



Review of the Financial Plan of the City of New York

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Highlights

- New York City lost 176,700 jobs during the recession—about half of the loss predicted by the City in June 2009.
- Wall Street earned \$21.4 billion in the first three quarters of 2010—on pace for the second-highest profitability on record.
- Nonproperty tax revenues are projected to rise by 5.6 percent in FY 2011 after two years of decline.
- City-funded spending is expected to grow by 4.4 percent in FY 2011 and 6.6 percent in FY 2012, driven by nondiscretionary costs.
- Debt service could consume 14 percent of City fund revenues by FY 2014—the highest level since FY 2002.
- The Mayor increased funding to education by \$853 million in FY 2012 to replace expiring federal stimulus aid, but he also proposed budget cuts that would reduce the net benefit to \$503 million.
- The Mayor also would transfer \$270 million in FY 2012 from general education to fund special education mandates.
- The November Plan includes an annual pension reserve of \$1 billion beginning in FY 2012 to revise actuarial assumptions and methods, but the cost could be higher.
- As of June 30, 2010, the City's accrued OPEB liability was \$75 billion—\$9.4 billion more than in the prior year.
- The Mayor rescinded a two-year wage increase for teachers in 2009 and 2010 when other employees received 4 percent annual increases. The City's financial plan assumes a two-year wage freeze for all employees in fiscal years 2011 and 2012.

New York City's economy is recovering from the recession at a faster pace than the nation and the rest of New York State. In the ten months after December 2009, the City regained 76,300 private sector jobs—about 47 percent of the jobs lost—but the unemployment rate remains high.

Unlike past economic recoveries, Wall Street has not led the way. Wall Street was still shedding jobs while other sectors, such as retail trade and health care, were adding jobs, but preliminary data suggests that Wall Street may now be adding jobs.

Nevertheless, New York City still faces large budget gaps. In an effort to narrow the gaps, the Mayor has proposed budget cuts that would reduce the workforce by 8,264 employees by June 30, 2012, including 5,312 layoffs. The cuts would fall hardest on the City's schools and the neediest citizens.

Even after accounting for the FY 2011 surplus (\$1.2 billion) and implementation of the Mayor's budget cuts, the City projects budget gaps of \$2.4 billion in FY 2012, \$4.8 billion in FY 2013, and \$5.6 billion in FY 2014 as federal stimulus funds expire and nondiscretionary costs rise.

These gaps could be much larger depending on the outcome of the State budget. The State faces a budget gap that could exceed \$9 billion for next year, and how it closes the gap could have serious implications for the City and other localities.

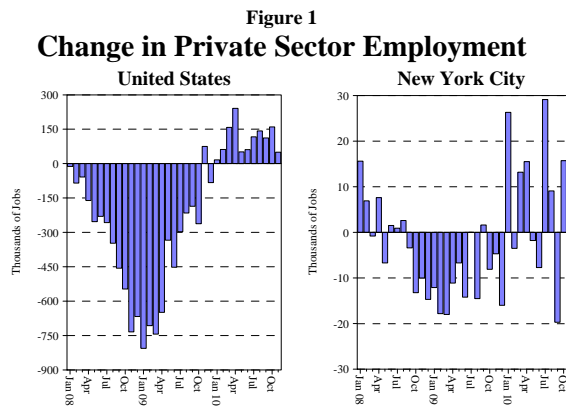
The City's financial plan assumes that the State will increase education aid by \$738 million and restore \$302 million in revenue sharing aid, which is unrealistic given the State's fiscal condition. In fact, the State may reduce aid as it did last year.

New York City has relied heavily on nonrecurring resources to balance its budget during the recession. Maintaining core municipal services at current levels will become increasingly more difficult as those resources are exhausted and the State takes steps to balance its budget.

Economic Outlook

The national economic recovery slowed markedly in the spring and early summer, but recent data show that economic conditions are improving. In the third quarter of 2010, the Gross Domestic Product rose at a 2.5 percent annualized rate, after a gain of 1.7 percent in the second quarter. Consumption spending rose by 2.8 percent in the third quarter, which was the best growth rate in four years, and business spending remained robust.

The national job market has improved, but job gains remain weak (see Figure 1). The private sector added 1.2 million jobs between December 2009 and November 2010 (a gain of 1.1 percent), but growing job losses in government—primarily at the local level—have held the total gain to 951,000 jobs. Moreover, job growth has been insufficient to significantly reduce the unemployment rate, which stood at 9.8 percent in November 2010, only slightly less than the peak (10.1 percent) reached in October 2009.



In an effort to further stimulate the economy and combat the risk of deflation, the Federal Reserve has embarked on a new round of quantitative easing. The aim is to reduce long-term interest rates (as short-term rates are close to zero) by purchasing up to \$600 billion of longer-term Treasury securities through mid-2011.

The City's November 2010 financial plan (the "November Plan") assumes that the national economy will grow by 2.6 percent in 2010 but then slow to 2.1 percent in 2011—both slightly lower than forecasts from IHS Global Insight and the Blue Chip Economic Consensus. The Plan also assumes that the national labor market will remain weak through 2011, and that the Federal Reserve will begin raising short-term interest rates in 2012.

New York City's economy did not lose as many jobs as initially feared—despite being at the center of the financial crisis that precipitated the recession—and the current recovery is progressing relatively well. Between December 2009 and October 2010, private sector employment grew by 2.5 percent (76,300 jobs), which was nearly two and a half times faster than the national rate. The City accounted for 88 percent of the private sector jobs gained in New York State during this period.

Job growth, however, has been concentrated in industries that pay less than the average nonfinancial salary (\$58,950 in 2009), such as retail trade, health care, and restaurants. Among higher-paying industries, job growth has been strong in business services, but has been minimal in construction (a recent report by the Building Congress highlighted the large number of stalled building projects in the City), and has continued to decline in the information sector.

Public sector employment has begun to decline, and losses will accelerate as federal stimulus funds are depleted and both the State and City reduce their workforces to close projected budget gaps. Such losses will create a drag on the recovery.

The November Plan assumes that the City will gain 35,000 jobs, on a seasonally adjusted basis, by the end of calendar year 2010. Yet the City has already added more than twice as many jobs, which could translate into higher personal income tax collections. The November Plan assumes modest job gains in subsequent years; these are lower than the forecasts by IHS Global Insight.

Wall Street profitability rebounded sharply in 2009 to a record \$61.4 billion—three times greater than the prior record—as a result of federal government assistance. Industry profits totaled \$21.4 billion through the third quarter of 2010, exceeding the City's estimate for the entire year (\$20.6 billion). While industry profits in 2010 will be much lower than 2009's super-sized level, profitability would still be the second-highest on record. Profits are projected by the City to average \$11.8 billion annually during the balance of the financial plan period as the industry continues to restructure and adjust to regulatory reforms.

As Wall Street returned to profitability, cash bonuses paid to securities industry employees located in New York City grew by 17 percent to \$20.3 billion in 2009. Given compensation and

revenue trends so far this year, it appears the cash bonus pool will be smaller than last year, although the average bonus may be somewhat higher since it will be shared among fewer workers. Regulatory reforms (both enacted and anticipated) could result in the deferral of a larger share of bonuses.

It appears that Wall Street's job losses may have peaked at 30,900 in August 2010. While the industry added 3,000 jobs in September and October, employment data have undergone significant revisions each month, and an annual restatement is scheduled for March 2011—which could change the current employment picture. With only two months of job gains and continued reports of firms downsizing as they restructure, we are reluctant to conclude that Wall Street is adding jobs on a sustained basis. However, if the industry is adding jobs, the State and City economies (and tax collections) will surely benefit.

Another sector that has performed well is tourism. The City now forecasts that the number of visitors will total a record 47.5 million in 2010, a gain of 4.2 percent from 2009. Hotel occupancy has reached 90 percent and average room rates have risen, although prices remain significantly below the peak at the end of 2008. The strength in tourism has also contributed to improved sales tax collections, which have risen by more than 12 percent in the first four months of FY 2011 (after adjusting for the August 2009 tax increases).

The real estate market in New York City is stabilizing. During the third quarter of 2010, the median sales price for Manhattan apartments rose for the second consecutive quarter, and the number of sales increased for the fourth consecutive quarter. Also, the office vacancy rate fell for the first time in two and a half years, although the asking rental rate continued to decline, but at a slower rate. The November Plan forecasts that both vacancy and rental rates will continue to fall, but increases in inventory (such as at the World Trade Center site) will limit the decline in the vacancy rate and prevent rental rates from rising.

Overall, the November Plan expects only modest economic growth during the plan period. While continued improvement in economic data could signal some potential for higher growth, many risks exist, including the ongoing international debt crisis and the potential for political gridlock in Washington to negatively affect fiscal policy.

Changes Since the July 2010 Plan

The City forecasts a surplus of nearly \$1.2 billion in FY 2011 as a result of a drawdown in reserves (\$737 million) and a new agency cost-reduction program (\$585 million), partly offset by a reduction in federal Medicaid budget relief (\$180 million). The resources were transferred to FY 2012 (see Figure 2) and helped reduce that year's budget gap from \$3.3 billion to \$2.4 billion.

Figure 2
Financial Plan Reconciliation
November 2010 Plan vs. July 2010 Plan
(in millions)

	<i>Better/(Worse)</i>			
	FY 2011	FY 2012	FY 2013	FY 2014
Gap Per July 2010 Plan	\$ - - -	\$(3,257)	\$(4,055)	\$(4,835)
Revenue Reestimates				
Sales Tax	142	20	(11)	(54)
Business Taxes	85	(58)	(162)	(203)
Personal Income Tax	(181)	56	65	196
Other Taxes	31	(67)	(96)	(121)
Subtotal	77	(49)	(204)	(182)
Non-Tax Revenues	8	(56)	(11)	4
Total	85	(105)	(215)	(178)
Reserves				
Pension Reserve	600	(400)	(400)	(400)
General Reserve	137	- - -	- - -	- - -
Total	737	(400)	(400)	(400)
Agency Program	585	1,002	917	914
Expenditure Reestimates				
Replace Fed. Education Aid	- - -	(853)	(853)	(853)
Special Education Mandates	- - -	(270)	(320)	(410)
Additional Education Cuts	- - -	270	320	410
FMAP	(180)	(72)	- - -	- - -
Homeless Shelter Capacity	(45)	(59)	(59)	(59)
Health Insurance Costs	(7)	(126)	(195)	(276)
Debt Service	23	341	(45)	(51)
Other Expense Changes	(37)	11	67	160
Total	(246)	(758)	(1,085)	(1,079)
Surplus/(Gap)	1,161	(3,518)	(4,838)	(5,578)
Surplus Transfer	(1,161)	1,161	- - -	- - -
Gap Per November Plan	\$ - - -	\$(2,357)	\$(4,838)	\$(5,578)

Sources: NYC Office of Management and Budget; OSDC analysis

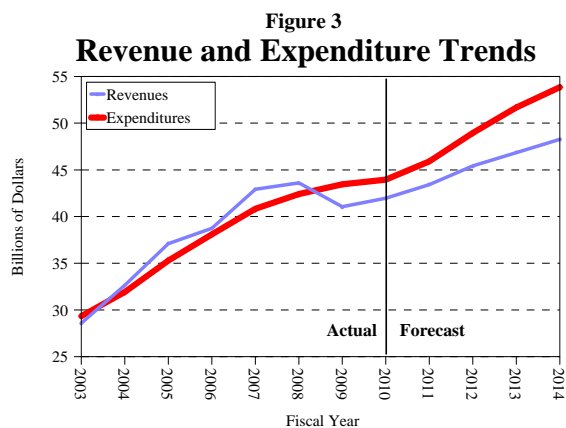
For FY 2012, the City increased education funding by \$853 million to offset the loss of expiring federal stimulus aid. It also transferred resources from high schools to fund the growing cost of special education, resulting in a cut in funding to general education programs of \$270 million in FY 2012, and larger amounts in subsequent years.

The City also raised its annual pension reserve by \$400 million, to reach \$1 billion, to cover the potential cost of revised actuarial assumptions, and raised its forecast of future increases in health insurance premiums to reflect historical trends and the potential impact of federal health care reform. As a result, the budget gaps grew by about \$750 million to reach \$4.8 billion in FY 2013 and \$5.6 billion in FY 2014.

Projected Budget Gaps

After the recession of the early 2000s, surging Wall Street profits and rising real estate values and transactions, combined with conservative revenue forecasts, resulted in large amounts of resources that had not been anticipated at the beginning of the fiscal year. The City used some of these resources to pay down debt, balance future budgets, and to fund reserves.

The recent recession hit the City hard, with City fund revenues dropping abruptly by \$2.5 billion in FY 2009. The City balanced that year's budget and subsequent ones by raising taxes, drawing down resources accumulated in prior years, cutting agency budgets, and receiving federal stimulus aid. Unfortunately, many of these resources were nonrecurring and will be depleted shortly. We estimate that the FY 2011 budget includes \$4.9 billion in nonrecurring resources.



Note: Data adjusted for surplus transfers.
Sources: NYC Office of Management and Budget; OSDC analysis.

Although the growth of City-funded expenditures slowed with the receipt of federal assistance, the growth rate is projected to accelerate when that assistance expires, and to outpace revenue growth during the financial plan period (see Figure 3).

The City faced a budget gap of \$4.5 billion for FY 2012 (about 10 percent of City fund revenue) without the agency cost-reduction program proposed by the Mayor for FY 2012 and the transfer of the projected surplus (\$1.2 billion) from FY 2011 to FY 2012. After taking these actions into account, the November Plan shows budget gaps of \$2.4 billion in FY 2012, \$4.8 billion in FY 2013, and \$5.6 billion in FY 2014. The gaps for fiscal years 2013 and 2014 represent 10 percent and 11.5 percent, respectively, of City fund revenues in those years.

The size of next year's budget gap will depend on the pace of the economic recovery and the outcome of the State budget. The New York State Division of the Budget projects a budget gap of \$9 billion for the State fiscal year beginning on April 1, 2011, and how the State closes its gap could have serious implications for the City.

The November Plan assumes that the State will increase education aid by \$738 million in FY 2012 (even though the State cut education aid to the City by \$493 million this year), and that the State will allocate \$302 million in revenue sharing payments even though such funding was eliminated in this year's State budget. Given the challenges facing the State, an increase in aid is unrealistic. As a result, next year's budget gap could reach \$3.2 billion (see Figure 4). In fact, additional reductions in State aid are likely, which could further widen the projected budget gaps.

Figure 4
OSDC Risk Assessment of NYC Financial Plan
(in millions)

	<i>Better/(Worse)</i>			
	2011	2012	2013	2014
Gaps Per November Plan	\$ ---	\$ (2,357)	\$ (4,838)	\$ (5,578)
Tax Revenues	(140)	465	525	225
Overtime	(100)	(150)	(150)	(150)
Agency Actions	(31)	(71)	(74)	(77)
Prior-Year Expenses	200	---	---	---
State Education Aid	---	(738)	(738)	(738)
State Revenue Sharing	---	(302)	(302)	(302)
OSDC Risk Assessment¹	\$ (71)	\$(796)	\$(739)	\$(1,042)
Gaps to be Closed	\$ (71)	\$(3,153)	\$(5,577)	\$(6,620)
Additional Risks and Offsets				
UFT Collective Bargaining	(898)	(800)	(898)	(900)
Wage Increases at the				
Projected Inflation Rate	(222)	(613)	(1,026)	(1,420)
State Ed. Aid Accrual	(202)	---	---	---

¹ The Plan includes an annual general reserve of \$300 million.

The outcome of collective bargaining also remains uncertain. Last year, the Mayor rescinded a proposed two-year wage increase for teachers (to offset a reduction in State education aid) when most other municipal workers received 4 percent annual wage increases. The teachers' union has begun the nonbinding arbitration process, but a resolution is not imminent. The Mayor has also called on the municipal unions to self-fund wage increases in fiscal years 2011 and 2012 with productivity and savings from restructuring fringe benefits. The outcome of these negotiations will be determined through the collective bargaining process and may not be resolved for some time.

In addition, the State has not yet reauthorized, as promised, the City's ability to accrue certain State education funds in FY 2011 (\$202 million).

As of June 30, 2010, the City's accrued OPEB liability was \$75 billion—\$9.4 billion more than in the prior year. The City, to its credit, deposited \$2.5 billion in the Retiree Health Benefits Trust during the last economic expansion to help fund these costs, but it has begun to draw down these resources to help pay current operating expenses. The City drew down \$82 million in FY 2010, and intends to draw down an additional \$1.1 billion during fiscal years 2011 and 2012.

Although the City is required to fund pension costs on an actuarial basis to ensure that current taxpayers pay their fair share of the cost of services, it is not required to fund other post-employment benefits (OPEBs) on a similar basis. In FY 2010, the City paid only half of the present value of obligations that is attributed, on an actuarial basis, to services received in FY 2010, deferring \$1.4 billion to future taxpayers.

Closing the Projected Budget Gaps

To help close the budget gap projected for FY 2012, the Mayor has proposed reducing agency spending by \$585 million in FY 2011 and by \$1 billion in FY 2012, and reducing staffing by 8,264 positions by the end of FY 2012 (see Figure 5), including 5,312 layoffs.

The Department of Education will meet its cost-saving target in FY 2011 by drawing on additional federal stimulus aid (\$159 million), and by benefiting from the restoration of State aid to special education (\$51 million). The department's cost-saving target for FY 2012 (\$350 million) represents 4 percent of its City-funded budget, and would be met by eliminating 5,398 pedagogical positions, including 4,278 layoffs. These cuts could cause class sizes, which have grown in recent years, to increase even further.

The health and social services agencies would reduce spending by \$260.9 million over the two-year period. While the FY 2012 target represents only 1.6 percent of City funding, it would involve the elimination of 513 positions, including 228 layoffs, and would reduce services to children, seniors, the homeless, and the poor.

The November Plan also eliminates a reserve to offset the impact of inflation on procurement (\$55 million). The uniformed agencies would reduce spending by \$188.9 million in FY 2012 (791 employees), with the largest cuts planned for the Department of Sanitation (\$76 million) and the Police Department (\$67 million).

- The Department of Sanitation would meet its target through landfill and waste export cost reestimates (\$50 million), and by redeploying 200 supervisors to collection duties, a proposal that has encountered union opposition.

Figure 5
Agency Program
(in millions)

	Positions	FY 2011	FY 2012	FY 2012 Target as a Percent of Agency City-Funding
Dept. of Education	5,398	\$ 215.1	\$ 350.0	4.0 %
Health and Social Services	513	117.6	143.3	1.6
Uniformed Agencies				
Police	350	43.1	67.1	1.6
Sanitation	269	25.1	76.0	5.7
Fire	77	22.9	35.9	2.5
Correction	95	4.9	9.9	1.0
Transportation	135	27.1	40.7	9.0
Libraries	404	16.7	19.7	8.0
Dept. of Citywide Adm. Services	- - -	13.6	17.0	8.2
City University of New York	99	13.0	16.2	3.3
Dept. of Information Technology	65	11.0	21.4	8.6
Cultural Institutions	193	8.1	8.8	8.1
Finance	68	7.3	26.1	10.8
Buildings	66	5.6	9.8	9.8
Parks	299	(3.9)	35.7	14.6
Procurement Savings	- - -	- - -	55.5	NA
All Other Agencies	233	57.4	68.9	0.3
Total	8,264	\$ 584.6	\$1,002.0	2.1

Sources: NYC Office of Management and Budget; OSDC analysis

- The Police Department expects additional federal funds, but also would eliminate 350 civilian positions, which could reduce the number of police officers on patrol if they are reassigned to administrative duties.
- The Fire Department plans to close 20 fire companies from 6 p.m. to 9 a.m. through June 30, 2011; impose stricter controls on medical and light duty leave; and eliminate 100 uniformed positions that currently perform administrative duties.

The Department of Transportation would raise passenger and commercial parking rates; and furlough 641 full-time workers for one week, resulting in 9,000 fewer pothole repairs. The Parks Department would reduce staffing by 25 percent. Fees would rise for a number of services. The Mayor also has proposed an 8 percent cut in funding for libraries beginning this year, which would result in decreased library hours, and a similar reduction in funding for cultural institutions, including 193 layoffs. The Department of Finance would hire 61 employees to enhance tax enforcement and would lay off 129 other employees.

Revenue Trends

Economic conditions have improved, and the City's economy is performing better than the national economy. The November Plan assumes that City fund revenues will grow by 3.5 percent in FY 2011, after a 2.2 percent gain in FY 2010 and a 5.8 percent drop in FY 2009. The improvement is driven by the growth in tax revenue collections.

Nonproperty tax collections are forecast to grow by 5.6 percent in FY 2011 after two years of decline. Despite the resumption of growth, City fund revenue collections are not projected to reach pre-recession levels until FY 2012.

As shown in Figure 6, the sales, business, and personal income taxes are forecast to show strong gains in FY 2011. Sales tax collections reflect an improvement in domestic consumption, as well as strength in tourism. Higher corporate profits (most notably in banking) are projected to generate the first increase in business tax collections (net of audit revenues) since FY 2007. Finally, despite an adjustment by the State to correct an earlier distributional error, personal income tax revenues are expected to be boosted by job growth, pay increases, and expectations of higher capital gains.

Real property tax collections are projected to slow during the financial plan period as recent declines in property values are phased in as required by State law. Despite the real estate downturn, assessments continued to rise as increases from prior years were phased in. Real property tax collections are expected to grow at an average annual rate of only 2 percent during fiscal years 2012 through 2014 as the more recent lower property values are phased in. The tentative property tax roll will be released in January 2011.

There are indications that the worst is over for the City's real estate market. Collections from the real estate transaction taxes are expected to rise this year, the first increase since FY 2007, although collections (\$1.1 billion) will still be only about one-third the amount realized in FY 2007.

Figure 6
City Fund Revenues
(in millions)

	FY 2010	FY 2011	Annual Growth	FY 2012	FY 2013	FY 2014
Taxes						
Real Property Tax	\$ 16,184	\$ 16,786	3.7%	\$ 17,430	\$ 17,699	\$ 17,836
Personal Income Tax	6,858	7,533	9.8%	8,164	8,510	9,060
Sales Tax	5,059	5,285	4.5%	5,375	5,654	5,924
Business Taxes	4,505	4,990	10.8%	5,334	5,613	5,841
Real Estate Transaction Taxes	981	1,084	10.5%	1,165	1,286	1,417
Other Taxes	2,845	2,689	-5.4%	2,699	2,766	2,809
Audits	769	622	-19.2%	621	620	620
Subtotal	37,201	38,989	4.8%	40,788	42,148	43,507
Miscellaneous Revenues	4,778	4,427	-7.3%	4,341	4,392	4,458
Unrestricted Intergovernmental Aid	(18)	14	NA	314	314	314
Grant Disallowances	0	(15)	NA	(15)	(15)	(15)
Total	\$ 41,961	\$ 43,415	3.5%	\$ 45,428	\$ 46,839	\$ 48,264

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

The number of real estate transactions during the first three quarters of 2010 rose by nearly 20 percent compared with the same period last year, and the value of sales grew by 30 percent, driven primarily by co-op and condo sales, especially in Manhattan. The value of transactions involving large commercial and multifamily buildings (i.e., those valued at more than \$10 million) rose by 19 percent.

In FY 2012, City fund revenues are projected to rise by 4.6 percent, propelled by a similar increase in tax revenues. During fiscal years 2013 and 2014, however, City fund revenues are projected to grow at an average annual rate of only 3.1 percent as tax revenue growth slows.

While the City has revised its economic forecast to reflect better job growth in 2010, the forecast remains lower than current trends. At the same time, the City's forecasts for job and wage growth in 2011 and 2012 are lower than the forecasts by IHS Global Insight for the region. It is therefore likely that personal income and sales tax collections could be higher than the City currently forecasts, although the extension of the Bush tax cuts will alter the timing of capital gains receipts.

Expenditure Trends

The November Plan assumes that City-funded spending will grow by \$1.9 billion in FY 2011, or 4.4 percent (see Figure 9, next page). Spending was held down in FY 2010 largely because the City saved \$942 million from overestimating prior-year expenses. While that level of savings is unlikely for FY 2011, the City could save at least \$200 million. Savings averaged \$600 million annually during fiscal years 2006 through 2009.

In FY 2012, spending would rise by more than \$3 billion, or 6.6 percent, despite an agency program that would reduce planned spending by \$892 million. The November Plan assumes spending will grow by 5.6 percent in FY 2013 and by 4.2 percent in FY 2014 with the expiration of federal stimulus aid. These estimates, however, make little provision for wage increases.

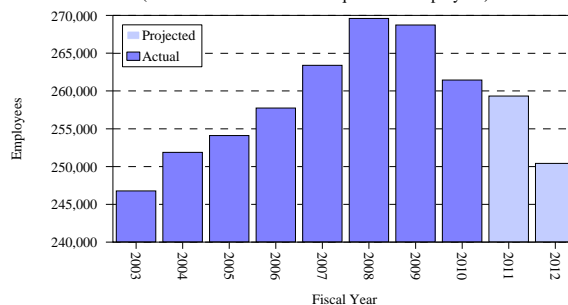
The FY 2012 forecast includes a \$1 billion reserve for potential changes in actuarial assumptions used to calculate City pension contributions, and an increase in City funding of \$853 million to offset the expiration of federal education stimulus aid.

The City is assuming that health insurance premiums will rise by 11.5 percent in FY 2012,

which is two percentage points more than the average of the past five years as a result of federal health care reform. Debt service and Medicaid are each expected to rise by more than \$600 million. Salary and wage costs are expected to decline to \$11.4 billion, which is \$740 million less than the FY 2009 level, reflecting staff reductions and a two-year wage freeze proposed by the Mayor.

City-funded staffing rose by 22,822 employees between June 30, 2003, and June 30, 2008, and then declined by 855 employees during FY 2009 and by 7,283 employees during FY 2010 (see Figure 7). The November Plan assumes that staffing will decline by a net of 11,048 employees over a two-year period, with about half the reduction occurring in education.

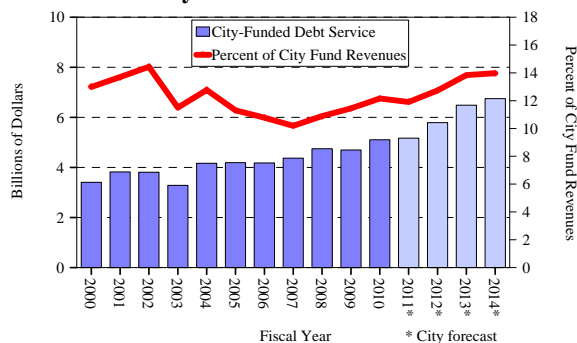
Figure 7
City-Funded Staffing Levels
(Full-Time and Full-Time-Equivalent Employees)



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

City-funded debt service is expected to grow from \$5.2 billion in FY 2011 to \$6.7 billion by FY 2014 (see Figure 8), an increase of 31 percent. The rate of growth exceeds the growth rate for City fund revenues, which would raise the debt burden (i.e., debt service as a percent of City fund revenues) from 11.9 percent in FY 2011 to 14 percent in FY 2014—the highest level since FY 2002.

Figure 8
City-Funded Debt Service



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

Figure 9 City-Funded Expenditures

(Adjusted for Surplus Transfers, TSASC, and Debt Defeasances)
(in millions)

	FY 2010	FY 2011	Annual Growth	FY 2012	FY 2013	FY 2014
Salaries and Wages	\$11,826	\$ 11,479	-2.9 %	\$ 11,371	\$ 11,614	\$ 11,819
Pension Contributions	6,583	6,847	4.0 %	8,179	8,253	8,273
Medicaid	5,060	5,213	3.0 %	5,885	6,036	6,644
Debt Service	5,103	5,170	1.3 %	5,788	6,485	6,749
Health Insurance	3,329	3,849	15.6 %	4,328	4,742	5,209
Other Fringe Benefits	2,582	2,670	3.4 %	2,961	3,015	3,123
Energy	801	878	9.6 %	923	954	971
Judgments and Claims	566	687	21.3 %	735	785	838
Public Assistance	478	561	17.3 %	557	595	595
General Reserve	- - -	300	NA	300	300	300
Drawdown Retiree Health Benefits Trust	(82)	(395)	NA	(672)	- - -	- - -
Prior Years' Expenses	(942)	- - -	NA	- - -	- - -	- - -
Other	8,647	8,640	-0.1 %	8,591	8,898	9,321
Total	\$ 43,951	\$ 45,899	4.4 %	\$ 48,946	\$ 51,677	\$ 53,842

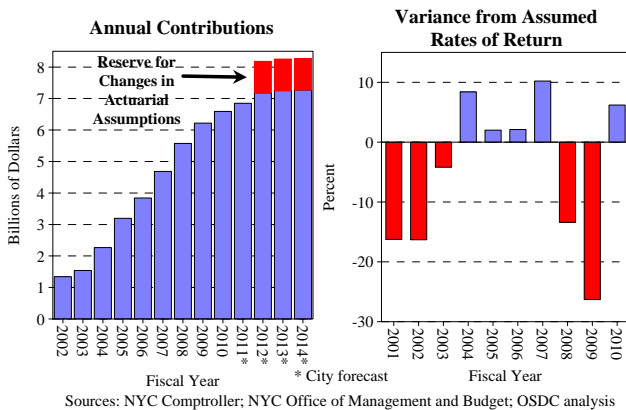
Note: Debt service includes bonds issued by TSASC.
Sources: NYC Office of Management and Budget; OSDC analysis

Pension contributions have grown rapidly over the past ten years (see Figure 10) to fund the cost of benefit enhancements and investment shortfalls. While the City's five pension systems earned, on average, 14.2 percent on their investments last year, the systems have fallen short of their annual 8 percent target in five of the past ten years.

that actuarial assumptions will be revised to reflect current trends, including higher-than-expected salaries, longer life expectancies, and lower-than-anticipated investment earnings.

Figure 10

New York City Pension Systems



The City's actuarial consultant is expected to complete the mandated biennial review of the assumptions and methods used to calculate pension contributions by the end of the current fiscal year; the City's Actuary is also conducting a review. The City established an annual reserve of \$1 billion beginning in FY 2012 in the likely event

The potential cost of revising the assumptions and methods will not be known until the actuarial consultant completes its report and the Actuary makes his recommendations, but it is possible that the amount set aside for this purpose during the financial plan period will be insufficient. If the changes are not implemented in time to be included in the FY 2012 budget, the City could use the reserve in that year to help balance the budget.

As of September 2010, the number of City residents who were enrolled in Medicaid totaled 2,865,675, an increase of 269,442 recipients (10.4 percent) from two years earlier. City-funded Medicaid expenditures are expected to rise from \$5.1 billion in FY 2010 to \$6.6 billion in FY 2014, reflecting the exhaustion of federal stimulus funds that temporarily reduced the City's costs.

Demand for other social services is increasing. The number of people receiving public assistance has recently begun to rise, and the number of people receiving food stamps rose over the past two years by 37 percent, to 1.8 million. In October 2010, the number of single adults in homeless shelters was 29 percent higher than two years ago.

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