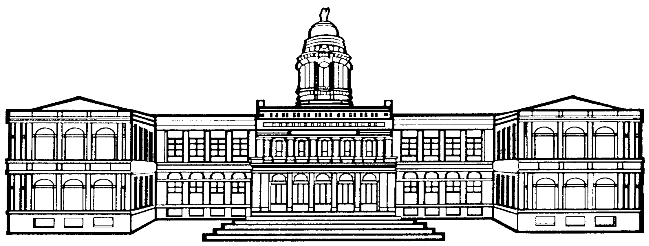
New York City Council



HEARING REPORT

COMMITTEE ON FINANCE

Finance Division December 6, 2010

Hon. Christine C. Quinn
Speaker

Preston Niblack, Director
Jeffrey Rodus, First Deputy Director

Hon. Domenic M. Recchia, Jr.
Chair, Committee on Finance

FY 2011 NOVEMBER FINANCIAL PLAN

These are difficult times. At its worse, the recession caused the loss of 164,000 private sector jobs in the City, reduced gross city product by 2 percent and saw the volume of real estate transactions fall by 45 percent. The City is recovering, but the effects of the recession linger. This is especially true for tax revenues which will still be feeling the impact of the recession in FY 2014.

The City has strict rules for balancing its budget as well as requirement that it plans ahead for the next four fiscal years. Moreover, the City has developed the practice of proactively dealing with problems early so as to keep them manageable. Prime examples of this practice are the nine PEG programs over the past three years as well as early action to enhance revenues done through changes in the real property, sales and hotel taxes. This proactive stance has been recognized by rating agencies and is a part of the AA rating for City General Obligation debt.

However, there is more than just fiscal responsibility involved in budgeting. Choices are made that impact the real lives of New Yorkers. Considering these impacts, especially those on the most vulnerable, is not only part of the process but also a major role of the Council.

Today's hearings concern the plan as it applies to FY 2011. This document provides an overview of the plan for FY 2011 and FY 2012 and looks at some of the more problematic parts of the Program to Eliminate the Gap (PEG program). The Committee will hear testimony from Mark Page, Director of the Mayor's Office of Management and Budget, followed by joint sessions with the Committees on Aging, General Welfare, and Youth Services. The Committee will also hear testimony from the public on the impact of the proposed mid-year cuts.

Preparing for FY 2012

The FY 2011 November plan is intended to be the start of a budget balancing act for what is likely to be a very difficult FY 2012. The heart of the plan is a two year PEG program of $585 million in FY 2011 and $1.0 billion FY 2012. This reduces the FY 2012 gap of $3.3 billion roughly by half. However, the Administration

also proposes filling a hole in the FY 2012 education budget left by the sunset of federal stimulus (ARRA) with City tax levy dollars, and increasing the amount set aside in anticipation of higher required City pension contributions. The remaining gap for FY 2012 is now estimated at $2.4 billion.
In spite of these changes, the FY 2012 budget still comes with a significant risk. New York State faces a FY 2010-2011 budget gap of $9 billion. It would be difficult for the State to close its budget gap without reducing local aid and thereby significantly increasing the City's FY 2012 budget gap.

Gap Reduction in November Plan
Dollars in Millions

	FY11	FY12
Gap at FY11 Adoption	**$--**	**($3,257)**
Revenue Increase/(Decrease)	**$85**	**($105)**
Spending Increases/(Decreases):		
Education: City funds to replace ARRA funds	$--	$853
Pension Assumptions & Methods	(600)	400
PEG Program	(585)	(1002)
Other Spending Changes, Net	109	(94)
Surplus/(Gap) after All Changes	**$1,161**	**($3,519)**
Roll FY11 Surplus	(1,161)	1,161
Gap as of November Plan	**$--**	**($2,357)**

Source: OMB FY 2011 November Plan

HEADCOUNT REDUCTIONS
The FY 2011 November Plan involves a reduction in the City's workforce, achieved through a mix of layoffs and attrition as summarized in the chart below. It should be noted that there are no pedagogical layoffs until FY 2012.

November Budget FY 2011 - Headcount Reductions

	FY 2011			FY 2012		
	Attrition	Layoff	Total	Attrition	Layoff	Total
Uniformed Services	(576)	0	(576)	(791)	0	(791)
Health & Welfare	(272)	(265)	(537)	(285)	(228)	(513)
Education*	(92)	0	(92)	(1,219)	(4,278)	(5,497)
All Other	(522)	(684)	(1,206)	(902)	(898)	(1,800)
TOTAL	**(1,462)**	**(949)**	**(2,411)**	**(3,197)**	**(5,404)**	**(8,601)**

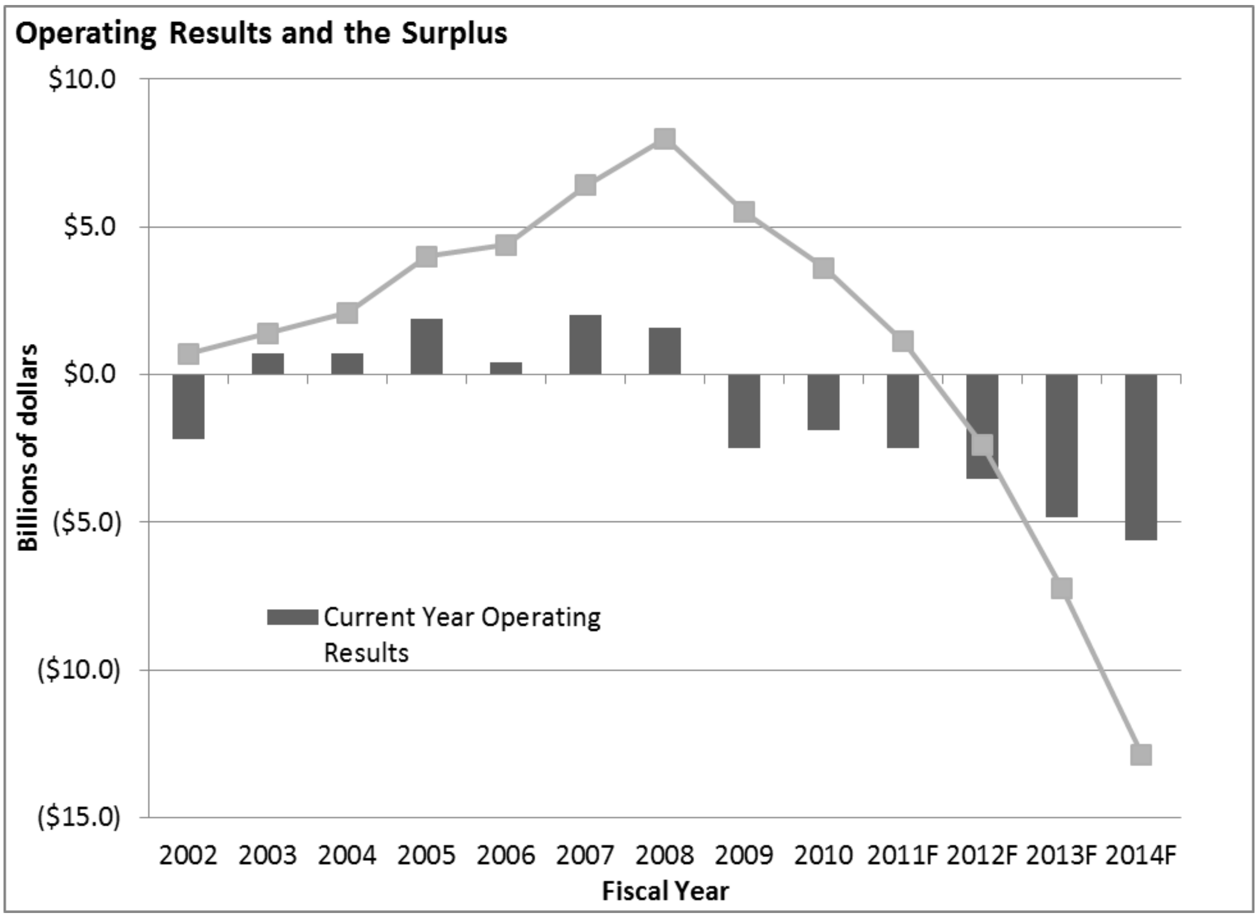
Source: OMB FY 2011 November Plan

The Basic Budget Problem
New York City tax revenues are volatile and cyclically sensitive and the changes in recent years have been striking. For example, as a result of the soaring property market and subsequent crash, revenue from the two property transactions taxes went from $1 billion in FY 2003 to $3.3 billion in FY 2007 and then back to $1 billion in FY 2010.

Conversely, the expense budget is not as directly affected by the economy. It grows at a pace partially determined by budgetary decisions but also by collective bargaining agreements, debt service from prior years' capital budgets, and changes in state and federal law, among other factors.

From FY 2003 to FY 2008, the rapid growth of tax revenues coupled with budget constraints meant that City revenues grew faster than City funded spending. As a result the City accumulated surpluses during this boom period.

However, with the full onset of the recession City funds fell in FY 2008 but City funded expenses continued to grow. While City funds start to grow again in FY 2009, their growth has been insufficient to catch up with the ongoing growth of expenses. As a result, the City has been running operating deficits since FY 2008.



Source: Council Finance Division based on OMB Financial Plan documents

The City has balanced its budgets for the past 2 ½ years by using the accumulated surpluses from the boom years. The FY 2011 Adopted budget was balanced using $3.7 billion in prior-year surpluses. Without actions of a scale similar to those in the November Plan, those surpluses will run out in FY 2011. Beginning to reduce spending now allows the City to accumulate surplus funds to help close next year's gap, and avoid the even deeper reductions that would be required if no action was taken until the start of FY 2012.

The situation was also eased in FY 2010 and FY 2011 by the availability of federal stimulus money from the American Recovery and Reinvestment Act (ARRA), which reduced the need to use City funds for Medicaid and certain education expenses. In FY 2010 through 2012 the City is also making use of the Retiree Health

Benefit Trust Fund[1]. At the end of FY 2010 this had a balance of $3 billion dedicated to paying health insurance costs of City retirees. The November Plan anticipates drawing down this fund by a little over $1 billion in FY 2011 and FY 2012 to use these funds for budgetary relief.

State and Federal Budget

STATE BUDGET IMPACT

New York State has some of the same basic budgetary problems as New York City. Its revenues are even more volatile than the City's and it has many expenses driven by contract and law. They also face the end of budget relief from the federal stimulus (ARRA). The State's problems are more severe because they were unable to build up surpluses in the boom years similar to New York City's.

The enactment of the SFY 2010-11 budget closed an estimated $9.2 billion gap with a number of gap-closing actions, agency cuts, local aid cuts etc. It saw a reduction of various forms of State aid to the City of $1.1 billion. The State's enacted budget is currently under stress. General Fund tax receipts as of September 30, 2010 were approximately $510 million below forecast. Medicaid spending over the same period exceeded estimated by over $110 million.[2] Due to these and other revisions, the New York State Department of Budget (DOB) now estimates the current year gap to be $315 million.

The SFY 2011-12 gap is projected to be $9.02 billion, or about 11 percent of State operating funds which includes local aid. Because most of the savings in the enacted budget came from reductions to State agency operations, it is more than likely that gap closing measures for the current year and for SFY 2011-12 will be targeting the local aid pot. This means that the impact of the SFY 2011-2012 on the City's budget is likely to be at least as large as current year's and could be significantly larger.

Impact of the State 2010-11 Budget on New York City
(in millions)

Gain/(Loss)	CFY 2010	CFY 2011
Department of Education	$ --	($493)
State Education Aid Accrual	--	(202)
Revenue Sharing (AIM)	(327)	(26)
Mandated Autism Coverage	--	(40)
Cigarette Tax	--	(20)
GASB 49	--	150
Other Actions	(15)	(113)
TOTAL	**($342)**	**($744)**

Source: NYS Comptroller Review of the Financial Plan of the City of New York, July 2010

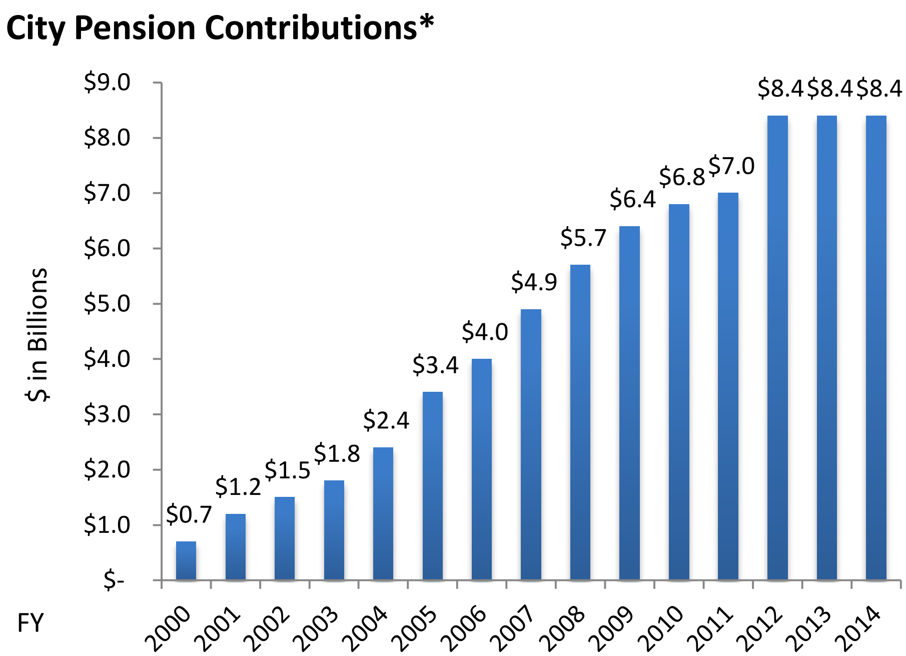
AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) BUDGET IMPACT

The phasing out of ARRA funds for dedicated program areas such as education and social services creates additional fiscal pressure for City's FY 2011 and FY 2012 budgets. Federal stimulus funds provided New York City with a total of $4.8 billion in operating budget assistance over a three-year period. Most of the ARRA funds will sunset after FY 2011. One of the biggest budget gaps to result from ARRA's sunset is the loss of $853 million in federal stimulus funds for education in FY 2012.

[1] Part of the New York City Other Postemployment Benefit Plan.
[2] New York State Division of Budget Mid-Year update 2010-2011.

The principle remaining source of budgetary relief will be the interest subsidies associated with Build America Bonds. The program will continue into FY 2012 and provide budget relief for the life of the bonds. The subsidies and other remaining parts of ARRA will provide the City with approximately $191 million in FY 2012. However, since Build America Bonds are in lieu of other Federal interest subsidies, little of this is actual budget relief.

Pensions



** Note: FY 2012 – FY 2014 values include in a $1 billion reserve for actuarial adjustments.*
Source: OMB Preliminary Plan FY 2011

The growth of City-funded pension spending has been a long term pressure on the City budget. Between FY 2000 and FY 2010 pension contributions grew 871 percent. Changes in pension benefits, salaries and life expectancy have necessitated this increased spending. Perhaps the biggest single contributing factor, however, has been the weak returns on assets in the last decade. After rising from $85 billion at the end of FY 2003 to $125 billion in 2007, the City's pension fund investments fell precipitously, ending FY 2010 at just $90 billion – for an average return of less than 1 percent.

The Administration has indicated that the City's Actuary will propose changes to the assumptions underlying the valuation of pension liabilities and City contributions to these pensions, as required by the City Charter. A preliminary audit found that higher City contributions to the pension funds may be warranted as a result of longer life expectancies and higher than expected overtime and salary increases. The Actuary is still in the process of quantifying these trends. The Actuary is also looking at adjusting the assumed rate of return on investments. The current assumed rate of 8 percent was reasonable given the long term performance of assets in the second half of the twentieth century, but has proved high over the last decade. The City estimates that each one-percent reduction in the actuarial interest rate assumption could increase pension contributions by at least $1 billion annually. The Actuary's proposals are expected in the Spring of 2011.

The City anticipated this adjustment in FY 2011 and provided a $600 million reserve. Since the changes in actuarial assumptions will not be ready for FY 2011 this reserve is not needed. But the November Plan ups the reserve for FY 2012 from $600 million to $1 billion, with similar amounts for the outyears.

National and City Economy

The national recovery has been losing momentum since the spring. Forecasts at Adoption of growth returning to the normal trend of 3 percent by the 1st quarter 2011 have now been pushed back at least three quarters. Annual GDP growth will remain under trend for the forecast period. Continued household deleveraging, a weak housing market, and high unemployment have contributed to anemic consumer activity. With the effects of inventory restocking and the fiscal stimulus petering out, there is no strong source of strength to the economy. Core inflation (excluding volatile food and energy prices) was only 0.6 percent year-over-year, significantly below the Fed's 1 to 2 percent comfort zone. This risk of deflation has prompted the Federal Reserve's quantitative easing, and pushing back any plan to raise short-term interest rates by at least a year. In a nutshell, the forecast period will be characterized by higher unemployment and lower inflation and wage growth than we have grown used to over the last two business cycles.

Forecast of Selected Economic Indicators

	FY09	FY10	FY11	FY12	FY13	FY14
National Economy						
Real Gross Domestic Product *Percentage Change*	(2.6)%	2.8%	2.4%	3.0%	3.2%	3.3%
Non-Agricultural Employment						
Level Change (million)	(5.9)	(0.7)	1.6	2.7	2.8	2.8
Percentage Change	(4.3)%	(0.5)%	1.2%	2.1%	2.1%	2.0%
Wages & Salaries *Percentage Change*	1.5%	1.6%	1.7%	1.7%	2.0%	2.2%
New York City Economy						
Non-Agricultural Employment						
Level Change (thousand)	(107)	6	43	35	38	45
Percentage Change	(3.3)%	0.2%	1.4 %	1.1%	1.2%	1.4%
Total Wages *Percentage Change*	(12.2)%	5.7%	5.2%	6.3%	5.7%	5.8%
Total Revenue of NYSE Members *Percentage Change*	13.4%	(14.0)%	11.3%	16.8%	10.1%	7.6%

Source: IHS Global Insight, December 2010, New York City Council - Finance Division

City Economy

New York City's economy is a mixed bag, generally hurting but doing better than the nation as a whole. The City lost a net total of 164,000 private jobs during the recession. Although the City started losing jobs in August 2008, 8 months after the rest of the U.S., it resumed net employment growth in January 2010, the same time as the nation. This was a departure from the last two recessions, when New York's job recovery lagged the U.S. for over a year.

As of October 2010, private employment has gained 55,400 jobs year-over-year, growing by 1.8 percent. During the same period, U.S. private employment grew by only 1.0 percent. The City's unemployment rate has been slowly edging downward, and is now 9.2 percent, compared to the national jobless rate of 9.8 percent. Over 74,000 jobs were gained since January (seasonally-adjusted), restoring 45 percent of the recession's toll. Job growth in 2010 has not been smooth or predictable, with four out the first ten months posting payroll losses.

This time it is not the financial sector, but professional and business services that are leading the recovery. Business services (legal, accounting, advertising, IT, etc.) have contributed 20,400 jobs since January, catering to corporate clients enjoying renewed profits.

Finance and insurance continued to shed jobs long after other sectors resumed growth; employment finally turned in July, adding 3,500 jobs since then. The securities subsector resumed job growth even more recently, in September and October, recovering just 3,000 of the 30,100 positions lost. The high-paying securities sector has played a disproportionately important role in the City's economy, with each employee sustaining two non-financial jobs.

Wall Street profits have returned to earth, with a decent $3.8 billion in profits for the 2nd quarter 2010, following four quarters, each over $10 billion. State Comptroller Thomas DiNapoli projects a strong $19 billion in total profits for 2010. The Federal Reserve has indicated that it will maintain near-zero short-term rates well into 2012, extending the banking sector's negligible borrowing costs and huge profits.

City real estate and construction, on the other hand, continue to struggle. The housing market is stagnating, with home prices hardly moving much in either direction. In September, the metropolitan area's home price index fell 0.1 percent year-over-year, following three months of slight gains. The condo market (largely concentrated in Manhattan) is holding up better, with year-over-year gains of 2.8 percent in September.[3] Prices per square foot of co-ops and condos gained a healthy 4.2 percent in the 3rd quarter over the 2nd quarter.[4] The commercial real estate market is in a far worse state. According to the Federal Reserve's "Beige Book", office vacancy rates are still rising in Manhattan, while asking rents continue to "drift down." Related to real estate, the construction industry is especially hard-hit, with projected total activity in 2010 falling by 12 percent from 2009. An additional challenge is that over 60 percent of City construction in the past year is from the government sector, but federal stimulus funding for capital projects is now winding down.

The leisure and hospitality super-sector has generally been expanding, with its employment growing by 1.6 percent year-over-year. Presently, however, it's suffering employment losses, with September and October each losing 4,000 positions. The cause of this broad-based contraction is not clear. The Federal Reserve's Beige Book reported that tourist activity had cooled somewhat up to mid-October, but has subsequently regained its momentum.

Hotel development has been going strong in 2010. Over 4,800 new rooms have been added this year, with another 1,828 due to open by year's end. This comes to a net increase of 8 percent compared to December 2009. The increased inventory has not put a damper on occupancy rates and average room prices. Year-to-date occupancy rates (through October) now average 85 percent, above the 81 percent for the same period in 2009. The average room rental for October 2010 was $300 per night (preliminary), a 7 percent increase from $280 in October 2009.[5]

---

[3] Standard & Poors / Case-Schiller, September 2010.
[4] Miller Samuel Inc.
[5] NYC & Company, November 2010.

Retail employment has generally been on the increase since the beginning of 2010, adding 12,700 payroll year-to-date. It's been helped along by the strong tourist industry, plus a tentative loosening of New Yorkers' purse strings.

The New Yorker's average wage rose 9.9 percent in the 1st quarter 2010 compared to the same quarter a year ago, reflecting increased bonuses. However, wages weakened in the 3rd quarter, falling 1 percent. The average wage in the high-earning securities industry soared 28 percent in the 1st quarter 2010 (bonus season) compared to a year ago. This was a strong bounce-back from the 39 percent drop in the depths of the financial meltdown a year before.

Cumulative Employment Gains/(Losses) From January thru October 2010
Seasonally-adjusted, in thousands

Industry	Gain/(Loss)
Total Private	**74.0**
Finance and Insurance	*4.4*
Banking	3.6
Securities (Wall Street)	(0.7)
Professional and Business Services	*20.4*
Employment Services	4.5
Real Estate	*3.6*
Information	*(1.4)*
Construction	*2.9*
Leisure and Hospitality	*7.5*
Arts, Entertainment, and Recreation	1.1
Accommodation and Food Services	6.4
Accommodations (Hotels)	0.4
Healthcare and Social Assistance	*11.2*
Education Services	*1.0*
Government	**(2.6)**

Source: NYS Department of Labor (seasonal adjustment by NYC Council Finance)

Looking ahead, the City is expected to continue its slow recovery, growing a little less tentatively than the rest of the U.S. Council Finance expects the average private employment level in 2010 to have grown by 6,000 compared to the average level in 2009. Hiring will subsequently pick up in 2011, with employment increasing by around 43,000, and outyear increases staying roughly in that ballpark through the forecast period. The City's private payroll is expected to recoup about three quarters of its pre-recession employment by early 2012, having already regained 45 percent as of October. Wage and income growth similar to 1997-2000 or 2004-2007 is not forecast. Total wages are expected to grow annually by a relatively tame 5 to 6 percent through 2014.

Revenues

Tax collections through October amounted to $206 million over the Adoption Plan (including audits). Collections from the bank tax were a big surprise, amounting to $320 million above Plan. The taxes came from the four largest New York banks, which paid nothing in the first half of calendar 2010, but made big payments in September. Personal income tax (PIT) collections were weak, coming to $250 million below Plan. $110 million came from offset payments to the City that didn't materialize, due to correcting for the increased State's tax rates. Sales tax collections showed strong growth, and were 15.8 percent above the same ten months in FY 2010. Collections from the sales and unincorporated business taxes were a little above Plan. The general corporation tax (GCT) was below Plan, although collections grew 19 percent above the same period in FY 2010.

OMB's November forecasts for FY 2011 show $397 million in additional revenues from the bank and sales taxes, compared to Adoption. Collections from the PIT and GCT show $196 million less revenue. Total tax revenues were upwardly revised by $83 million (including $6 million in PEG audits). City funds were upwardly estimated by $140 million, as were miscellaneous revenues by $57 million.

Tax collections in FY 2012 have roughly the same distribution as in the Adoption Plan, but downwardly revised by $22 million. City funds continue the assumption in the Adoption Plan that $302 million in AIM money will be fully restored (which is questionable).

Financial Plan Tables

Tax Forecast Growth

	FY10*	FY11	FY12	FY13	FY14
Real Property	12.9%	3.7%	3.8%	1.5%	0.8%
Other Real Property	-14.4%	4.8%	4.7%	7.5%	7.6%
Personal Income	4.1%	9.8%	8.4%	4.3%	6.5%
Business Taxes	-13.4%	10.8%	6.9%	5.2%	4.1%
Sales	10.1%	4.5%	1.7%	5.2%	4.8%
Other Taxes (incl. Hotel & Utility)	-9.9%	-5.9%	-0.4%	2.7%	1.2%
Audits	-18.8%	-19.2%	-0.2%	-0.2%	0.0%
Total Taxes	**3.3%**	**4.8%**	**4.6%**	**3.3%**	**3.2%**

Source: OMB FY 2011 November Budget

*Note: *actual*

FY 2011 NOVEMBER PLAN: REVENUE CHANGES FROM ADOPTED PLAN
Dollars in Millions

		FY11	FY12	FY13	FY14
Taxes					
	Real Estate	$7	$10	$11	$11
	Sales	142	20	(11)	(54)
	Personal Income	(25)	222	237	370
	General Corporation	(171)	(211)	(291)	(346)
	Banking Corporation	256	153	129	143
	Unincorporated Business	0	0	0	0
	Commercial Rent	0	0	0	0
	Mortgage Recording	(40)	(67)	(71)	(85)
	Real Property Transfer	41	(18)	(41)	(52)
	Hotel	15	5	4	4
	Utility	0	0	0	0
	Cigarette	0	1	0	0
	All Other	14	13	13	14
	Audit	6	24	24	31
	Tax Program	0	0	0	0
	STAR	(162)	(174)	(180)	(182)
	Total Taxes	**$83**	**$(22)**	**$(176)**	**$(146)**
Federal Categorical Grants		**$1,058**	**$90**	**$51**	**$(955)**
State Categorical Grants		**$123**	**$44**	**$31**	**$32**
Non-Governmental Grants (Other Cat.)		**$96**	**$25**	**$17**	**$17**
Unrest. / Anticipated State & Federal Aid		**$0**	**$0**	**$0**	**$0**
Miscellaneous Revenue					
	Charges for Services	$4	$38	$34	$34
	Water and Sewer Charges	(1)	2	3	4
	Licenses, Permits, Franchises	14	22	21	22
	Rental Income	(8)	(1)	1	1
	Fines and Forfeitures	10	4	4	4
	Other Miscellaneous	65	33	19	20
	Interest Income	(27)	(71)	(31)	(19)
	Intra City	208	25	17	17
Total Miscellaneous		**$265**	**$52**	**$68**	**$83**
Net Disallowances & Transfers		**$(208)**	**$(25)**	**$(17)**	**$(17)**
Total Revenue Changes, November Plan		**$1,417**	**$164**	**$(26)**	**$(986)**
City Funds Total		$140	$5	$(125)	$(80)
Federal & State Total		$1,181	$134	$82	$(923)

Source: OMB FY 2011 November Plan

FY 2011 NOVEMBER PLAN
with change from adopted budget
(Dollars in millions)

	FY 2011	FY 2012	Change from Adoption* FY 2011	Change from Adoption* FY 2012
REVENUE				
Taxes				
General Property Tax	$16,787	$17,433	$7	$10
Other Taxes	21,574	22,710	64	(63)
Tax Audit Revenue	628	645	6	24
Sub-total, Taxes	**$38,989**	**$40,788**	**$77**	**$(29)**
Miscellaneous Revenues	6,177	5,790	265	52
Unrestricted Governmental Aid	14	314	-	302
Less: Intra-City Revenues	(1,824)	(1,523)	(208)	(25)
Disallowances	(15)	(15)	-	-
Sub-total City Funds	**$43,341**	**$45,354**	**$134**	**$300**
Other Categorical Grants	1,330	1,160	96	18
Inter-Fund Revenues	559	500	1	7
TOTAL City, Capital IFA & Oth. Cat. Funds	**$45,230**	**$47,014**	**$231**	**$325**
Federal Categorical Grants	7,871	5,837	1,075	90
State Categorical Grants	11,475	12,318	193	113
TOTAL Revenues	**$64,576**	**$65,169**	**$1,499**	**$528**
EXPENSE				
Personal Services				
Salaries & Wages	21,816	21,195	238	181
Pensions	7,012	8,345	(600)	469
Fringe Benefits	7,616	8,123	(22)	67
Retiree Health Benefits Trust	(395)	(672)	-	-
Sub-total, Personal Services	**$36,049**	**$36,991**	**($384)**	**$717**
Other than Personal Services				
Medical Assistance	5,398	6,019	232	72
Public Assistance	1,558	1,590	(5)	(13)
All Other OTPS	20,226	19,091	704	(346)
Sub-total, OTPS	**$27,182**	**$26,700**	**$931**	**($287)**
Debt Service	$5,354	$6,219	$3	$(75)
Adjustments				
Prior Year Surplus Roll	(3,646)		(4)	-
Current Year Surplus Roll	1,161	(1,161)	1,161	(1,161)
General Reserve	300	300	-	-
Sub-total	**$66,400**	**$69,049**	**$1,707**	**($806)**
Less: Intra-City Expenses	(1,824)	(1,523)	(208)	(25)
TOTAL Expenditures	**$64,576**	**$67,526**	**$1,499**	**($831)**
Gap to be Closed	**$0**	**($2,357)**	**$0**	**$1,359**

Expense Budget

ADOPTED BUDGET
The FY 2011 Adopted Budget is $63.1 billion. FY 2011 City-funds expenditures totaled $43.2 billion, of which $395 million was used to fund Council restorations and initiatives. At the time of adoption, FY 2012 had an estimated budget gap of $3.3 billion.

MAYOR'S SEPTEMBER DIRECTIVE
On September 21, 2010, Mayor Bloomberg issued a directive to agency heads requesting agency heads to propose actions that would reduce the FY 2012 budget gap. In this directive, Mayor Bloomberg established target Citywide savings for FY 2011 and FY 2012, which totaled $2.0 billion. In FY 2011, the target savings Citywide in FY 2011 was approximately $800 million and equated to 2.7% for the uniformed services (Police, Fire, Correction, and Sanitation Departments) and the Department of Education, and 5.4% for all other agencies. In FY 2012, the target savings Citywide was approximately $1.2 billion and equated to 4% for uniformed officers and the Department of Education, and 8% for all other agencies. Mayor Bloomberg also ordered a partial hiring freeze.

NOVEMBER PLAN
On November 18, 2010, the Mayor released the FY 2011 November Financial Plan. In such Plan, the estimated budget gap for FY 2012 has been decreased from $3.3 billion to $2.4 billion, accounting for adjustments to education, pensions, and programs to eliminate the gap (PEG). The PEG program presented in the November Plan totals $1.6 billion for FY 2011 and FY 2012. For FY 2011, the PEG program represents 5.4%, or $585 million. In FY 2012, the PEG program represents 8%, or $1.2 billion.

Program to Eliminate the Gap
Programs to Eliminate the Gap are Financial Plan actions that reduce the City's budget gap by either reducing an agency's City Tax-Levy Expense Budget or increasing City revenues. It should be noted that some PEGs involve increases in Expense Budget costs that lead to increased revenues. For example: An agency may increase expenses by hiring 20 inspectors, with the expectation that those inspectors will generate additional revenue, ultimately saving City tax-levy dollars.

The hiring freeze implemented in September was partially relaxed: City agencies are limited to hiring one employee for every two that leave, if resources are available. Hiring will continue for positions immediately impacting public health and safety, positions that generate revenue, or positions that are not funded with City tax dollars.

A summary of some prominent cuts that will affect FY 2011 follows. The full PEG program continues to be evaluated by the Finance Division in consultation with Members and outside stakeholders. A summary table of all agency PEGs is attached as Appendix A.

Administration of Children Services (Total FY 2011 PEG: $24.5M)

Positions Eliminated in Various Programs through Attrition**:** ($487,000)
ACS plans to save $487,000 in FY 2011 by eliminating 26 staff through attrition in various program areas throughout the agency. ACS has confirmed that the majority of these are vacant positions in the Division of Child Protection (Supervisor 1's).

Child and Family Specialist Layoffs: ($439,000)
ACS plans to save $439,000 in FY 2011 by laying off 27 Child and Family Specialists. Child and Family Specialists facilitate case conferences, during which ACS determines whether or not to remove a child at imminent risk. This cut will cause higher caseloads for remaining workers. Layoffs will be effective as of January 1st.

Division of Child Protection Staff Reductions: ($1.6 M)
ACS plans to save $1.6 million in FY 2011 by eliminating 80 staff through attrition in the Division of Child Protection. ACS claims that caseloads will not be affected as a result of this cut, as all positions eliminated will be Child Protective Specialist Supervisors and other managerial titles. The number of cases for which the remaining managers are responsible for supervising, however, will obviously increase.

Child Welfare Layoffs: ($933,000)
ACS plans to save $933,000 in FY 2011 by laying off 37 staff in the area of child welfare (the majority of who hold the title of Child Welfare Specialist). The City Council restored these positions for FY 2011, after they were originally proposed for elimination in FY 2010. Positions proposed to be eliminated include 11 Child Escorts, 2 Child Escort Supervisors, 11 Adoption Subsidy Program Caseworkers, 9 Teenage Services Program Workers, and 4 Teenage Services Program Supervisors. All layoffs would be effective January 1st.

Administrative/Support Staff Layoffs: ($1.1 M)
ACS plans to save $1.1 million in FY 2011 by laying off 118 administrative/support staff. It is unclear whether some of these layoffs may be problematic, if they serve in the areas of child protection, child welfare, childcare, or foster care.

City University of New York (Total FY 2011 PEG: $ 13M)

The November Plan includes a $13 million PEG program for FY 2011. Reductions are spread proportionally among the University's six community colleges and related programs. Overall, the PEGs reduce CUNY's personnel services budget by $10.2 million and eliminate 399 positions through attrition. OTPS spending is cut by $2.8 million. The FY 2011 PEGs include the following:

Student Instruction: ($5.8 M)
Reductions to the teaching staff will entail elimination of 29 full-time and 174 part-time (FTE) staff and an additional 28 support staff. This will cause a reduction in the number of course sections offered and increase class sizes. Class reductions may lead to enrollment declines and tuition and state aid losses.

Student Services: ($1.6M)
Student access to tutoring programs and counseling services will be reduced. Additional services such as placement testing, financial aid counseling and registration will also be cut. The reduction will eliminate 42 staff positions.

Library Services: ($547,491)
Libraries at all the community colleges will reduce their hours of operation on weekends and in the evenings. To achieve the PEG savings, libraries will eliminate the equivalent of 32 full-time positions.

Department for the Aging (Total FY 2011 PEG $8.4M)

Case Management Restructuring: ($3.3M)
The November Financial Plan includes a 15% reduction in FY 2011 to fund case management contracts. Case management links approximately 18,000 seniors to services including home care and home delivered meals.

Department of Education (Total FY 2011 PEG: $215.1M)

The November Plan includes a $215 million PEG program for FY 2011. Virtually the entire savings is achieved by recognizing new federal and state revenue. Programmatic savings account for only $4.9 million of the PEGs. The FY2 011 PEGs include the following:

Custodial Allocation Reduction: ($3.2 M)
This reduction eliminates the $3 million City Council initiative included in the FY 2011 Adopted Budget to preserve custodial services at schools. The cut will be achieved by lowering the per square foot custodial allocation by $.05 and will result in a loss of 150-200 jobs.

Department of Parks and Recreation

The Department of Parks and Recreation's PEG target for FY 2011 was $16.6 million. However, due to a number of previous revenue proposals that have failed, the PEG target was not achieved. New revenue proposals total $2.4 million for FY 2011. No spending cuts were included for FY 2011.

Recreation Center Membership Fee Increase: ($1.0 M)
Membership fees at DPR Recreation Centers would increase from $75 annually for centers with pools to $150, and from $50 annually at centers without pools to $100. Senior citizen memberships would rise from $10 to $25.

Tennis Permits Fee Increase: ($1.2 M)
Tennis fees would increase from $7 to $15 for single play, and from $100 to $200 for a season pass.

Ballfields Permits Fee Increase: ($0.2 M)
The Department proposes increase permits for use of non-lighted fields from $16 to $25, and for lighted fields from $32 to $50.

Department of Transportation (Total FY 2011 PEG: $27.1M)

Parking Meter Increases: ($2.4 M)
DOT proposes increasing metered parking rates from $0.75 per hour to $1.00 per hour at nearly 49,000 metered spaces in Manhattan above 86th Street and the other boroughs, raising $2.4 million in FY 2011, and $13.7 million annually beginning in FY 2012.

Department of Youth and Community Development (Total FY 2011 PEG: $12.5M)

The November Plan includes a $12.522 million PEG program for FY 2011 for DYCD. Proposed actions in the plan that will impact services include:

Reductions to Runaway and Homeless Youth (RHY) Services: ($569,000)
The Department proposes a savings of $569,000 in FY 2011 by reducing funding for its runaway and homeless youth drop-in centers and street outreach services for homeless youth. DYCD plans to implement these reductions on January 1, 2011.

Reduction of Beacon Program Contracts: ($2.5M)
The Department proposes a ten percent reduction of funding to the 66 City-funded Beacon Programs located in public schools in FY 2011. The reduction averages to approximately $38,000 from each programs budget. Providers have sited potential staff reductions that may impact services as a result.

Reduction of Funding for Adult Literacy Contracts: ($465,000)
The Department proposes a reduction of six percent to its adult literacy programs which will result in a savings of $465,000 in FY 2011. This reduction includes a portion of the $3.5 million the Council restored to DYCD in the Adopted FY 2011 budget for Adult Literacy services which include English for Speakers of Other Languages (ESOL) and Adult Basic Education (ABE)/General Educational Development (GED) services.

Reduction of Funding to Discretionary Programs
In the Adopted FY 2011 Budget the Council designated $36 million to DYCD's budget. The Department proposes a reduction of 5.4 percent or $1.878 million from its budget for Council discretionary program. The Department projects that contract funds which have not been fully expended could be accrued as savings. However, DYCD will not have a final list of contracts impacted until the processing of contracts and expenditures are completed. It is also unclear which Council funded programs and initiatives may also be impacted as a result.

District Attorneys (Total FY 2011 PEG: $2.7M)

The five county District Attorneys and the Office of the Special Narcotics Prosecutor face a collective cut of $2.7 million, or 0.9 percent. The PEG target was reduced from its original level of $8.5 million to be consistent with the PEG achieved by the Police Department. The Council restored $2.1 million to the D.A. budgets at Adoption, with the expectation that additional revenues expected from deferred prosecution settlements would be used to provide additional funding to the offices if the City's overall fiscal condition permitted.

Fire Department (Total FY 2011 PEG: $22.9M)

Nighttime Closures of 20 Fire Companies: ($15.0 M)
As per the 2010 November Plan, the FDNY plans to eliminate the overnight tour at 20 fire companies. The plan is budgeted for 2011 only and would generate savings of $15 million for the remainder of the current fiscal year. This action has no impact on Department headcount. Effected uniformed personnel will be redeployed to other assignments and the budget savings would be achieved by reducing overtime expenditures.

It is important to note that although the Council restored funding in FY 2011 to maintain operations at 20 fire companies slated to be eliminated, the City's Financial Plan assumes that these 20 Companies will be eliminated beginning in FY 2012.

Libraries (Total FY 2011 PEG: $16.7M)

The November Plan PEG to the three City library systems totals $16.7 million for FY 11. All three systems – New York Public, Brooklyn, and Queens Borough – have indicated that they will be unable to maintain the current level of services at the reduced level of funding.

All three systems will implement cuts to their materials and collections budgets, and most likely will have to reduce hours of operation. It is unclear whether any branch closures will be necessary. All the systems have indicated that they hope to avoid the most drastic measures, such as branch closures or layoffs – but may not be able to avoid such measures. Further cuts to this year's budgets (including the strong likelihood of cuts in State funding) will make such measures almost unavoidable, however.

Library Systems Subsidies, FY 2011 and FY 2012, as of November Plan
Dollars in thousands; adjusted for prepayments

	FY 2011			FY 2012	Change FY 11 to FY 12
	Adopted	**PEG**	**Nov. Plan**	**Nov. Plan**	
NYPL – Research	$23,000	($1,242)	$21,758	$17,452	($4,306)
New York Public Library	115,343	(6,233)	109,110	84,832	(24,278)
Brooklyn Public Library	85,970	(4,646)	81,324	62,978	(18,346)
Queens Borough Public Library	84,198	(4,550)	79,648	60,992	(18,656)
TOTAL	**$308,511**	**($16,671)**	**$291,840**	**$226,254**	**($65,586)**

Next year's projected budget is even more troubling, with a projected 22.5% cut in funding from the current level (including the November Plan PEGs). All 3 systems would face layoffs much larger than those projected by OMB in the November Plan, reductions in hours to as low as 2 to 3 days a week on average at branch libraries, and branch closures.

Police Department (Total FY 2011 PEG: $43.1M)

Civilian Positions: ($13.8M)
The November Plan eliminates 350 civilian positions in the Police Department through attrition beginning in FY 2011, yielding a total of $13.8 million in FY 2011 and $29.8 million in FY 2012. In the FY 2011 Preliminary Budget, the Department replaced 400 uniform officers in non-law enforcement functions with civilians to free them for patrol and enforcement functions. The current action would eliminate most of the 400 civilian positions and likely have a negative impact on the Department's uniform deployment strength.

Eliminate Voluntary Vacation Pay: ($1.1M)
As per the November Plan, "Police officers are eligible for an extra week's worth of pay by voluntarily working through a week's worth of annual leave. The November Plan eliminates voluntary vacation pay to generate savings of $1.1 million in FY 2011 and $4.2 million in FY 2012.

Appendix A: Agency PEGs in the November Plan

The table on the following pages lists the PEG targets given to agencies by OMB in September, and the PEGs actually included in the November Plan, for FY 2011 and 2012. Also included are columns indicating the actual PEG as a percent of the target, and the percent of the actual PEG consisting of revenue actions. Overall, the PEG program presented in the November Plan fell short of the OMB target of $2.0 billion by $419 million, or 21 percent. Revenue actions made up 10 percent of the total PEG program.

Dollars in thousands	FY 2011				FY 2012				TOTAL			
	Target	Achieved	Pct of Tgt	Pct. Rev	Target	Achieved	Pct of Tgt	Pct. Rev	Target	Achieved	Pct of Tgt	Pct. Rev
Police	$136,614	$42,447	31%	0%	$206,094	$63,606	31%	0%	$342,708	$106,053	31%	0%
Fire	48,034	22,909	48%	1%	70,050	35,896	51%	6%	118,084	58,805	50%	4%
Correction	32,173	4,909	15%	31%	48,967	9,904	20%	10%	81,140	14,813	18%	17%
Sanitation	40,101	26,114	65%	4%	61,025	75,997	125%	0%	101,126	102,111	101%	1%
ACS	40,414	24,485	61%	0%	58,564	36,850	63%	0%	98,978	61,335	62%	0%
HRA	32,252	48,506	150%	0%	48,298	33,238	69%	0%	80,550	81,744	101%	0%
DHS	20,249	935	5%	0%	29,794	17,968	60%	0%	50,043	18,903	38%	0%
DFTA	8,170	8,350	102%	24%	9,126	8,947	98%	0%	17,296	17,297	100%	12%
DOHMH	22,773	22,773	100%	0%	32,702	32,715	100%	0%	55,475	55,488	100%	0%
HPD	3,970	3,949	99%	39%	5,359	5,206	97%	22%	9,329	9,155	98%	29%
DOF	13,441	7,309	54%	82%	19,989	26,121	131%	92%	33,430	33,430	100%	90%
DOT	27,102	27,103	100%	49%	40,741	40,740	100%	69%	67,843	67,843	100%	61%
DPR	16,572	(3,938)	-24%	100%	24,645	35,682	145%	0%	41,217	31,744	77%	-12%
DCAS	12,336	13,590	110%	37%	18,286	17,031	93%	54%	30,622	30,621	100%	46%
DCLA	8,120	8,120	100%	0%	8,837	8,837	100%	0%	16,957	16,957	100%	0%
Libraries	16,671	16,671	100%	0%	19,694	19,694	100%	0%	36,365	36,365	100%	0%
DJJ	4,139	1,000	24%	0%	3,047	1,208	40%	0%	7,186	2,208	31%	0%
DYCD	12,831	12,522	98%	0%	13,292	13,602	102%	0%	26,123	26,124	100%	0%
SBS	4,159	6,432	155%	50%	4,727	8,421	178%	59%	8,886	14,853	167%	55%
DOB	6,350	5,600	88%	84%	9,041	9,791	108%	62%	15,391	15,391	100%	70%
DOITT	12,614	11,006	87%	55%	19,712	21,429	109%	54%	32,326	32,435	100%	54%
DCA	1,258	1,258	100%	100%	1,890	1,890	100%	100%	3,148	3,148	100%	100%
All Other Mayoral	33,760	34,807	103%	34%	49,303	34,400	70%	44%	83,063	69,207	83%	39%
Mayoralty	4,413	2,981	68%	55%	6,555	7,195	110%	66%	10,968	10,176	93%	63%
D.A.s	8,476	2,741	32%	0%	12,421	3,918	32%	0%	20,897	6,659	32%	0%
All Other Electeds	3,584	470	13%	0%	5,378	1,170	22%	0%	8,962	1,640	18%	0%

Continued on next page

Continued from previous page

	FY 2011				FY 2012				TOTAL			
	Target	Achieved	Pct of Tgt	Pct. Rev	Target	Achieved	Pct of Tgt	Pct. Rev	Target	Achieved	Pct of Tgt	Pct. Rev
DOE	215,087	215,087	100%	0%	350,048	350,048	100%	0%	565,135	565,135	100%	0%
CUNY	13,020	13,020	100%	0%	16,157	16,157	100%	0%	29,177	29,177	100%	0%
HHC	4,660	3,388	73%	0%	8,815	8,815	100%	0%	13,475	12,203	91%	0%
OTPS Inflator	-	-	n.a.	n.a.	-	55,519	n.a.	n.a.	-	55,519	n.a.	n.a.
TOTAL	**$803,343**	**$584,544**	**73%**	**9%**	**$1,202,557**	**$1,001,995**	**83%**	**11%**	**$2,005,900**	**$1,586,539**	**79%**	**10%**