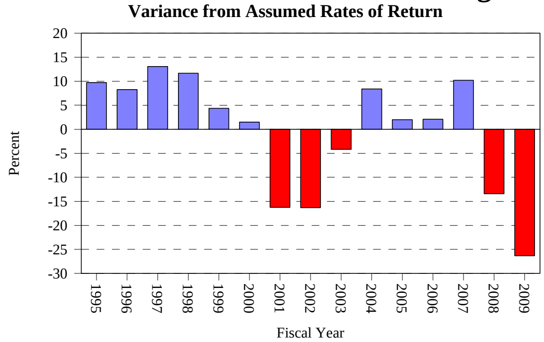
The growth in City-funded spending could be higher if the City does not achieve its ambitious goals to restructure municipal employee fringe benefits. The Mayor has proposed restructuring health insurance for municipal employees and less-costly pension plans for all new City employees. Spending is projected to grow by an average annual rate of 4.8 percent during the balance of the financial plan period. Nondiscretionary expenditures are projected to consume 54 percent of City fund revenues by FY 2013, up from 40 percent in FY 2002.

Pension contributions, which have grown rapidly in recent years due to investment shortfalls, are projected to rise from $6.5 billion in FY 2010 to $7.4 billion in FY 2013. Last year, the pension funds lost 18.3 percent, compared to an expected gain of 8 percent (see Figure 10). As of November 27, 2009, the pension funds had earned 14 percent on their investments. If these gains are maintained through the end of the fiscal year, contributions could be lower by $92 million in FY 2012 and $168 million in FY 2013.

Figure 10

Pension Fund Investment Earnings

Variance from Assumed Rates of Return



Sources: NYC Comptroller Annual Reports; OSDC analysis

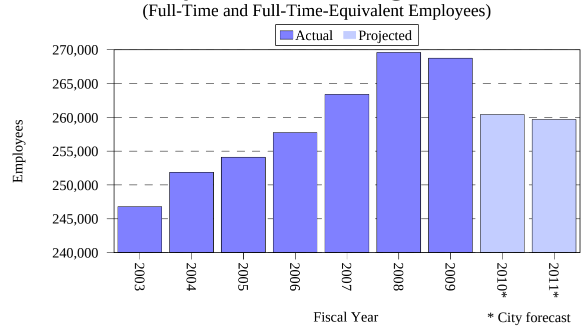
The cost of the City's other post-employment benefits (OPEBs), which the City funds on a pay-as-you-go basis like most other municipalities do, will reach $2.1 billion by FY 2013—79 percent more than in FY 2006. In FY 2010, the City will pay only 25 percent of the cost of these benefits on an actuarial basis, deferring the remaining cost to future taxpayers. Furthermore, the City plans to use one third ($1.1 billion) of the resources in the Retiree Health Benefit Trust to help balance the operating budget.

Between June 30, 2003, and June 30, 2009, City-funded staffing levels (full-time and full-time-equivalents) grew by a net of 21,967 employees (see Figure 11), with most of the additions concentrated in the Department of Education (10,393), the Police Department (2,034), the Parks Department (1,817), and various social services and health agencies (2,941).

Figure 11

City-Funded Staffing Levels

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



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

While the workforce contracted slightly last year (by 855 employees), staffing levels have declined by 2,520 employees during the first three months of the current fiscal year, and the November Plan assumes that the workforce will decline by another 5,804 employees by the end of the fiscal year. The largest reductions are planned for the Police Department (2,177 police officers and 698 civilians) and the City University (1,499 jobs).

As of October 2009, the number of City residents who were enrolled in Medicaid totaled 2,809,642, an increase of 191,938 recipients (7.4 percent) from a year earlier. City-funded Medicaid expenditures are expected to increase from $4.8 billion in FY 2010 to $6 billion in FY 2012, reflecting the exhaustion of federal stimulus funds that temporarily reduced the City's costs, as well as projected increases in utilization, enrollment, and medical care costs.

The demand for other social services is also rising. Between October 2008 and 2009, the number of people receiving public assistance increased by 15,523, to 355,459. In October 2009, 10,396 families resided in municipal shelters, an 8 percent increase since October 2008. In October 2009, single adults in shelters increased by 7 percent from a year earlier. Between October 2008 and 2009, the number of people receiving food stamps benefits increased by 22 percent, to 1.6 million.

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