Review of the Financial Plan of the City of New York

July 2009

Report 7-2010

New York State
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I. Executive Summary

Two years ago, New York City's economy was booming and the City's coffers were overflowing with record budget surpluses. Today, the recession is rippling through the local economy and taking a heavy toll on tax collections. Tax collections, excluding recent tax increases, were down last year by $3.3 billion and are projected to decline by another $2.4 billion in FY 2010—a cumulative two-year drop of $5.7 billion.

Although the City expects to end FY 2009 with a $2.8 billion surplus, most of the resources were generated during the last economic expansion or from actions intended to help balance the FY 2010 budget. To close the FY 2010 budget gap (estimated at $8.4 billion), the City raised property, sales, and business taxes; cut agency and capital spending; obtained short-term budget relief from federal stimulus funds; and reached agreement with the municipal unions to reduce health care costs.

The current recession is shaping up to be the deepest since World War II. The nation's real Gross Domestic Product declined at an annual rate of 6.3 percent during the fourth quarter of 2008 and 5.5 percent during the first quarter of 2009—the deepest declines in any two consecutive quarters in more than 50 years. While the economic downturn appears to be reaching a bottom, the nation is still losing jobs at an alarming pace and significant risks remain.

New York State's economy contracted at an annual rate of 5.9 percent during the fourth quarter of 2008 and 4.3 percent in the first quarter of 2009, and has lost 254,600 jobs over the past year. While the economic recovery is expected to be weak and protracted, New York City could benefit from an early Wall Street recovery.

The securities industry—the economic engine of New York State and New York City—reported record first-quarter profits of $8.2 billion and several firms have also reported strong profits for the second quarter. While this news is encouraging, the industry still faces serious challenges, such as rising credit card defaults. In addition, the industry's high employment multiplier is still working in reverse, fueling job losses in other sectors of the economy. New York City has already lost 115,700 jobs, including 25,800 jobs in the securities industry. While the rate of job loss has begun to slow, the unemployment rate could reach 10 percent next year, compared to 5.5 percent a year ago.

Despite the recession and an unanticipated tax revenue shortfall of more than $1.5 billion in FY 2009, the City expects to end FY 2009 with a surplus of $2.8 billion—$2 billion more than forecast at the beginning of the fiscal year. The additional resources came mostly from drawing down reserves, a mid-year property tax increase, and the receipt of federal stimulus funds. The surplus was transferred to FY 2010 to help balance that year's budget.

Since January 2008, the City has raised taxes by $2.5 billion and has initiated agency actions valued at more than $3 billion. While core municipal services have been maintained, no agency has been spared. The municipal workforce is projected to contract by more than 8,900 employees over a two-year period ending in June 2010.

The municipal unions have agreed to reduce the cost of health insurance to the City by $150 million annually when fully implemented, and the City is seeking additional savings. The City also has asked the State to enact less costly pension plans for new City employees to rein in the rapid growth in pension contributions, which are projected to exceed $7 billion by 2013, more than twice the FY 2005 level.

To curtail the rapid growth in debt service, the City has cut the capital program in an effort to bring the long-term growth in debt service in line with lower revenues. Debt service is still projected to grow from $4.0 billion in FY 2009 to $6.5 billion in FY 2013—an increase of 60 percent—and then to grow more slowly to $7.5 billion by FY 2019, reflecting the cumulative impact of cuts in planned capital commitments.

New York City's four-year financial plan (the "June Plan") shows a balanced budget for FY 2010, but gaps of $4.9 billion in FY 2011, $5 billion in FY 2012, and $5.6 billion in FY 2013 (see Figure 1). Our review has identified only a few small budget risks for FY 2010 now that the State has approved the City's proposals to raise sales and business taxes. The risks grow, however, to more than $1 billion in subsequent years, which could cause the FY 2011 budget gap to exceed $6 billion (see Figure 2). We are also concerned that the City may need to replace federal stimulus funds allocated for education when they run out, and any shortfalls in anticipated State education aid.

New York State is experiencing its own fiscal crisis, and how the State balances its budget could have a direct impact on New York City. Large cuts in education aid and local assistance were averted this year because the federal government provided resources from the economic stimulus program. These resources are only temporary, however, and State revenues continue to fall short of expectations.

Even though New York City has closed the FY 2010 budget gap, it still faces out-year budget gaps that average more than $5 billion because the FY 2010 budget is balanced with nearly $6.6 billion in nonrecurring resources. Closing the out-year gaps—in the absence of a stronger-than-expected economic recovery—could be painful because the City has used most of the surplus resources that were generated in past years, and has already raised taxes and slashed agency spending.

To its credit, the City has reacted quickly to changing economic developments throughout the current fiscal crisis. The City is encouraged to maintain its proactive stance and to accelerate its financial planning process to get a head start on closing the large budget gap projected for FY 2011.

Figure 1
New York City Four-Year Financial Plan
(in millions)

	FY 2010	FY 2011	FY 2012	FY 2013
REVENUES				
Taxes				
General Property Tax	$ 16,072	$ 17,148	$ 17,737	$ 18,125
Other Taxes	16,725	18,313	19,684	20,950
Discretionary Transfers [1]	546	- - -	- - -	- - -
Debt Defeasance [2]	382	- - -	- - -	- - -
Tax Audit Revenue	596	596	595	594
Anticipated Tax Program	879	877	943	976
Subtotal – Taxes	**35,200**	**36,934**	**38,959**	**40,645**
Miscellaneous Revenue without anticipated State actions	5,973	5,715	5,750	5,792
Unrestricted Intergovernmental Aid	340	340	340	340
Less: Intra-City Revenues	(1,669)	(1,583)	(1,586)	(1,590)
Disallowances against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal – City Funds	**39,829**	**41,391**	**43,448**	**45,172**
Other Categorical Grants	1,053	1,029	1,033	1,031
Inter-Fund Revenues	486	453	443	443
Total City Funds, Capital IFA and Other Categorical Grants	**41,368**	**42,873**	**44,924**	**46,646**
Federal Categorical Grants	6,600	6,389	5,355	5,344
State Categorical Grants	11,512	11,975	12,380	13,034
Total Revenues	**59,480**	**61,237**	**62,659**	**65,024**
EXPENDITURES				
Personal Service				
Salaries and Wages	22,563	23,277	22,843	23,690
Pensions	6,700	7,034	7,358	7,631
Fringe Benefits	6,911	6,703	6,775	7,708
Subtotal – Personal Service	**36,174**	**37,014**	**36,976**	**39,029**
Other Than Personal Service				
Medical Assistance	4,907	5,622	6,091	6,271
Public Assistance	1,299	1,299	1,299	1,299
All Other [1]	18,859	18,853	19,479	19,976
Subtotal – Other Than Personal Service	**25,065**	**25,774**	**26,869**	**27,546**
General Obligation and Lease Debt Service [1,2]	4,187	4,657	5,094	5,372
General Obligation and TFA Debt Defeasances [2]	(2,313)			
FY 2009 Budget Stabilization & Discretionary Transfers [1]	(2,264)	- - -	- - -	- - -
General Reserve	300	300	300	300
Subtotal	**61,149**	**67,745**	**69,239**	**72,247**
Less: Intra – City Expenses	(1,669)	(1,583)	(1,586)	(1,590)
Total Expenditures	**59,480**	**66,162**	**67,653**	**70,657**
Gap To Be Closed	**$ - - -**	**$ (4,925)**	**$ (4,994)**	**$ (5,633)**

1) Fiscal Year 2009 Budget Stabilization and Discretionary Transfers total $2.810 billion, including prepayments of subsidies of $643 million, lease debt service of $110 million, Retiree Health Benefits of $225 million, Budget Stabilization of $1.286 billion, and a TFA grant which increases FY 2010 revenues by $546 million.

2) 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.

Source: NYC Office of Management and Budget

Figure 2
OSDC Risk Assessment of the NYC Financial Plan

(in millions)

	Better/(Worse)			
	FY 2010	**FY 2011**	**FY 2012**	**FY 2013**
Surplus/(Gaps) per June Plan	**$ - - -**	**$ (4,925)**	**$ (4,994)**	**$ (5,633)**
Actions that Require State Approval:				
Delay in Approving Sales Tax Increases	(60)	- - -	- - -	- - -
Agency Actions	(40)	(50)	(55)	(56)
Enact Lower-Cost Pension Plans for New Employees	- - -	(200)	(200)	(200)
Subtotal	**(100)**	**(250)**	**(255)**	**(256)**
Actions that Require Union Approval:				
Restructure Employee Health Insurance Costs	- - -	(357)	(386)	(418)
Estimation:				
Police Department Overtime Costs	(80)	(80)	(80)	(80)
Higher Special Education Costs	(70)	(70)	(70)	(70)
Implementation of GASB 49 for Budgetary Purposes	- - -	(500)	(500)	(500)
Department of Education Health Insurance Costs	- - -	- - -	- - -	(125)
Public Assistance Costs	- - -	- - -	- - -	(58)
Subtotal	**(150)**	**(650)**	**(650)**	**(833)**
OSDC Risk Assessment	**(250)**	**(1,257)**	**(1,291)**	**(1,507)**
Remaining Gap to be Closed Per OSDC [1]	**$ (250)**	**$ (6,182)**	**$ (6,285)**	**$ (7,140)**
Additional Risks and Offsets				
State and Federal Education Aid	- - -	(350)	(1,000)	(1,000)
Wage Increases at the Projected Inflation Rate	- - -	(110)	(318)	(590)

[1] The June Plan includes a general reserve of $300 million in each of fiscal years 2010 through 2013. In addition, the City had contributed $2.5 billion to the Retiree Health Benefit Trust during the last economic expansion to pay down the unfunded liability associated with post employment benefits other than pensions. While the City intends to use $1.1 billion of these resources over a three-year period to help fund the cost of rising pension contributions ($82 million in FY 2010, $395 million in 2011, and $672 million in FY 2012), $1.4 billion still remains in the Trust and could be used to help close the projected budget gaps.

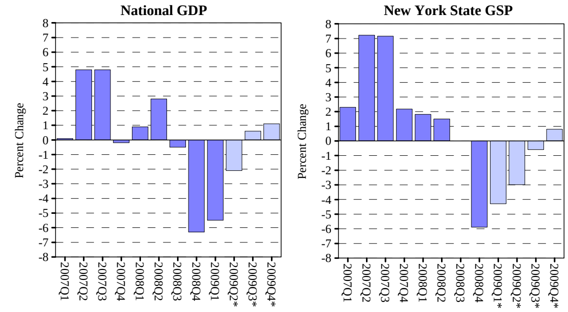
II. Economic Trends

The nation's real Gross Domestic Product (GDP) declined at an annual rate of 6.3 percent in the fourth quarter of 2008 and a 5.5 percent rate in the first quarter of 2009. These declines were the deepest in any two consecutive quarters in more than 50 years. While a growing number of indicators suggest that the worst of the recession has passed and that the economy will soon reach bottom, the recovery will be slow and weak.

According to the July 2009 forecast by IHS Global Insight, the GDP will decline at an annual rate of 2.1 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 2.8 percent in 2009 but then grow by 1.5 percent in 2010.

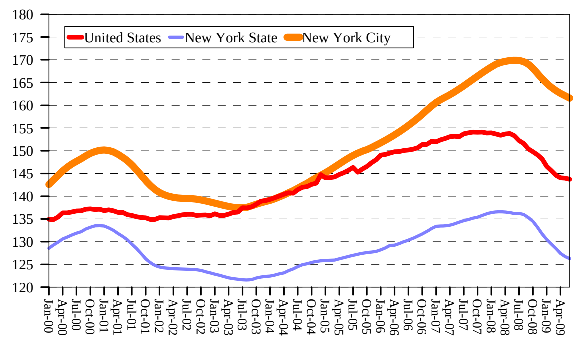
In New York State, IHS Global Insight estimates that the Real Gross State Product (GSP) contracted at an annual rate of 5.9 percent during the fourth quarter of 2008 and a 4.3 percent rate during the first quarter of 2009—slightly less than the national rates of decline (see Figure 3). IHS Global Insight 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



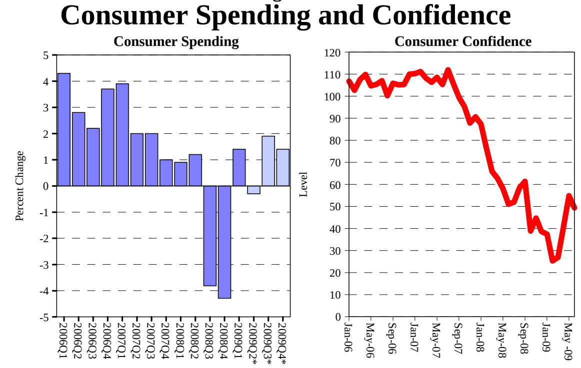
* Forecast by IHS Global Insight
Source: U.S. Bureau of Economic Analysis

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

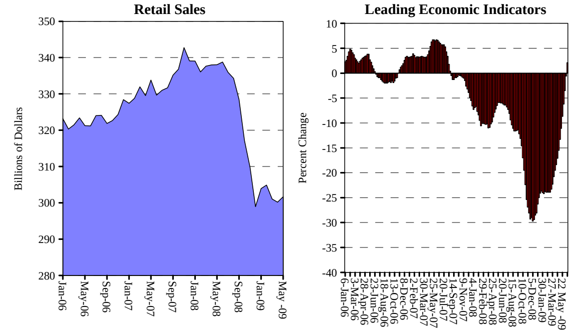
The economies of both New York State and New York City deteriorated quickly as the national recession deepened. According to the Federal Reserve Bank of New York's Coincident Indices, the economic expansion peaked in the nation in November 2007, but growth continued in New York State until March 2008 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).

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 1.4 percent in the first quarter of 2009 (see Figure 5). Consumer confidence also has begun to rise, although it remains below levels associated with economic growth, and retail sales have stabilized (see Figure 6).

Although consumer spending is recovering, business spending plunged in the first quarter of 2009. Nevertheless, there are signs that business conditions are starting to improve. The weekly index of leading economic indicators is now growing (see Figure 6), and the Institute for Supply Management's nonmanufacturing and manufacturing indices are approaching expansion levels (see Figure 7).

Figure 6

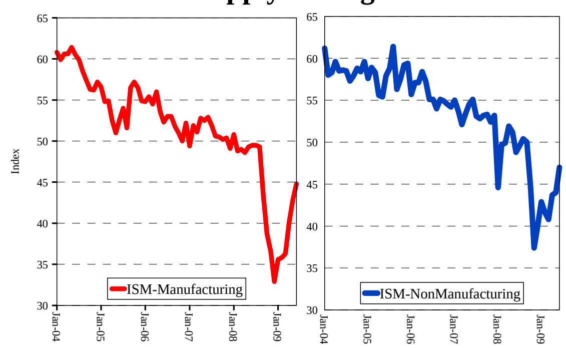
U.S. Retail Sales and Leading Indicators



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

Figure 7

Institute for Supply Management Indices

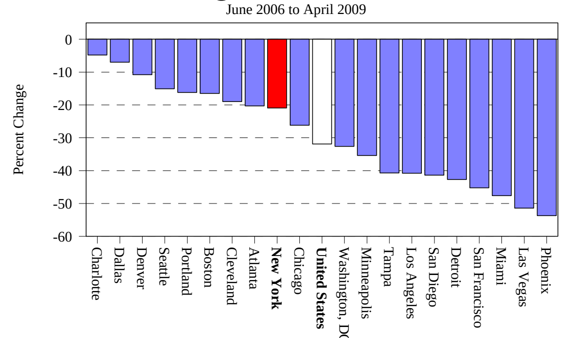


Sources: Institute for Supply Management; OSDC analysis

Figure 8

Changes in Home Values

June 2006 to April 2009



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

The housing markets are also showing some improvement. Although the S&P/Case-Shiller Home Price Index shows that the average national home price fell by 31.9 percent between June 2006 and April 2009, the pace of recent declines has moderated and some cities have begun to show modest price increases. Since June

2006, home prices in the New York City metropolitan area fell by 20.9 percent (see Figure 8).

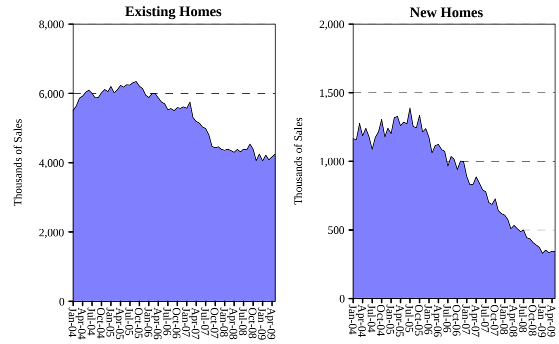
The fall in home prices, low mortgage rates, and a federal tax credit for first-time home purchases have begun to attract buyers. Pending home sales have risen in recent months, and sales of new and existing homes have shown some gains (see Figure 9).

Between December 2007 and June 2009, the nation lost 6.5 million jobs (see Figure 10). In January 2009, job losses totaled 741,000—the worst monthly loss since September 1945. While the pace of job losses has since slowed, it is still alarming, with 467,000 jobs lost in June 2009. The City forecasts that the nation's total job losses will reach 7.3 million by the first quarter of 2010 and that the U.S. unemployment rate will peak at 10.3 percent.

Between August 2008 and June 2009, New York City lost 115,700 jobs (see Figure 10). 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. Since then, job losses have eased significantly, to an average monthly loss of 6,000 jobs during the first half of 2009.

Figure 9

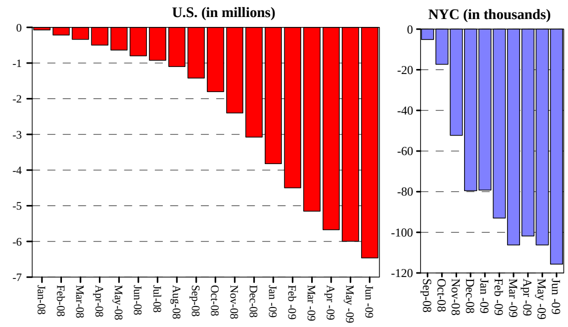
Home Sales



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

Figure 10

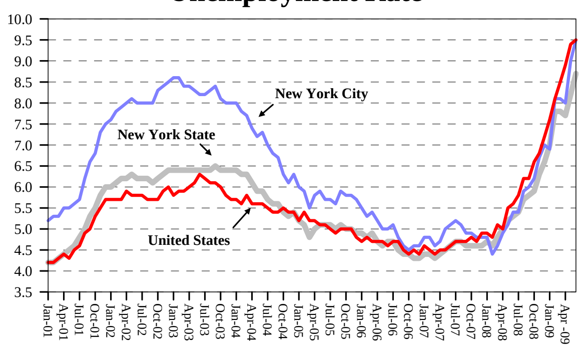
Cumulative Job Losses from Employment Peak



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

Figure 11

Unemployment Rate



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

As job losses mounted, the unemployment rate rose rapidly. The unemployment rate (seasonally adjusted) reached 9.5 percent in the nation and the City in June 2009, both increasing from about 5.5 percent a year earlier (see Figure 11). Initial claims for 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 eased in recent weeks (see Figure 12).

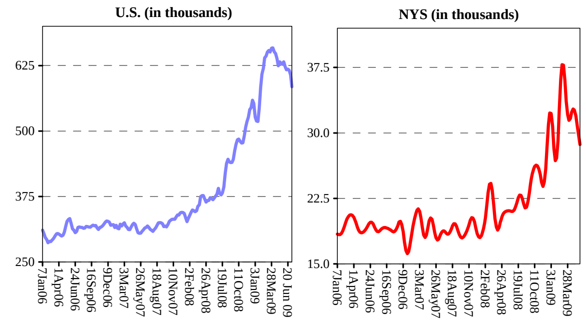
The securities industry—the economic engine of New York City—has been affected by the worst financial crisis in decades, losing 25,800 jobs since employment in the industry peaked in November 2007. The industry's high employment multiplier is now working in reverse, fueling job losses in all other sectors of the City's economy except education and health care.

The June Plan assumes that the City will lose 328,000 jobs (including 47,000 securities industry jobs) by the end of the third quarter of 2010. 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 (see Figure 13). In recent months, the pace of job losses has slowed, raising the possibility that job losses may not be as great as anticipated in the June Plan.

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, Wall Street firms reported profits of $8.2 billion, due to lower expenses (especially interest costs) and a swing to positive earnings from their own trading activity (helped by a modification of mark-to-market valuation rules). This was a stark change from 2008, when Wall Street experienced huge write-offs, posted a record loss of $42.6 billion,

Figure 12

Initial Claims for Unemployment Insurance

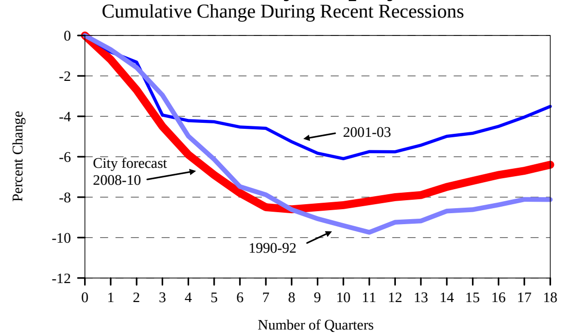


Notes: Four-week moving average; data are seasonally adjusted.
Sources: U.S. Bureau of Labor Statistics; Moody's Economy.com; OSDC analysis

Figure 13

New York City Employment

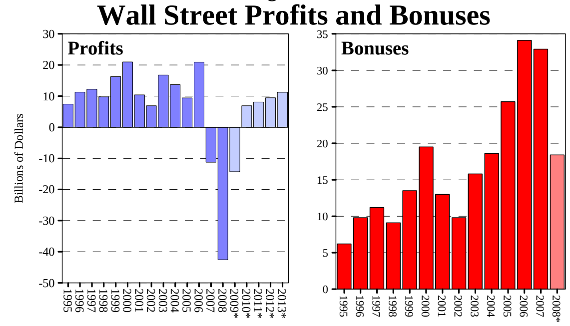
Cumulative Change During Recent Recessions



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

Figure 14

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

lost three major firms to failures or mergers, and saw year-end bonuses—as estimated by the State Comptroller—decline by 44 percent to $18.4 billion (see Figure 14).

While Wall Street firms have begun to recover—reporting first-quarter profits of $8.2 billion—and some have repaid the government support they received last fall, they continue to face new challenges as the industry undergoes a fundamental transformation. The President has begun to outline proposed regulatory reforms for the industry, which will now become the focus of congressional debate, and the industry's compensation practices remain a flash point for criticism. Financial regulatory reforms are likely to reduce the industry's ability to take risks, as well as its long-term profitability. The June Plan projects that Wall Street will lose $14.3 billion in 2009 but that profitability will resume in 2010. The strength of first-quarter earnings, coupled with reports of strong gains at some large firms in the second quarter, suggest that the industry could perform better than the City expects in 2009.

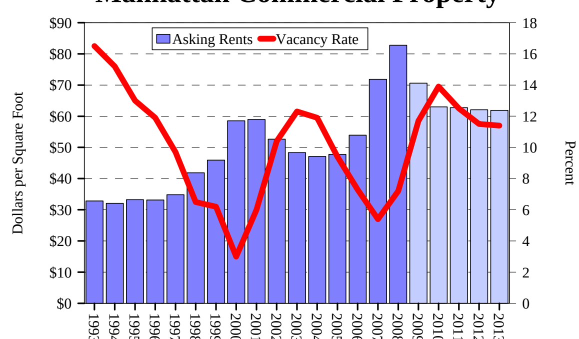
Job losses, coupled with lower Wall Street bonuses, will drive down total wages paid in the City. After growing by 1.6 percent in 2008, total wages are projected to drop by 10.7 percent in 2009—the largest decline since data first became available in 1985—and then fall another 4.8 percent in 2010.

Retrenchment among financial firms, law firms, and media firms has precipitated a falloff in Manhattan's commercial property market. According to Colliers ABR, in June 2009 the average asking rent in the primary office market in Manhattan declined to $65.57 per square foot from $87.10 per square foot one year earlier. Meanwhile, the vacancy rate rose to 11.8 percent from 7 percent one year earlier.

The June Plan assumes that the average annual 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 15). 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.

Figure 15

Manhattan Commercial Property



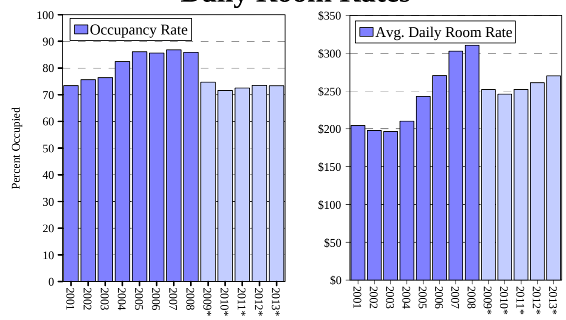
* City forecast

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

The demand for Manhattan apartments has fallen with the drop in Wall Street bonuses and the tightening of credit. Prudential Douglas Elliman reported that in the second quarter of 2009, compared to one year earlier, Manhattan cooperative apartment sales fell by 41.9 percent and the median sales price fell by 14 percent. During the same period, Manhattan condominium apartment sales dropped by 56 percent and the median sales price fell by 21.2 percent.

Figure 16

New York City Hotel Occupancy and Daily Room Rates



* City forecast
Source: PKF Consulting

The City projects that cooperative apartment sales will decline 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 will decline 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 tourism sector is now struggling. 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 total number of visitors will decline by 5 percent 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 16).

The federal government has taken extraordinary efforts to revive the financial system and stimulate the economy. While the economic downturn appears to be reaching a bottom, significant risks remain.

Though consumer confidence has begun to improve, consumers remain constrained by job and wealth losses, and high debt. The recent rebound in energy prices, fueled mostly by speculation rather than by demand, could limit the recovery in consumer and business spending. 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. Indeed, rising bond yields reflect new worry over the prospects of higher long-term inflation, as well as the enlarged budget deficits incurred to fight the recession and the financial crisis.

III. Fiscal Year 2009

At the time the FY 2009 budget was adopted in June 2008, the City projected budget gaps of $2.3 billion for FY 2010, $5.2 billion for FY 2011, and $5.1 billion for FY 2012. These estimates 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 (see Figure 18, next page).

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 future pension contributions—the projected budget gaps have grown by an average of $4.2 billion annually to reach $8.4 billion in FY 2010, $11 billion in FY 2011, and $11.1 billion in FY 2012.

Despite the shortfall in tax revenues, the projected surplus for FY 2009 has grown from $812 million to $2.8 billion. The growth reflects savings from unneeded reserves; a refund of prior years' health insurance premiums for municipal employees; unanticipated audit collections; and lower debt service and energy costs (see Figure 17). In addition, FY 2009 benefited from the implementation of the FY 2010 gap-closing program, which included a midyear real property tax increase, agency actions, and the receipt of additional federal Medicaid funding from the economic stimulus program. The FY 2009 surplus was transferred to FY 2010 to help balance that year's budget.

Figure 17

Sources of the FY 2009 Surplus

(in millions)

FY 2008 Surplus Transfer	$ 812
Tax Revenue Shortfall	(1,557)
Reserves	760
Mid-Year Property Tax Increase	576
Agency Program Savings	507
Federal Medicaid Assistance	447
Tax Audits	400
Debt Service Savings	294
Prior Years' Health Premiums	220
Reestimate of Agency Expenses	182
Energy Savings	99
Hotel Tax Increase	15
Other	55
Total	**$ 2,810**

Sources: NYC Office of Management and Budget; OSDC analysis

Figure 18
Financial Plan Reconciliation
June 2008 Plan vs. June 2009 Plan

(in millions)

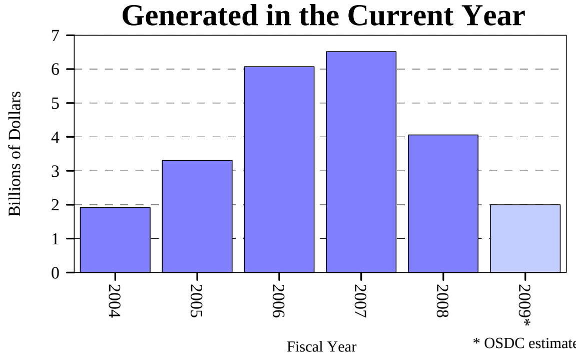
	Better/(Worse)			
	FY 2009	**FY 2010**	**FY 2011**	**FY 2012**
Surplus/(Gap) per June 2008 Plan	**$ - - -**	**$ (2,344)**	**$ (5,158)**	**$ (5,108)**
Proposed Gap-Closing Actions				
Property Tax Increase	- - -	(1,223)	(1,298)	(1,359)
Health Care Restructuring	- - -	(200)	(200)	(200)
Surplus Transfer	812	(462)	(350)	- - -
Restated Surplus/(Gap) per June 2008 Plan	**812**	**(4,229)**	**(7,006)**	**(6,667)**
Revenues				
Tax Revenues	(1,137)	(4,124)	(3,780)	(4,040)
Personal Income Tax State Distribution Correction	(420)	- - -	- - -	- - -
Tax Audits	400	- - -	- - -	- - -
Refund of Prior Years' Health Insurance Premiums	220	- - -	- - -	- - -
Non-Tax Revenues	236	30	(172)	(134)
Total	**(701)**	**(4,094)**	**(3,952)**	**(4,174)**
Expenditures				
Pension Contributions	(96)	(90)	(348)	(615)
Debt Service	294	172	136	234
Energy	99	134	63	13
City Council Initiatives	- - -	(245)	- - -	- - -
Other	(45)	(331)	(187)	(191)
Total	**252**	**(361)**	**(337)**	**(559)**
Drawdown of Reserves				
General Reserve	260	- - -	- - -	- - -
Prior Years' Expenses	500	- - -	- - -	- - -
Labor Reserve	- - -	200	279	279
Pension Audit Reserve	- - -	200	- - -	- - -
Total	**760**	**400**	**279**	**279**
Enacted State Budget Impact	**(45)**	**(68)**	**(15)**	**(16)**
Net Change During FY 2009	**266**	**(4,123)**	**(4,025)**	**(4,470)**
Baseline Surplus/(Gap) as of June 2009	**$ 1,078**	**$ (8,352)**	**$ (11,031)**	**$ (11,137)**

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 19, these resources peaked at $6.5 billion in FY 2007. In FY 2009, the City generated $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 19
Surplus Resources Generated in the Current Year

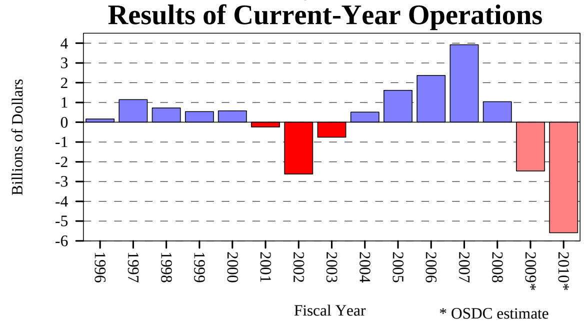


Sources: NYC Office of Management and Budget; OSDC analysis

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 20, 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 was projected to exceed current-year resources by $2.5 billion, and the FY 2009 budget was balanced using surplus resources accumulated in prior years.

Figure 20
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 $5.6 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 $6.6 billion in nonrecurring resources, of which $5.7 billion was generated in prior years (see Figure 21).

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. As mentioned earlier in this report, the City also intends to use the FY 2009 surplus ($2.8 billion) to help balance the FY 2010 budget. The FY 2010 budget will also benefit from a temporary increase in federal Medicaid payments from the economic stimulus program ($850 million); resources no longer needed by the TFA to pay debt service on bonds backed by State building aid ($100 million); and drawdowns from the Retiree Health Benefits Trust ($82 million) and the Health Insurance Stabilization Fund ($46 million).

Figure 21
Nonrecurring Resources in FY 2010
(in millions)

FY 2009 Surplus	$ 2,810
FY 2008 Debt Defeasance	2,036
Federal Medicaid Assistance	850
FY 2007 Debt Defeasance	659
State Building Aid	100
Retiree Health Benefit Trust	82
Health Insurance Stabilization Fund	46
Total	**$ 6,583**

Source: OSDC analysis

V. Impact of the State Budget

In December 2008, the Governor projected budget gaps of $13.7 billion for State Fiscal Year (SFY) 2009-2010, $17.1 billion for SFY 2010-2011, and $18.6 billion for SFY 2011-2012. By the time the SFY 2009-2010 budget was enacted in April 2009, the projected budget gap for that year had grown to $17.9 billion.

In December, the Governor proposed large aid reductions to help balance the SFY 2009-2010 budget and narrow the out-year gaps. These budget cuts would have adversely affected the City's budget, but the Governor and the State Legislature were able to rescind most of them by balancing the State budget with higher taxes and federal economic stimulus funds. As shown in Figure 22, the net impact of the State's budget on the City is minimal. The State, however, still projects budget gaps of $2.2 billion for SFY 2010-2011, $8.7 billion for SFY 2011-2012, and $13.7 billion for SFY 2012-2013. Maintaining balance in the current year and closing the projected gaps may require the State to reduce spending, including programs that benefit New York City.

Figure 22
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[2]	**$ (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: In December 2008, the Governor proposed a reduction in education aid to localities, including New York City, to help balance the State budget. The Governor would have provided the City's public schools with $766 million less than anticipated by the City for the school year beginning September 1, 2009. The receipt of federal stimulus funding, however, permitted the State to offset the proposed cuts, and education aid to the City will rise next year by $593 million.[3] Federal stimulus resources will permit education aid to increase by more than $800 million for the 2010-2011 school year, but the June Plan assumes education aid will grow by $1 billion in 2011-2012 even after stimulus funding is exhausted. An increase of this magnitude may be difficult to fund in the absence of additional federal aid or a strong economic recovery, which now appears unlikely.

2 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.

3 These estimates exclude EXCEL aid, which are debt service payments made by the State for the construction and renovation of City schools.

Medicaid: The federal economic stimulus program increased Medicaid funding to the states to help states and localities balance their budgets. 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 June Plan.

Aid and Incentives to Municipalities (AIM): The Governor proposed eliminating aid 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 FY 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 (valued at $45 million annually for the City). The State also limited itemized deductions for tax filers with adjusted gross incomes of more than $1 million, and broadened the definition of residency for State income tax purposes (valued at $48 million annually for the City). While the State approved an increase in the number of red-light cameras in the City, the increase was far less than the City had requested.

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.

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 June Plan assumes that these changes will increase the cost of health insurance for municipal employees.

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.

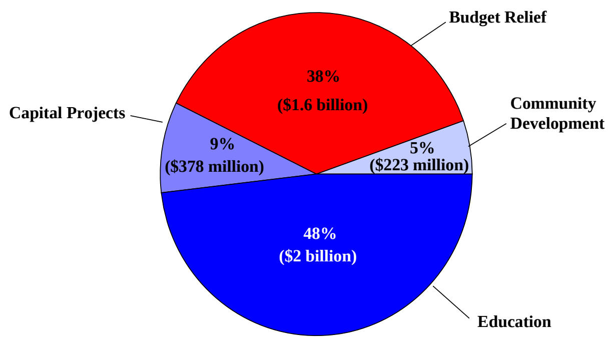
Pension Reform: The Governor and the Mayor have proposed less costly pension plans for new State, local, and City employees. Under these proposals, new City civilian employees would contribute 3 percent of their wages for the duration of employment, compared with ten years for employees in Tiers III and IV; the minimum retirement age would rise from 55 to 62; and the amount of time needed to vest would grow from five years to ten years. New City uniformed employees would contribute 5 percent of their wages for 25 years, but could retire at age 50 with 25 years of service. (Currently, uniformed employees can retire after 20 years of service regardless of age.) The Mayor and the United Federation of Teachers (UFT) recently reached agreement on a less costly pension plan for new City teachers, subject to State approval. While new teachers would still be able to retire at age 55 after 27 years of service, they would be required to contribute 4.85 percent of their wages for 27 years. (Currently, teachers contribute 4.85 percent for 10 years.) In addition, the City-guaranteed rate of return on assets in the teachers' tax-deferred retirement account would decline from 8.25 percent to 7 percent.

VI. Federal Stimulus Funding

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 $4.2 billion in direct federal funding during fiscal years 2009 through 2013. Of this amount, $3.8 billion will benefit the operating budget and another $378 million will fund various capital projects (see Figure 23). In addition, the Metropolitan Transportation Authority estimates that it will receive $1.1 billion for capital projects.

Figure 23

Allocation of Federal Stimulus Funds in the NYC June Financial Plan



Sources: NYC Office of Management and Budget; OSDC analysis

Budget Relief: The 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 June Plan reflects the lower estimate, which is $400 million less than anticipated in the City's January 2009 financial plan. The City received $447 million in additional Medicaid funding in FY 2009 and expects to receive $850 million in FY 2010 and $295 million in FY 2011.

Education Aid: The June Plan assumes the receipt of $2 billion in additional federal education aid over the 2009-2010 and 2010-2011 school years. Of this amount, $1.1 billion 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 June Plan assumes the receipt of $223 million in federal funding to finance community development initiatives, such as Workforce Investment Act programs for youth and small businesses ($62 million); housing development and preservation programs ($50 million); and increased maintenance of the Staten Island Ferry terminals ($30 million). In addition, the City plans to use some of these resources to replace City funding allocated for foster care and child adoption programs ($30 million).

Capital Funding: The June Plan assumes the receipt of $378 million in federal economic stimulus funds for a variety of capital projects, including repairs to the St. George ferry terminal ($175 million); the Brooklyn Bridge ($47 million); the loading docks at Newtown Creek ($38 million); and waste treatment facilities in Hunts Point ($30 million). In addition, the City will be able to issue $1.7 billion in school tax credit bonds, which will be used to build and repair school facilities. Since the federal government will subsidize the interest over the life of the bonds, the June Plan assumes the City will realize $304 million in interest savings over the financial plan period.

Metropolitan Transportation Authority: The Metropolitan Transportation Authority (MTA) will receive an estimated $1.1 billion in new capital funding. Of this amount, the MTA plans to allocate $424 million for the Fulton Street Transit Center and $270 million for the rehabilitation of subway and train stations. The balance ($408 million) will fund various projects, such as replacing ventilation systems and upgrading electrical systems. In addition, the MTA will receive an advance of $274 million of monies previously promised by the federal government to help fund the East Side Access and Second Avenue Subway projects. The federal government recently enacted legislation that will permit the MTA to use up to 10 percent of its federal stimulus funds in its operating budget.

VII. Program to Eliminate the Gap

We estimate that the City faced budget gaps of $8.4 billion in FY 2010 and more than $11 billion in subsequent years before the implementation of the FY 2010 gap-closing program and other budget-balancing actions. To balance the FY 2010 budget and narrow the out-year gaps, the City has taken (or plans to take) a number of actions. The June Plan values these actions at $2.8 billion in FY 2009—which will be transferred to FY 2010—and about $6 billion annually thereafter. All of the actions needed to balance the FY 2010 budget have been implemented or are in progress (see Figure 24). Two City initiatives to help narrow the out-year budget gap (e.g., pension reform) have not yet been approved by the State. If successful, the out-year budget gaps would be reduced to about $5 billion annually.

Figure 24
Budget-Balancing Actions
(in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Baseline Surplus/(Gap) per June 2009 Plan	**$ 1,078**	**$ (8,352)**	**$ (11,031)**	**$ (11,137)**
Implemented Actions				
Increase Real Property Taxes by 7 Percent	$ 576	$ 1,223	$ 1,298	$ 1,359
Implement Agency Actions	507	- - -	- - -	- - -
Obtain Higher Federal Medicaid Reimbursement	447	850	295	- - -
Agency Spending Reestimates	182	(142)	(13)	(14)
Raise Hotel Tax Rate	15	62	66	35
Curtail Planned Capital Commitments by 27 Percent	5	25	54	77
Increase Sales Taxes	- - -	720	745	790
Eliminate $400 Property Tax Rebate	- - -	256	256	256
Restructure Employee Health Insurance	- - -	200	200	150
Business Tax Reforms	- - -	159	132	153
Subtotal	**1,732**	**3,353**	**3,033**	**2,806**
Actions In Progress				
Implement Agency Actions	- - -	2,107	2,120	2,079
Drawdown from Retiree Health Benefits Trust	- - -	82	395	672
Subtotal	- - -	**2,189**	**2,515**	**2,751**
Proposed Actions				
Restructure Employee Health Insurance Costs	- - -	- - -	357	386
Enact Lower-Cost Pension Plans for New Employees	- - -	- - -	200	200
Subtotal	- - -	- - -	**557**	**586**
Available Resources	**2,810**	**5,542**	**6,105**	**6,143**
Surplus Transfer	(2,810)	2,810	- - -	- - -
Gaps Remaining Per June 2009 Plan	**$ - - -**	**$ - - -**	**$ 4,925**	**$ 4,994**

Sources: NYC Office of Management and Budget; OSDC analysis

The City has already transferred the FY 2009 surplus to FY 2010 and has raised property taxes. Together, these actions benefited FY 2010 by $5.3 billion. In addition, the agencies are on track to save $2.1 billion and the State recently approved the City's proposals to raise sales and business taxes, which will generate $879 million.

The June Plan also assumes that the State will approve less costly pension plans for new City employees to generate annual savings of $200 million beginning in FY 2011. The City has reached an agreement with the municipal unions that is expected to achieve all of the health insurance savings planned for FY 2010 and a substantial portion of those planned for subsequent years, but an agreement has yet to be reached to achieve the balance of the savings anticipated in the June Plan.

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 City expects to 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.

Tax Program: The June Plan includes an increase in the sales tax rate by 0.5 percentage points to 8.875 percent; the repeal of the sales tax exemption on clothing and footwear that cost more than $110; and the extension of the sales tax to energy purchases from nonutility companies. The June Plan assumed an implementation date of July 1, 2009 to yield $720 million in FY 2010. The City's proposals, however, were not approved by the State Senate until July 10, 2010, which will delay implementation by one month, at a cost of $60 million. The State also approved the City's business tax reforms, valued at $159 million in FY 2010.

Restructure Employee Health Insurance Costs: On June 2, 2009, the City reached agreement with the municipal unions on actions that will reduce health insurance costs by $200 million in each of fiscal years 2010 and 2011, and $150 million in subsequent years (see the "Expenditure Trends" section of this report for a detailed discussion.) The June Plan assumes that the unions will agree to additional actions to generate savings of $357 million in FY 2011, $386 million in FY 2012, and $418 million in FY 2013.

Pension Reform: The June Plan assumes that the State will approve less costly pension plans for new City employees, saving $200 million annually beginning in FY 2011. The City reached an agreement with the union that represents the City's teachers, but has yet to announce any agreements with the other municipal unions.

Agency Actions: Since January 2008, agency actions have reduced planned City spending by $1.7 billion in FY 2009 and by more than $3 billion annually in subsequent years. Actions proposed during the current fiscal year would generate $507 million in FY 2009 and more than $2 billion annually thereafter (see Figure 25). 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 25
Agency Program
(in millions)

Agency	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**	**FY 2013**
Department of Education	$ 176.1	$ 788.8	$ 691.6	$ 691.6	$ 691.6
Police Department	37.7	284.8	298.2	243.5	255.0
Fire Department	35.0	92.1	115.7	118.5	122.2
Admin. for Children's Services	19.3	109.3	115.2	106.7	106.7
Social Services	27.0	94.2	88.2	88.7	88.9
Transportation	23.3	69.2	69.0	67.9	64.7
Sanitation	25.0	93.8	60.1	42.2	43.9
Correction	9.7	54.3	55.0	61.1	61.9
Health & Mental Hygiene	10.3	52.7	58.0	58.1	58.2
Libraries	8.0	3.3	46.5	46.5	46.5
Homeless Services	7.9	46.3	46.2	46.3	46.4
Information Technology	17.5	39.1	38.1	37.5	37.5
Parks	6.7	42.0	40.0	40.1	40.3
Finance	7.7	31.8	33.0	33.0	33.0
Citywide Admin. Services	16.7	27.7	20.3	31.6	36.5
Youth	4.6	24.3	28.8	28.8	28.8
Cultural Affairs	3.8	2.6	22.1	22.1	22.1
CUNY	0.8	21.0	22.2	22.2	22.2
District Attorneys & Prosecutors	3.0	10.8	28.4	28.6	28.9
Elected Officials	6.6	6.1	8.9	8.9	8.9
Pension Contributions	-	-	6.7	49.2	51.4
Procurement Savings	-	55.5	55.5	55.5	55.5
Other	60.7	157.2	172.3	150.2	150.4
Total	**$ 507.4**	**$ 2,106.9**	**$ 2,119.8**	**$ 2,078.8**	**$ 2,101.4**

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

The following initiatives, with a value of $40 million in FY 2010 and of about $50 million in subsequent years, require State approval.

- 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 intends to ask the courts 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 11,432 positions, including 2,148 through layoffs. Of these amounts, the mayoral agencies are expected to eliminate 9,377 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 2,055 positions.

VIII. Revenue and Expenditure Trends

After five years of extraordinary revenue growth, revenues declined precipitously in FY 2009 as the recession took its toll on collections. The June Plan assumes that City fund revenues will decline by 8.4 percent through FY 2010 and then resume growth in FY 2011. During the same period, spending is expected to grow. Even assuming successful implementation of all of 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 1.2 percent.

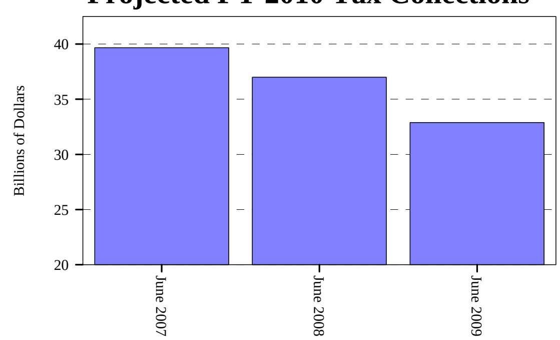
A. Revenue Trends

The national economy continues to contract, but the rate of deterioration is easing. Although the progress is uneven, the pace of job losses has slowed, consumer confidence has risen from its historic lows, and Wall Street returned to 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.

Excluding recent tax increases, tax collections in FY 2010 are expected to be $4.1 billion lower than projected in June 2008, and $6.8 billion lower than projected two years ago (see Figure 26). 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.

Figure 26

Projected FY 2010 Tax Collections



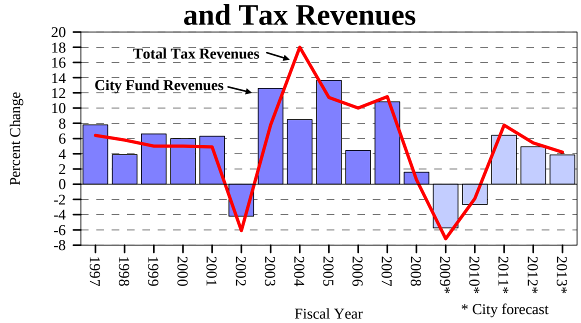
Note: Excludes tax changes enacted and proposed since June 2007.
Sources: NYC Office of Management and Budget; OSDC analysis

To help balance the budget, the City raised property taxes and the hotel tax, and the State approved the City's proposals to raise sales and business taxes. (A more detailed discussion of City actions appears later in this chapter.) In total, these tax increases will cost City taxpayers $2.4 billion in FY 2010.

These tax increases, however, will not prevent a further decline in City fund revenues. The June Plan forecasts that City fund revenues will decline by $1.1 billion, or 2.7 percent, in FY 2010 after a drop of $2.5 billion, or 5.7 percent, in FY 2009 (see Figure 27). The decline in FY 2009, both in terms of absolute dollars and percentage change, was the largest since the City's budget was first balanced according to generally accepted accounting principles in FY 1981.

During fiscal years 2011 through 2013, City fund revenues (including the benefit of tax increases) are projected to grow at an average annual rate of 5.1 percent (see Figure 27). Although nonproperty tax collections 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 28.

Figure 27
Annual Change in City Fund Revenues and Tax Revenues



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

Figure 28
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	$ 14,371	$ 16,072	11.8%	$ 17,148	$ 17,737	$ 18,125	4.1%
Personal Income Tax	6,597	5,986	-9.3%	6,887	7,326	7,685	8.7%
Sales Tax	4,675	4,789	2.4%	4,950	5,259	5,598	5.3%
Business Taxes	5,013	4,116	-17.9%	4,580	5,165	5,521	10.3%
Real Estate Transaction Taxes	1,259	1,088	-13.6%	1,200	1,310	1,488	11.0%
Other Taxes	3,094	2,662	-13.9%	2,691	2,724	2,792	1.6%
Audits	980	596	-39.2%	596	595	594	-0.1%
Subtotal	**35,989**	**35,309**	**-1.9%**	**38,052**	**40,116**	**41,803**	**5.8%**
Miscellaneous Revenues	4,796	4,378	-8.7%	4,206	4,238	4,276	-0.8%
Unrestricted Intergovernmental Aid	340	340	N.A.	340	340	340	N.A.
Grant Disallowances	(15)	(15)	N.A.	(15)	(15)	(15)	N.A.
Total	**$ 41,110**	**$ 40,012**	**-2.7%**	**$ 42,583**	**$ 44,679**	**$ 46,404**	**5.1%**

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

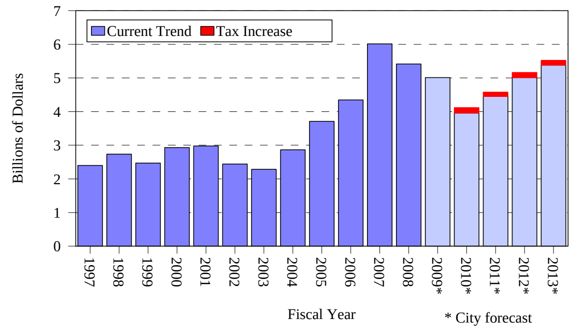
The City has been proactive in adjusting its tax revenue forecasts in response to the deterioration in the economy. While the economic downturn has not yet ended, it appears to be reaching a bottom. Forecasts for the national economy from IHS Global Insight point to a national recovery—albeit a weak one—beginning in the third quarter of 2009. The securities industry—the City's economic engine—has begun to recover sooner than the June Plan had assumed it would. The securities industry reported record first-quarter profits of $8.2 billion, and individual firms have begun to report strong earnings during the second quarter as well. While local job losses continue to mount, the pace of decline has begun to ease. If these trends continue, the likelihood of further downside revisions to the City's revenue forecasts will be diminished. Instead, there is increasing likelihood that revenue collections could exceed the City's conservative forecasts for FY 2010.

1. Business Taxes

Business tax collections (excluding audits) are forecast to decline by 17.9 percent in FY 2010, even with an increase in business taxes (see "Tax Program" later in this section). This would be an unprecedented third consecutive year of decline—collections fell by 10 percent in FY 2008 and by an estimated 7.4 percent in FY 2009 (see Figure 29). 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.

Figure 29

Business Tax Revenues



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

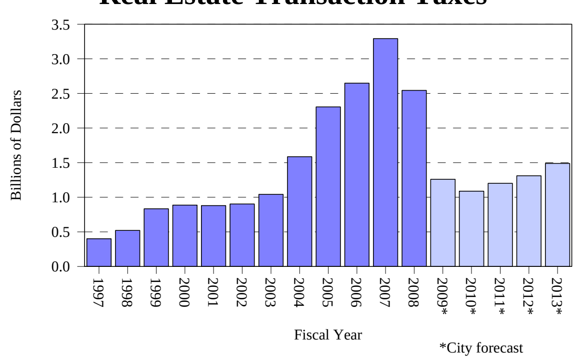
Many firms are opting to receive any tax overpayments owed to them as refunds (as a way to improve their cash positions) rather than using their overpayments as credits against future tax liabilities. The City forecasts that business tax refunds will total $899 million in FY 2009 and $732 million in 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 11.3 percent in FY 2011, 12.8 percent in FY 2012, and 6.9 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 June Plan assumes that collections from these taxes will fall by another 13.6 percent in FY 2010 after falling by more than half in FY 2009. The City does not expect conditions to stabilize until after FY 2010, when collections are expected to return to levels experienced at the beginning of the decade (see Figure 30). The June Plan forecasts that collections will grow at an average annual rate of 11 percent in fiscal years 2011 through 2013. An increase in

Figure 30

Real Estate Transaction Taxes



Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis 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 20.9 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 12.9 percent 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 more than 25 percent during this period.

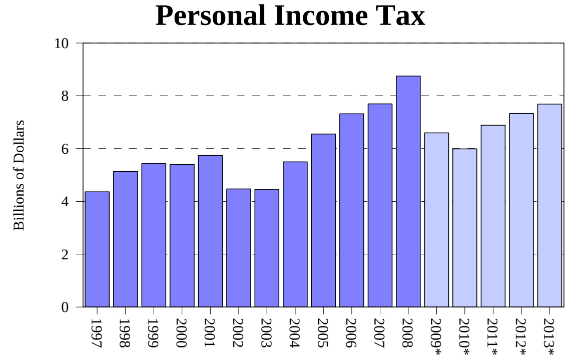
In past years, the strong demand for condominiums and cooperative apartments in Manhattan was a significant factor behind the strong growth in real estate transaction tax collections, but sales are now declining. During the first quarter of 2009, both the number of transactions for Manhattan apartments and the total value of these transactions fell by more than 45 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 $2.8 billion, or nearly one third, between fiscal years 2008 and 2010 (see Figure 31). 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 in early 2009 have led the City to forecast a 14 percent decline in capital gains realizations for the year, which follows a decline of more than 50 percent in 2008.

Figure 31

Personal Income Tax



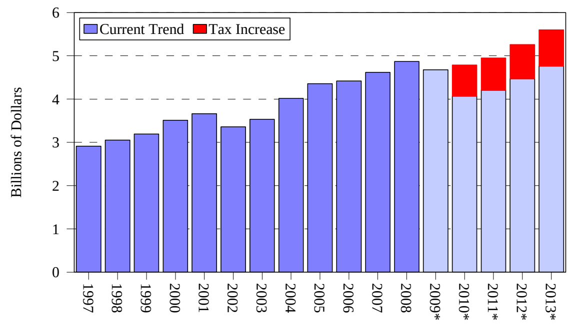
Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

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 percent. Growth is expected to continue in the remaining years of the financial plan, with gains of 6.4 percent in FY 2012 and 4.9 percent in FY 2013.

4. Sales Tax

Sales tax collections are suffering from the combined impact of the retrenchment in consumer spending, reduced Wall Street income, and a reduction in the number of visitors (including international travelers). Collections were projected to decline by 13 percent in FY 2010 before the State approved the City's proposals to increase sales taxes (see Figure 32). The June Plan had assumed an implementation date of July 1, 2009, but the City's proposals were not approved by the State Senate until July 10, 2009 (see "Tax Program" later in this section). As a result, the increases will not take effect until August 1, 2009, resulting in a tax revenue shortfall of $60 million in FY 2010. As the economy recovers, growth is expected to resume, with gains of 3.4 percent in FY 2011, 6.2 percent in FY 2012, and 6.4 percent in FY 2013.

Figure 32
Sales Tax

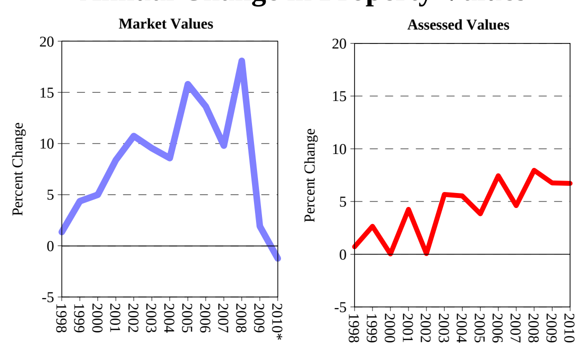


Sources: NYC Comptroller; NYC Office of Management and Budget; OSDC analysis

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 this tax 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 tax roll for FY 2010 shows that although market values have declined by 1.2 percent, assessed values will increase by 6.7 percent (see Figure 33).

Figure 33
Annual Change in Property Values



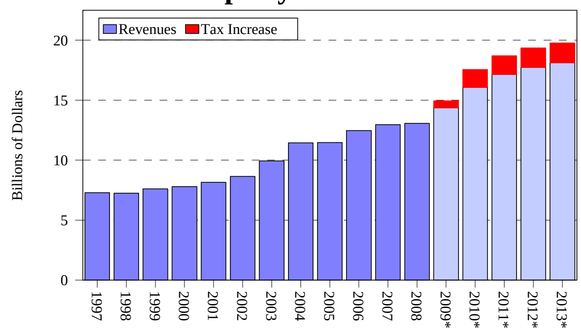
Source: NYC Department of Finance

During the previous recession, the City increased real property tax rates by 18 percent in FY 2003 to help balance the budget. As economic conditions improved, the City provided property owners with tax relief. The City began a rebate program of $400 per home owner beginning in FY 2005, and then cut the average real property tax rate by 7 percent in FY 2008.

In response to a sharp decline in revenue during the current recession, the City enacted a 7 percent mid-year property tax increase in January 2009 and rescinded the $400 home owner rebate beginning in FY 2010. These tax increases have 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 34). Real property taxes are expected to account for an increasing share of all tax collections, increasing stability at a time of economic volatility. Real property taxes will account for 45.5 percent of all tax collections in FY 2010—the highest share since FY 1992—compared to 33.7 percent in FY 2008.

Figure 34

Real Property Tax Revenues



*City forecast

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

6. Tax Program

To help narrow its budget, the City has enacted several tax increases worth a total of $2.4 billion in FY 2010 and slightly higher amounts in subsequent years (see Figure 35). In December 2008, the City raised the real property tax by 7 percent, eliminated the $400 home owner rebate program beginning in FY 2010, and increased the hotel tax from 5 percent to 5.875 percent. These actions will generate $1.5 billion in FY 2010 and more than $1.6 billion in subsequent years.[4]

The State recently approved the City's proposals to raise sales and business taxes, which will generate $879 million in FY 2010. The State increased the City's sales tax rate by 0.5 percent to a total of 8.875 percent ($518 million); repealed the sales tax exemption on clothing and footwear items that cost more than $110 ($119 million in 2010); and ended the sales tax exemption on energy purchased from energy service companies ($83 million in 2010). The State also approved the City's proposed business tax reforms, which will generate a net of $159 million in FY 2010. These reforms include closing certain tax loopholes, bringing City tax laws into closer conformity with State law, and changing the unincorporated business tax so that fewer small businesses are subject to the tax.

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

Figure 35
Tax Program
(in millions)

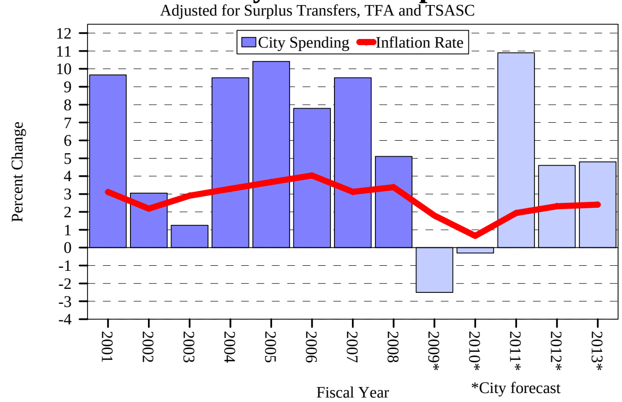
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Enacted in FY 2009					
Increase Real Property Tax Rate	$ 576	$ 1,223	$ 1,298	$ 1,359	$ 1,359
Increase Hotel Tax Rate	15	62	66	35	- - -
Eliminate Property Tax Rebate	- - -	256	256	256	256
Subtotal	**591**	**1,541**	**1,620**	**1,650**	**1,615**
Enacted in FY 2010					
Increase Sales Tax Rate	- - -	518	537	570	606
Repeal Sales Tax Exemption for Clothing Over $110	- - -	119	124	133	141
Impose Sales Tax on Nonutility Energy Purchases	- - -	83	84	87	89
Business Tax Reforms	- - -	159	132	153	140
Subtotal	**- - -**	**879**	**877**	**943**	**976**
Total	**$ 591**	**$ 2,420**	**$ 2,497**	**$ 2,593**	**$ 2,591**

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

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 36).[5] 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 36
Growth in City-Funded Expenditures
Adjusted for Surplus Transfers, TFA and TSASC



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

[5] 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 2.8 percent through fiscal year 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 measures, spending would have grown by 2.4 percent during FY 2009 and by 4.6 percent in FY 2010.

In FY 2011, spending will accelerate by 10.9 percent because of the expiration of the benefit of discretionary actions to reduce debt service costs in FY 2010; collective bargaining agreements; health insurance; 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 4.7 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 54.2 percent of City fund revenues by FY 2013, up from 39.9 percent in FY 2002.

Figure 37
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	$ 12,337	$ 12,563	1.8%	$ 13,013	$ 13,185	$ 13,639	2.8%
Debt Service	4,036	2,571	-36.3%	5,712	6,190	6,471	36.0%
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	2,980	3,556	19.3%	4,226	4,507	4,887	11.2%
Other Fringe Benefits	2,784	2,265	-18.6%	2,062	2,375	2,286	0.3%
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	824	874	6.0%	944	987	1,030	5.6%
Drawdown from Retiree Health Benefits Trust	- - -	(82)	**NA**	(395)	(672)	- - -	**NA**
Other	7,539	8,295	10.0%	8,432	8,764	8,906	2.4%
Subtotal	**42,935**	**42,822**	**-0.3%**	**48,065**	**50,259**	**52,655**	**7.1%**
Actions that Require Outside Approval							
Less Costly Pension Plans for New Workers	- - -	- - -	**NA**	(200)	(200)	(200)	**NA**
Restructure Health Insurance Benefits	- - -	- - -	**NA**	(357)	(386)	(418)	**NA**
Total	**$ 42,935**	**$ 42,822**	**-0.3%**	**$ 47,508**	**$ 49,673**	**$ 52,037**	**6.7%**

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 June Plan is premised on the assumptions shown in Figure 37; 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, which is an increase of 1.8 percent compared to FY 2009—reflecting the wage increases provided to employees, partly offset by the impact of planned staff reductions. Through FY 2013, salary and wage costs are projected to grow by 2.8 percent annually, reflecting the recurring impact of wage increases provided to workers in prior years.[6]

Figure 38
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

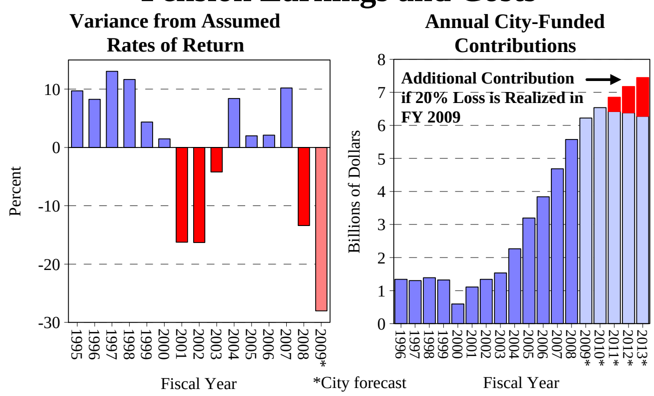
The June Plan assumes that wages will increase by 1.25 percent in each of fiscal years 2011, 2012, and 2013 for all employees (see Figure 38). If wages were to rise at the projected inflation rate instead, the City would incur additional costs of $110 million in FY 2011, $318 million in FY 2012, and $590 million in FY 2013.

Overtime spending in the uniformed agencies comprises 85 percent of citywide overtime costs, and has grown from $684 million in FY 2008 to a projected $767 million in FY 2009. These costs are projected to decline by $82 million in FY 2010 and then to rise to about $705 million annually in subsequent years. Our review indicates that in the Police Department these costs could be higher than planned by $80 million annually.

2. Pension Contributions

As shown in Figure 39, 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

Figure 39
Pension Earnings and Costs



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

6 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.

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 of 8 percent. Due to the sharp downturn in the equity and real estate markets, the June Plan assumes that the pension funds will lose 20 percent of their value in FY 2009, which would require the City to increase its planned contribution by $2.4 billion through FY 2013. It appears that the actual loss was somewhat less than 20 percent, which will permit the City to slightly scale back its planned contribution.

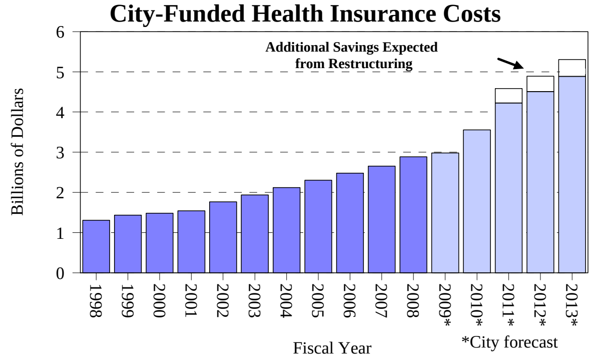
City contributions to the five actuarial pension systems are projected to rise from about $1.5 billion annually in the late 1990s to $6.5 billion in FY 2010, reflecting actual investment performance, benefit enhancements, and labor agreements. Contributions are currently projected to reach $7.4 billion 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 39). These estimates also reflect the June Plan assumption that the State will approve less costly pension plans for new employees, which will generate savings of $200 million beginning in FY 2011.

3. Health Insurance

Health insurance costs for active employees and retirees are projected to grow by 64 percent during the financial plan period, from $2.9 billion in FY 2009 to $4.9 billion in FY 2013 (see Figure 40).[7] The growth is based on the assumption that health insurance premiums will increase by 9.43 percent in FY 2009, 11.5 percent in FY 2010, and 8 percent annually through FY 2013.

Figure 40

City-Funded Health Insurance Costs



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

The June Plan assumes that these costs will be reduced by $200 million in FY 2010, $557 million in FY 2011, $536 million in FY 2012, and by more than $550 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 annually thereafter. Most of the savings are expected to come from changing network providers, instituting copayments, and administrative savings.

[7] 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.

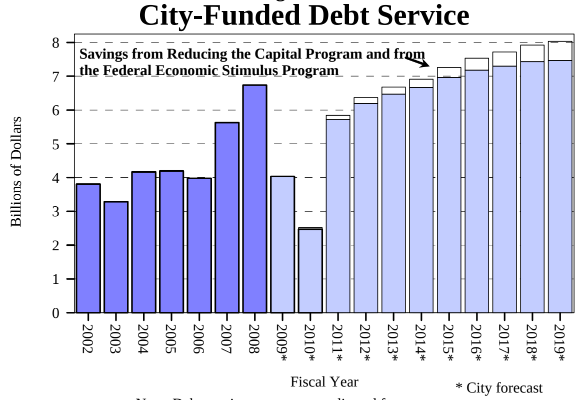
Under the agreement, the City is guaranteed annual savings of $112 million by the Health Stabilization Fund (HSF). In addition, the HSF will fund a one-time contribution of $117 million to the unions' welfare fund and will transfer $46.1 million in FY 2010 and $44.2 million in FY 2011 to the City's general fund for budget-balancing purposes. The City and the unions have not yet reached agreement on the balance of the savings ($357 million in FY 2011, $386 million in FY 2012, and $418 million in FY 2013) anticipated in the June Plan from restructuring health insurance costs.

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 of the amount that was anticipated before the economic slowdown.

4. 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.[8]

Figure 41
City-Funded 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 $4.0 billion in FY 2009 to $6.5 billion in FY 2013—an increase of 60 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

8 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.

reflected in the City's debt service estimates (see Figure 41).[9] 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.

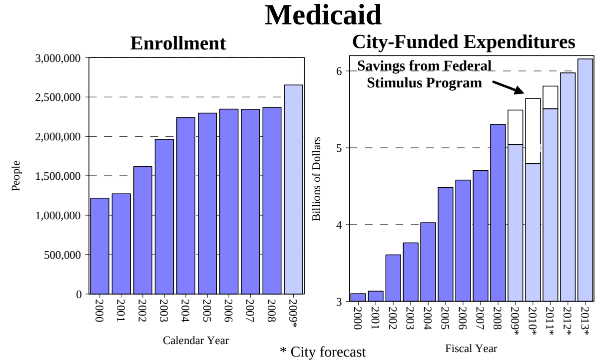
The June Plan also assumes the issuance of $1.7 billion in Qualified School Construction Bonds (QSCBs) during the financial plan period. QSCBs were authorized as part of the American Recovery and Reinvestment Act of 2009, will provide tax credits to investors, and are designed to be issued without interest cost to the issuer. In addition, the June Plan assumes the City will need to reenter the short-term borrowing market in FY 2011—when it plans to borrow 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 activity on Wall Street and in the real estate markets.

5. 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 42).

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 economic stimulus program 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 42). The cost to the City will jump by 15 percent, or $715 million, as these federal funds are exhausted during FY 2011.

Figure 42
Medicaid



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

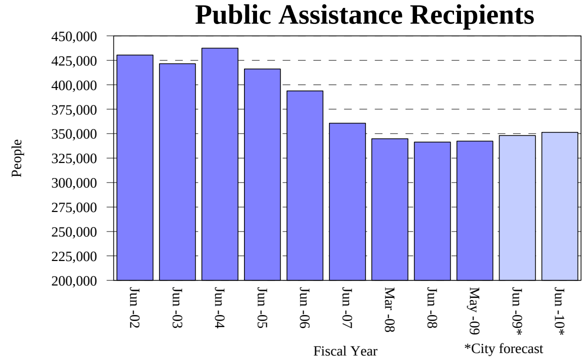
9 The City used $1.3 billion in surplus resources in FY 2007 to pay down debt due in fiscal years 2009 and 2010, which reduced debt service in those years. In FY 2008, the City used $2 billion in surplus resources to pre-fund FY 2010 debt service; however, the City no longer plans to use $530 million in surplus resources in FY 2009 to pay down debt in FY 2011.

6. Public Assistance

Between March 1995 and June 2002, the public assistance caseload declined by more than half. The caseload then rose by 16,000 people during the 2000-2003 recession, 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 (see Figure 43). The June Plan assumes that the caseload will rise by 9,072 individuals by December 2009, and then remain at that level. In addition, the City could be called upon to fund an increase in grants after the federal stimulus funds are exhausted, which the City estimates will cost $58 million in FY 2013.

Figure 43

Public Assistance Recipients

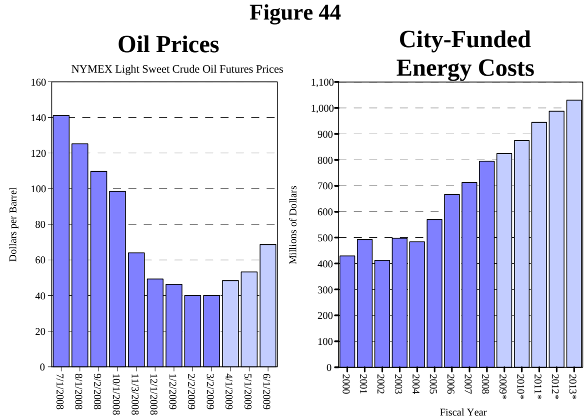


Sources: NYC Human Resources Administration;
NYC Office of Management and Budget; OSDC analysis

7. Energy Costs

Energy costs are projected to reach $1 billion by FY 2013 (see Figure 44), which is much lower than previous forecasts 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 $68.58 per barrel as of June 1, 2009 (see Figure 44). The June Plan assumes that oil will average $50.30 per barrel during fiscal years 2010 through 2013, which is less than 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 approximately $30 million annually beginning in FY 2010.

Figure 44



* City forecast

Sources: NYC Comptroller's Office; NYC Office of Management and Budget;
U.S. Energy Information Administration; OSDC analysis

8. Judgments and Claims

Judgments and claims are expected to total $663 million in FY 2010 and rise to $844 million by FY 2013, 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 settlements related to special education, which are typically paid out of the Department of Education’s budget).

9. Homeless Services

As of May 2009, the municipal shelter system housed 9,538 families (13,722 adults and 15,147 children), and more families are submitting first-time applications for shelter. During the first eight months of FY 2009, new applications from families totaled 9,253, a 37 percent increase compared to the same period in FY 2008. The number of single adults in municipal shelters has grown by 10 percent since the beginning of FY 2009, to reach 6,754. Another 600 single adults are enrolled in special housing programs for veterans and the chronic, long-term homeless population. In response to the rising demand for shelter, the City has increased placements in permanent housing, by 17 percent for families and by 3.5 percent for single adults.

The City-funded expenditures for providing shelter to homeless families and single adults are projected to total $232 million annually. During FY 2010, the City expects to receive $74 million in federal stimulus funds for assistance to homeless or at-risk individuals and families, including temporary financial assistance; housing relocation; and housing-related support services. The City has not yet indicated whether these resources will be sufficient to meet the growing needs for homeless services.

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.

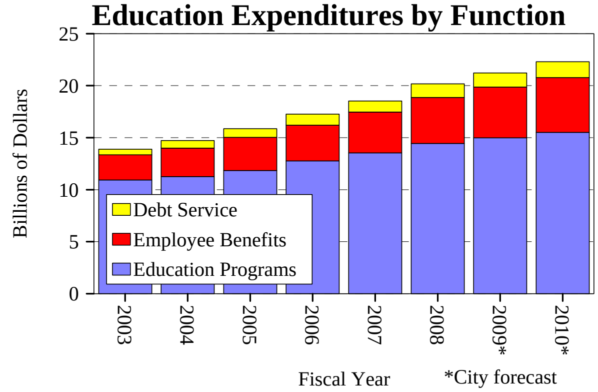
A. Department of Education

The June Plan allocates a total of $22.3 billion to the Department of Education (DOE) in FY 2010, an increase of $1.1 billion over the current school year. Of this amount, $546 million has been allocated to cover rising costs for employee fringe benefits and debt service, and $530 million has been allocated to cover the cost of educational programs, such as higher teachers' salaries (see Figure 45).

City funding is expected to total $11 billion in FY 2010, an increase of $467 million. While State assistance is expected to decline by $381 million to $8.4 billion in FY 2010—the first decline in six years—the reduction will be more than offset by $1 billion in federal stimulus aid. In total, the City's public schools will receive nearly $2.8 billion in federal aid in FY 2010—the highest level ever. 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 funds during fiscal years 2012 and 2013, when the benefits of that program will be exhausted ($1 billion).

Figure 45

Education Expenditures by Function



Sources: NYC Office of Management and Budget; OSDC analysis

Over the course of the past year, the City reduced planned funding to the DOE in FY 2010 by a total of $789 million to help balance its own budget. The DOE has not yet determined the impact these cuts will have on educational services. The DOE was spared reductions in its capital program, however, because the federal economic stimulus program allows the issuance of $1.7 billion in federal school tax credit bonds, which will reduce the City's borrowing costs for school projects.

The cost of court-ordered private special education placements has risen rapidly, from $14 million in FY 1999 (for 860 vouchers) to a projected $168 million in FY 2009 (for 3,404 vouchers). Recent rulings by the U.S. Supreme Court could increase these costs beyond planned amounts, creating a significant, unfunded liability. In addition, the cost of health insurance for DOE employees could be $125 million higher than anticipated in FY 2013 because health insurance premiums and the number of retirees are likely to be greater than assumed in the June Plan.

B. Metropolitan Transportation Authority

The Governor and State Legislature have taken important steps to stabilize the operating budget of the Metropolitan Transportation Authority (MTA) and to fund its next five-year capital program. Additional State assistance, combined with higher fares and internal belt-tightening, will allow the MTA to close a two-year operating budget gap of $5 billion, and help fund its capital program.

The MTA's operating budget gap was attributable to a sharp drop in real estate transaction tax collections as a result of the economic recession, along with rising debt service and fringe benefit costs. To help close the gap, the State approved new taxes and fees that will generate more than $2.9 billion this year and next; a 10 percent increase in fares and tolls will raise $750 million; and management actions are expected to free up more than $800 million.

Despite these actions, a recent report by the Office of the State Comptroller found that the MTA still faced a budget gap of $100 million in FY 2009 and $60 million in FY 2010. In addition, the report identified a number of budget risks that could make balancing the budget in those years more difficult. The report concluded that despite the risks, the MTA should be able to manage its budget. (Subsequent to the issuance of the report, the federal government authorized transit agencies to use up to 10 percent of their federal stimulus funds for operating purposes, which in the case of the MTA totals $110 million.)

The MTA recently announced that it will issue up to $600 million in revenue anticipation notes to meet its cash flow needs during the balance of the calendar year, because the revenues from the new State taxes and fees are not expected to be received until late in the calendar year. The MTA intends to repay the notes before the end of the current MTA fiscal year, which ends on December 31, 2009.

The MTA has not yet proposed a new five-year capital program for 2010-2014, but even a pared-down capital program could have a funding gap of $15 billion. The MTA's current financial plan assumes the issuance of $15 billion in debt to fund the next capital program—nearly 60 percent more than the current program. Such a heavy reliance on debt would place increasing pressure on the operating budget, just as heavy borrowing in the past has contributed to the MTA's current fiscal crisis. Moreover, if the federal reauthorization for transit spending is delayed until April 2011, as the President has recommended, the funding gap could be even larger because the MTA had anticipated a large increase in federal funding for capital projects.

C. Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) expects to end FY 2010 with a cash balance of $916 million, and projects that its cash reserves will decline to $21 million by the end of FY 2013. Moreover, this estimate assumes that certain management actions to reduce costs and generate revenue will be successful. If not, the HHC could exhaust its cash reserves during FY 2011.

The HHC intends to seek nearly $500 million in additional federal and State aid beginning in FY 2011. The success of this initiative could be complicated by efforts at the State and federal level to close large projected deficits. The HHC also plans to reduce costs by $340 million annually beginning in FY 2010 by improving procurement and billing, reducing judgments and claims costs, and closing several community health and school-based mental health clinics. In addition, for the first time since the mid-1990s, the HHC intends to reduce staff by 400 people, mostly through attrition.

As part of the City's effort to bring its debt service costs in line with revenue growth, City support for the HHC's ten-year capital program has been reduced by a total of $385 million. Thus far, the HHC has eliminated planned expansions and renovations to ambulatory care clinics, emergency rooms, and outpatient services, and has reduced funding toward the purchase of new equipment and expanded information systems. The HHC is also downsizing major modernization projects at Bellevue Hospital Center, Gouverneur Healthcare Services, Harlem Hospital, and Kings County Behavioral Health Center. The HHC has requested federal stimulus aid to help meet its capital objectives, but has not yet received approval.

D. 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 other 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 resources, 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.

E. Hudson Yards Infrastructure Corporation

As part of the City's effort to redevelop the far West Side of Manhattan, the City created the Hudson Yards Infrastructure Corporation (HYIC). The HYIC is authorized to issue up to $3.5 billion in bonds to finance the extension of the No. 7 subway line and other improvements on the far West Side. The HYIC issued $2 billion in bonds in December 2006, with interest payments beginning in FY 2008. In the near term, development within the Hudson Yards Special District is not expected to generate sufficient revenues to cover both principal and interest payments, and thus the City Council has agreed to support, subject to annual appropriation, the interest costs on up to $3 billion of HYIC bonds to the extent that project revenues are insufficient to cover principal and interest costs.

In fiscal years 2008 and 2009, interest payments from the City have not been needed because enough revenue has been generated—from the investment earnings on unused bond proceeds, the receipt of tax equivalency payments (i.e., the property tax generated by improvements to residential properties), and the sale of development rights—to fully fund the interest payments on the HYIC bonds. Revenues are currently sufficient enough that the City expects its interest liability to be reduced to $43 million from $85 million in FY 2010, but the June Plan assumes that the City will fund the full interest cost in subsequent years.

The MTA is constructing the $2 billion extension of the No. 7 subway line from its existing terminus at 41st Street and 8th Avenue to 34th Street and 11th Avenue with funding provided by the HYIC. A station at 41st Street and 10th Avenue is no longer part of the project due to insufficient funding. Currently, no agreement exists regarding whether the MTA, the HYIC, or the City would fund any cost overruns on the extension if they were to occur.

The MTA, the Long Island Rail Road, and a joint development venture of Related Companies and Goldman Sachs Group have signed an agreement to determine a contract regarding development over the eastern and western rail yards located at the southern end of the Hudson Yards Special District. The contract was originally expected in November 2008, but as a result of the economic downturn the MTA and Related have agreed to delay a contract for the eastern rail yard until January 31, 2010, and for the western rail yard until January 31, 2011 (the latter is in the process of being rezoned).

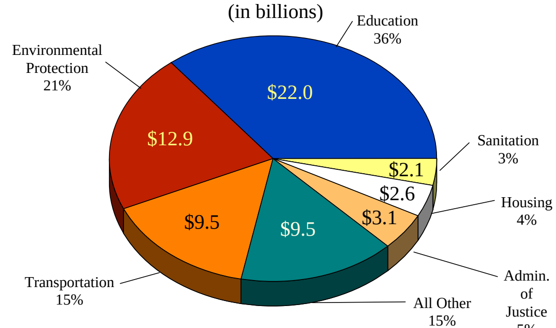
X. Other Issues

The following issues could have a significant impact on the City's financial plan.

A. Ten-Year Capital Strategy

In May 2009, the City released its biennial ten-year capital strategy, which calls for investing a total of $61.7 billion during fiscal years 2010 through 2019. The amount of capital investment is 26 percent smaller than the plan released two years ago, and reflects the Mayor's efforts to rein in capital spending so the growth in debt service can be brought in line with the growth in projected revenues, which have weakened due to the recession.

Figure 46
Ten-Year Capital Strategy
2010-2019 = $61.7 billion
(in billions)



Sources: NYC Office of Management and Budget; OSDC analysis

As shown in Figure 46, more than 70 percent of capital resources ($44.4 billion) would be invested in education, environmental protection, and transportation. Funding for the ten-year capital plan is expected to come from a combination of City resources ($47 billion, or 76 percent), State resources ($11.5 billion, or 18.6 percent), and federal resources ($3.1 billion, or 5 percent).

In June 2007, the City exhausted the debt-issuing authority ($13.5 billion) of the Transitional Finance Authority (TFA), which was created in 1997 as a temporary financing mechanism when the City was approaching its constitutional debt limit.[10] The State recently authorized the City to issue additional TFA debt as long as the total of any combination of TFA and GO bonds outstanding does not exceed the City's debt limit by more than $13.5 billion. This will allow the City to realize savings from diversifying its financing vehicles; it will also allow the City to effectively exceed the constitutional debt limit on an ongoing basis without amending the State Constitution.

B. Capital Maintenance

The regular maintenance of the City's capital assets is funded through the operating budget. Although the City has identified $329 million in maintenance needs, only $162 million has been funded. The Department of Education accounts for one third of the needs ($107.8 million), but only $16.7 million has been funded. The City has also identified $5.6 billion in state-of-good-repair capital needs, which are more extensive repair projects. About half of those needs ($2.8 billion) have been funded.

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[10] The State Constitution limits the City's general debt-incurring power to 10 percent of the five-year average of the full valuation of taxable real estate.

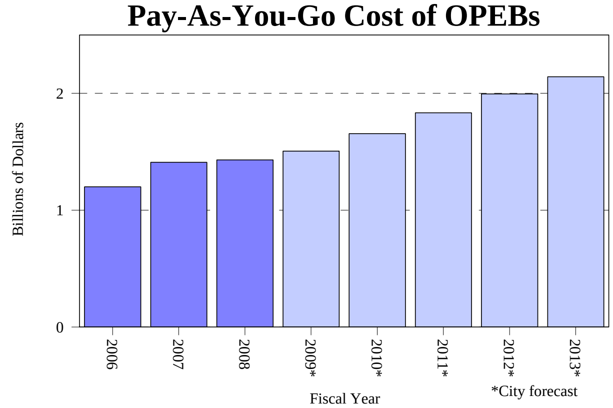
C. Other Post-Employment Benefits

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

In September 2008, the City reported that its accrued liability for past OPEB services was $63.3 billion, and estimated that the present value of its future OPEB obligations was $41 billion. Overall, the present value of projected OPEB benefits totaled $104.3 billion, an increase of $2.3 billion from the FY 2006 level. The "normal cost," or the portion of the present value of future obligations that is attributed (on an actuarial basis) to services received in the current year, was estimated at $3.1 billion. OPEB costs (on a pay-as-you-go cash basis) are projected to rise from $1.2 billion in FY 2006 to $2.1 billion by FY 2013 (see Figure 47), an average annual increase of 8.6 percent.

Figure 47

Pay-As-You-Go Cost of OPEBs



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

To address the growing cost of OPEBs, the City created its own Retiree Health Benefits Trust (RHBT) in 2006, setting aside surplus resources to help fund future costs. These resources are invested, and any earnings will reduce future costs to City taxpayers. The City contributed $2.5 billion to the RHBT during fiscal years 2006 and 2007, when the local economy was booming. In the current recession, however, the Mayor has proposed using $1.1 billion of these resources over a three-year period to help balance the operating budget, which will increase taxpayers' future liability.

D. Governmental Accounting Standards Board Statement No. 49

GASB's Statement No. 49 requires certain pollution remediation costs to be accounted for as expense items. Pursuant to the Financial Emergency Act (FEA), such costs may not be included in the City's capital budget or financed through the issuance of bonds, absent action by the Financial Control Board.

The City was required to begin compliance with GASB 49 as of the start of FY 2009 (i.e., July 1, 2008). The City estimated that immediate 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.[11] These costs would have hit the expense budget at the same time that the City was dealing with the revenue losses anticipated from the economic slowdown and the Wall Street credit crunch. In addition, the City had difficulty identifying the environmental remediation component of larger capital projects, such as school renovations. Pursuant to the FEA, the City would have been unable to move forward with these capital projects until the environmental remediation costs were identified. (The City hired KPMG to assist in this effort.)

While the City has complied fully with GASB 49 for financial reporting purposes, it has sought additional time to comply with GASB 49 for budgeting purposes as required by the FEA. (The FEA authorizes the Financial Control Board to phase in the implementation of new accounting standards when immediate implementation would have a substantial adverse impact on the delivery of essential services.) Given the potential impact on the budget and the technical challenge of identifying the environmental remediation component of larger capital projects, the Financial Control Board approved a resolution on April 30, 2008, which defers the City's implementation of GASB 49 for budgeting purposes until July 1, 2010. The resolution requires the City to report twice each year on its progress in complying with GASB 49 for budgeting purposes.

The City issued its first report in December 2008, which indicated that the City was focused on working with its consultant and agencies to ensure that the City's FY 2009 financial statements include the required implementation of GASB 49. In June 2009, a second report was issued that discussed the City's progress and stated that the City will turn its attention to estimating the budgetary impact of GASB 49 after the completion of the FY 2009 financial statements. The City expects such an estimate to be available by the end of calendar year 2009.

E. Financial Emergency Act

The Financial Emergency Act (FEA) was scheduled to terminate on July 1, 2008, but was effectively extended until 2033 when the State assumed responsibility (in 2003) for the outstanding 1970s fiscal crisis debt of the Municipal Assistance Corporation. Even though the Financial Control Board's authority to impose a control period terminated on July 1, 2008, it still annually reviews the five conditions that have been

[11] The City now states that compliance with GASB 49 for budgeting purposes would result in "significant increased costs to the City's expense budget."

identified in the FEA as indications of serious fiscal stress for New York City that could jeopardize the orderly functioning of the City's fiscal affairs.

One of those conditions relates to access to the credit markets. Although the City's credit rating remains high, it had to reduce the size of planned debt issuances during the fall of 2008 in response to a lack of liquidity in the financial markets. While the market has stabilized and the City has been able to satisfy its borrowing needs, the State has approved changes to the FEA that will permit the City to issue bond anticipation notes for one year rather than six months, to provide greater flexibility in the event that future disruptions occur in the municipal credit market. The City had previously proposed legislation to restore the Financial Control Board's authority to impose a control period and grant additional discretionary authority to waive new accounting regulations (such as GASB 49 for budgeting purposes).

F. New York City's Credit Rating

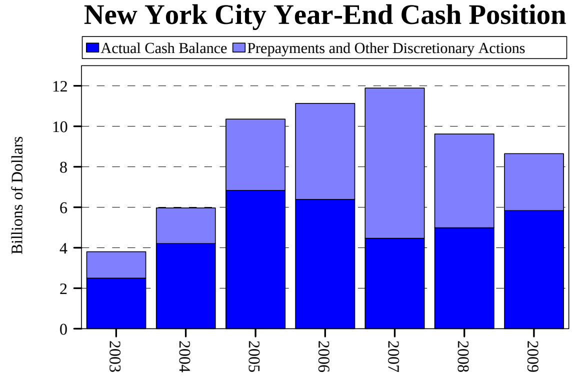
Since the summer of 2007, the City's credit ratings have been the highest in at least 70 years ("AA" from Standard & Poor's, "Aa3" from Moody's Investors Service, and "AA-" from Fitch Ratings). The ratings reflect the City's comprehensive financial planning process and the proactive steps the City has taken to address budget risks. Although the current credit outlook remains stable, the rating agencies continue to express concern about the recession; the City's heavy reliance on Wall Street; the rising cost of debt service, pension contributions, and post-employment benefits other than pensions; and the size of the budget gaps projected for New York State.

G. Cash Flow

The City's year-end cash balance rose sharply between fiscal years 2003 and 2007, reflecting the strength of the economy, and approached $12 billion by the end of that period when adjusted for surplus transfers and other discretionary actions (see Figure 48). Given these large cash reserves, the City did not need to borrow to meet its cash needs during fiscal years 2005 through 2009. The recession has reduced revenue collections, however, and the City's cash balances have begun to fall. Despite the early payment of FY 2010 property tax revenues, the adjusted year-end cash balance is expected to decline from $8.6 billion at the end of FY 2009—$3.2 billion less than the FY 2007 peak—to $5.4 billion at the end of FY 2010. The City intends to resume short-term borrowing in FY 2011.

Figure 48

New York City Year-End Cash Position



Note: Adjusted for surplus transfers and other discretionary actions.
Sources: NYC Comptroller's Office; NYC Office of Management and Budget; OSDC analysis

H. World Trade Center Claims

The City and its contractors face about 11,900 claims that allege injuries ensuing from rescue and cleanup work at the World Trade Center (WTC) site. In 2004, the WTC Captive Insurance Company was formed to cover these kinds of claims, using $1 billion in federal aid—but the City cannot assure that the insurance will be sufficient to cover all the liability that could arise. The Mayor and members of Congress have previously proposed legislation that would mitigate the City's liability, but no such legislation has been passed.

I. Water and Sewer Rents

New York City leases its water and sewer systems to the Water Board, which sets user fees to reimburse the Municipal Water Finance Authority (MWFA) for the debt service on bonds and to reimburse the City for costs associated with the operation and maintenance of the systems. In addition, the City has the right to request a rental payment from the Water Board of either the debt service on outstanding City general obligation (GO) debt issued for water and sewer purposes, or 15 percent of the debt service on outstanding water- and sewer-related debt issued by the MWFA.

Since FY 2005, the City has requested rental payments based on MWFA debt service. As the discrepancy between these two methodologies has widened, water and sewer ratepayers began to provide the City with a growing amount of revenues that could be used to help balance the City's operating budget. These additional annual payments are projected to reach $225 million by FY 2013. Water and sewer rates have risen sharply in recent years. In May 2009, the Water Board approved a 13 percent increase in FY 2010 user fees, which followed a 40 percent increase since FY 2006.

J. Federal Health Care Reform

At the President's urging, Congress is considering a wide range of health care reforms as part of an effort to expand coverage, improve services, and reduce costs. In New York City, 1.3 million people are uninsured; 2.7 million people are enrolled in Medicaid and Family Health Plus; and nearly 500,000 individuals receive employer-sponsored health insurance coverage through the municipal government. In FY 2009, the City will spend an estimated $9 billion to provide public health insurance ($5.1 billion), cover current and retired municipal employees and their dependents ($3.4 billion), and subsidize health care for the uninsured ($533 million).

Congress is considering proposals to create a national public health insurance plan that would compete with private insurance plans, require employers with more than 25 employees to provide coverage or pay annual fees, prohibit denial of coverage for preexisting conditions, and prohibit varying premiums based on health. Congress is expected to expand health insurance coverage for low-income people through the federal Medicaid program, which is partially funded by the states. The cost of health care reform could exceed $1 trillion over the next ten years. Funding these reforms without increasing the size of the federal deficit will be difficult, but a number of potential sources have been identified, including taxing health insurance benefits; increasing tax rates on high-income earners; reallocating existing health insurance resources; and generating savings from pharmaceutical companies and hospitals. It remains to be seen how these reforms, if enacted, will affect the New York City health care industry and the City budget. Congress is expected to act by the end of calendar year 2009.

K. World Trade Center Redevelopment

The Port Authority of New York and New Jersey (PA) and Silverstein Properties are negotiating issues regarding the redevelopment of the former World Trade Center (WTC) site. Silverstein is responsible for financing and constructing three of the five planned office towers, but due to the recession Silverstein has been unable to obtain private financing to proceed with construction of all three towers. Silverstein is now seeking public financing from the PA, but the agency has been reluctant to finance more than one of Silverstein's towers because it objects to shifting any more capital resources away from public transportation projects and into speculative office space (Silverstein's two other towers do not have any committed tenants). The PA is already devoting more than $11 billion to redevelopment of the WTC site, or 44 percent of its capital program. The PA is building One World Trade Center—the largest tower on the site, at 1,776 feet—which is expected to be completed in 2013 at a cost of more than $3 billion. The PA is also responsible for building the WTC Transportation Hub and the 9/11 Memorial and Museum. Silverstein has indicated that it may seek a resolution through binding arbitration as permitted under the 2006 master development agreement if negotiations are unsuccessful.

Appendix:
City-Funded Staffing Levels

City-funded full-time and full-time-equivalent staffing levels are expected to decline by a net of 7,212 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 9,377 employees and reduce personal service costs by $516 million in FY 2010.

- The Police Department expects to reduce staffing by 1,911 officers and 796 civilians by the end of June 2010. The police force is forecast to decline to 33,217 officers by the end of FY 2010—the lowest level since FY 1990. In June 2009, the Mayor and the City Council restored the proposed layoffs of 395 civilian positions that were planned for FY 2010.

  As of May 2009, however, the Police Department employed 35,730 officers, and it appears unlikely that it will meet its June 30, 2009, staffing target of 35,128 officers.

- The Department of Education will reduce its teaching staff, through attrition, by 1,178 employees by the end of June 2010, and will add 458 non-pedagogical employees. As of July 2009, the DOE still has not notified municipal unions regarding its plan to implement the FY 2010 headcount reductions.

- The Department of Social Services will eliminate 606 vacant positions by June 2010.

- The Administration for Children's Services will reduce staffing by 628 employees (including 501 layoffs) by June 2010.

- The Fire Department will reduce the number of firefighters by 51 and civilians by 120 employees, both through attrition.

- The Department of Correction will reduce uniformed staffing by 490 employees and will add 28 civilian employees by the end of June 2010.

- The Department of Sanitation will reduce staffing by 218 uniformed positions by June 2010, and by 6 civilians by the end of June 2010.

- The Department of Homeless Services will reduce staffing by 339 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**	**82,851**	**79,442**	**(3,409)**
Police Dept.	Uniform	35,405	35,128	33,217	(1,911)
	Civilians	16,467	16,603	15,807	(796)
Fire Dept.	Uniform	11,578	11,223	11,172	(51)
	Civilians	4,770	4,888	4,768	(120)
Correction	Uniform	8,413	8,658	8,168	(490)
	Civilians	1,411	1,471	1,499	28
District Attys. & Prosecutors		3,582	3,291	3,291	- - -
Probation Department		931	925	899	(26)
Other		459	664	621	(43)
Health and Welfare		**25,208**	**25,858**	**24,339**	**(1,519)**
Social Services		10,478	11,347	10,741	(606)
Children's Services		7,101	6,761	6,133	(628)
Health and Mental Hygiene		5,298	5,127	5,213	86
Homeless Services		2,055	2,225	1,886	(339)
Other		276	398	366	(32)
Environment & Infrastructure		**19,736**	**18,777**	**17,900**	**(877)**
Sanitation	Uniform	7,556	7,452	7,234	(218)
	Civilians	1,943	2,014	2,008	(6)
Dept. of Transportation		2,345	2,312	2,190	(122)
Parks & Recreation		7,417	6,666	6,235	(431)
Other		475	333	233	(100)
General Government		**9,167**	**9,459**	**9,258**	**(201)**
Finance		2,203	2,225	2,139	(86)
Law Department		1,370	1,315	1,318	3
Citywide Admin. Services		1,387	1,632	1,738	106
Taxi & Limo. Commission		422	458	461	3
Investigations		241	270	239	(31)
Board of Elections		550	373	373	- - -
Info. Technology & Telecomm.		1,057	1,170	1,089	(81)
Other		1,937	2,016	1,901	(115)
Housing		**1,937**	**2,111**	**1,984**	**(127)**
Buildings		1,240	1,352	1,315	(37)
Housing Preservation		697	759	669	(90)
Department of Education		**121,083**	**119,743**	**119,023**	**(720)**
	Pedagogues	97,189	96,921	95,743	(1,178)
	Non-Pedagogues	23,894	22,822	23,280	458
City University of New York		**6,931**	**6,504**	**6,350**	**(154)**
	Pedagogues	4,406	4,126	4,049	(77)
	Non-Pedagogues	2,525	2,378	2,301	(77)
Elected Officials		**2,520**	**2,566**	**2,361**	**(205)**
Total		**269,598**	**267,869**	**260,657**	**(7,212)**

Sources: NYC Office of Management and Budget; OSDC analysis