The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2004 and the Financial Plan for Fiscal Years 2004-2007

The City of New York
Office of the Comptroller
William C. Thompson, Jr., Comptroller

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Executive Summary

The City is likely to end FY 2003 with its budget in balance and with a small surplus available to offset FY 2004 expenditures. This achievement was hard-won. Despite $5 billion in gap-closing initiatives, the City's November modification still showed a budget gap of nearly $1.1 billion. This gap was closed through a combination of an 18.49 percent mid-year property tax increase, significant expenditure reductions and additional revenue enhancements that were enacted during December 2002.

The budget picture for FY 2004 is even bleaker. Although gap-closing actions implemented since November 2002--including $1.7 billion generated by the property tax increase--will reduce the FY 2004 deficit by $3.2 billion, the City still projects a $3.4 billion deficit. Analysis of risks and offsets, including the potential impact of the Governor's Executive Budget, demonstrate the problem could be $500 million larger than the City estimates.

Weak consumer demand, lingering concerns regarding corporate malfeasance and uncertainty concerning the country's possible conflict with Iraq, continue to negatively impact the nation's economy. It is therefore unlikely that a near-term resurgence in the local economy will help reduce next year's budget deficit.

Indeed, in the coming year the City may be required to increase its pension contributions, pay additional health insurance costs and address escalating costs for the settlement of claims, further eroding the City's ability to close its looming budget gap. The Mayor's preliminary FY 2004 budget relies heavily upon assistance from the Federal and State governments, as well as upon contributions from the municipal labor unions to address the City's serious fiscal problems.

The Federal government must assist the City for the economic shock associated with the World Trade Center terrorist attacks. The City's ongoing recession and job losses are significantly worse than the rest of the country. The events of the 9/11 terrorist attacks are directly linked to the City's continuing economic difficulties. Although the City has addressed the impact of the current recession with a substantial tax increase and large spending reductions, the nation as a whole also must share the additional costs associated with the 9/11 attacks--an act of war on United States soil.

Although the State faces its own fiscal challenges, the State must also share responsibility as a stakeholder in the City's economic health. The Governor's recently proposed Executive Budget would increase the City's fiscal burdens rather than reduce them. The State proposals, if enacted, would increase the City's FY 2004 budget gap by over $800 million. If the City and the region are to overcome this fiscal crisis, it is essential that the State offer meaningful assistance.

In addition, the City's unions must assist in achieving solutions to the current fiscal crisis. Developing sustainable solutions to our current budgetary challenges must be a central part of the unions' participation.

If the Federal and State government refuse to offer meaningful assistance and City unions do not offer savings proposals, the City will be forced to adopt draconian budgetary measures. These actions can be expected to include deep cuts in essential City services that will in turn further degrade the City's revenue base. As a result, the City's economy will likely suffer severe long-term economic consequences.

It must be stressed that the current crisis impacts us all. The City and its partners must see these challenges as an opportunity to achieve structural balance through implementation of long-term solutions. The City's projected FY 2005 budget gap already exceeds $4 billion. Only by working together can we implement sound and effective policies and ensure the future economic prosperity of our City.

Table 1. *Four-Year Financial Plan Revenues and Expenditures Before Gap-Closing Program*

($ in millions)

	FY 2003	FY 2004	FY2005	FY 2006	FY 2007
Revenues					
Taxes:					
General Property Tax	$9,926	$11,167	$11,583	$12,006	$12,459
Other Taxes[a]	$13,180	$13,524	$14,542	$15,451	$16,276
Tax Audit-Revenues	$502	$502	$502	$502	$502
Subtotal: Tax Revenues	$23,608	$25,193	$26,627	$27,959	$29,327
Miscellaneous Revenues	$4,230	$3,804	$3,785	$3,765	$3,784
Transitional Finance Authority - 9/11	$1,500	$0	$0	$0	$0
Unrestricted Intergovernmental Aid	$754	$555	$555	$555	$555
Anticipated Federal and State Aid	$230	$--	$--	$--	$--
Other Categorical Grants	$1,075	$770	$673	$694	$710
Less: Intra-City Revenue	($1,107)	($1,039)	($1,036)	($1,034)	($1,033)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)
Subtotal: City Funds	$30,275	$29,268	$30,589	$31,924	$33,238
Inter-Fund Revenues	$332	$321	$320	$320	$320
Total City & Inter-Fund Revenues	$30,607	$29,589	$30,909	$32,244	$33,558
Federal Categorical Grants	$5,386	$4,192	$4,158	$4,151	$4,161
State Categorical Grants	$8,477	$8,295	$8,381	$8,445	$8,478
Total Revenues	$44,470	$42,076	$43,448	$44,840	$46,197
Expenditures					
Personal Service	$23,454	$23,953	$24,798	$25,928	$26,727
Other Than Personal Service	$18,981	$18,339	$18,726	$19,084	$19,293
Debt Service	$1,933	$3,082	$3,447	$3,575	$3,788
Budget Stabilization and Pre-payments	$621	$--	$--	$--	$--
MAC Debt Service	$214	$23	$490	$492	$494
NYCTFA	$560	$809	$1,024	$1,010	$1,013
General Reserve	$300	$300	$300	$300	$300
	$46,063	$46,506	$48,785	$50,389	$51,615
Less: Intra-City Expenses	($1,107)	($1,039)	($1,036)	($1,034)	($1,033)
Total Expenditures	$44,956	$45,467	$47,749	$49,355	$50,582
Gap To Be Closed	**($486)**	**($3,391)**	**($4,301)**	**($4,515)**	**($4,385)**

[a]NOTE: Other Taxes includes NYCTFA revenues

Table 2. *Four- Year Financial Plan Revenues and Expenditures After Gap-Closing Program*

($ in millions)

	FY 2003	FY 2004	FY2005	FY 2006	FY 2007
Revenues					
Taxes:					
General Property Tax	$9,926	$11,167	$11,583	$12,006	$12,459
Other Taxes[a]	$13,183	$14,506	$15,223	$15,633	$16,299
Tax Audit Revenues	$502	$522	$502	$502	$502
Subtotal: Tax Revenues	$23,611	$26,195	$27,308	$28,141	$29,260
Miscellaneous Revenues	$4,237	$4,637	$4,009	$3,992	$4,014
Transitional Finance Authority - 9/11	$1,500	$0	$0	$0	$0
Unrestricted Intergovernmental Aid	$754	$555	$555	$555	$555
Anticipated Federal and State Aid	$650	$--	$--	$--	$--
Other Categorical Grants	$1,080	$785	$688	$709	$725
Less: Intra-City Revenue	($1,107)	($1,039)	($1,036)	($1,034)	($1,033)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)
Subtotal: City Funds	$30,710	$31,118	$31,509	$32,348	$33,506
Inter-Fund Revenues	$332	$322	$320	$320	$320
Total City & Inter-Fund Revenues	$31,042	$31,440	$31,829	$32,668	$33,826
Federal Categorical Grants	$5,391	$4,886	$4,150	$4,141	$4,151
State Categorical Grants	$8,477	$8,574	$8,658	$8,722	$8,755
Total Revenues	$44,910	$44,900	$44,637	$45,531	$46,732
Expenditures					
Personal Service	$23,428	$23,210	$24,079	$25,208	$26,005
Other Than Personal Service	$18,975	$18,552	$17,828	$17,989	$18,199
Debt Service	$1,919	$3,045	$3,447	$3,574	$3,788
Budget Stabilization and Pre-Payments	$621	$--	$--	$--	$--
MAC Debt Service	$214	$23	$490	$492	$494
NYCTFA	$560	$809	$1,024	$1,010	$1,013
General Reserve	$300	$300	$300	$300	$300
	$46,017	$45,939	$47,168	$48,573	$49,799
Less: Intra-City Expenses	($1,107)	($1,039)	($1,036)	($1,034)	($1,033)
Total Expenditures	$44,910	$44,900	$46,132	$47,539	$48,766
Gap To Be Closed	**$0**	**$0**	**($1,495)**	**($2,008)**	**($2,034)**

[a]NOTE: Other Taxes includes NYCTFA revenues

Table 3. ***FY 2004 Preliminary Budget Gap Assessment***

($ in millions)

	FY 2004
City Stated Deficit	**($3,391)**
Actions that (Increase)/Reduce the Gap	
Budget Assumptions	
Non-Property Tax	($179)
Overtime	(102)
Disaster Relief Medicaid	(50)
Public Assistance	(15)
Subtotal	**($346)**
Agency Gap Closing Actions	$487
Sale of Pier A	150
Subtotal	**$637**
Remaining Gap	**($3,100)**
Potential Impact of Governor's Executive Budget	
Education Aid	($478)
Extended School Day	(275)
Medicaid	(255)
TANF	(61)
Sales Tax on Clothing and Increased Fees and Licenses	225
Subtotal	**($844)**
Gap to be Closed	**($3,944)**

ECONOMIC OVERVIEW

Since the beginning of 2001, the national and city economies have experienced difficulties in part because other major world economies have been in a recession. During this global slowdown the bright spot has been U.S. consumption. Unfortunately, U.S. consumption is weakening, in part because of waning consumer confidence. Yet, low-cost exports from Asia have continued to help keep down inflation in the United States as have improvements in U.S. productivity, which rose significantly in 2002. While the U.S. economy appears to be improving, weak consumer demand, concerns about corporate malfeasance and uncertainty concerning the country's possible conflict with Iraq, appears to be inhibiting the nation's economic resurgence.

On balance, the Comptroller is somewhat less optimistic than the Mayor on the short-term outlooks for both the national and City economies. The City's manufacturing sector has continued to lose ground, extending a decades-long trend. In addition, losses in market values of U.S. stocks have a magnified impact on the City because of the importance of Wall Street profits and bonuses to the City's economy. It is likely that the City and the nation will continue to struggle with these challenges.

THE JANUARY MODIFICATION ECONOMIC ASSUMPTIONS

Since May 2002, when the Comptroller commented on the Executive Budget for FY 2003, the City's economy has further weakened. The Comptroller's and Mayor's economic assumptions are closer than they have been previously. However, the Comptroller's projections anticipate a larger negative impact stemming from weak consumer demand, concerns about the stock market, and the country's possible armed conflict with Iraq.

THE U.S. ECONOMY

National economic trends were largely positive through the third quarter of 2002. One of the most promising developments was the 2002 productivity growth of 4.7 percent, which made possible an increase in Gross Domestic Product (GDP) despite a decline in both jobs and incomes. However, this positive development abated in the fourth quarter and weak demand will likely limit business investment and therefore the potential for productivity growth in 2003. The Comptroller's Office, therefore, forecasts GDP growth of 2.7 percent somewhat below the Mayor's estimate of 2.9 percent. Similarly, in 2004 the Comptroller's Office forecasts GDP growth of 3.5 percent, well below the Mayor's forecast of 4.5 percent, as shown in Table 4 on page 5. The Comptroller's lower projections also include fewer expected jobs, lower inflation rates and higher unemployment rates.

Table 4. ***Selected U.S. Economic Indicators Annual Annual Averages, Actual 2002 and Forecast 2003-2004***

	2002 Actual	2003 Forecast		2004 Forecast	
		Comptroller	Mayor	Comptroller	Mayor
GDP Change (%)	2.4	2.7	2.9	3.5	4.5
Job Change (millions)	(1.1)	0.8	1.0	1.3	3.3
Inflation Rate (%)	1.6	2.0	2.3	2.4	2.5
Wage Rate (%)	2.3	n/a	3.8	n/a	4.5
Unemployment Rate (%)	5.8	6.1	5.9	5.5	5.3
Federal Funds Rate (%)	1.67	1.3	1.7	1.7	3.3
10-Year T-Notes (%)	4.61	4.2	5.2	4.8	6.5
30-Year T-Bonds (%)	5.43	4.9	n/a	5.2	n/a

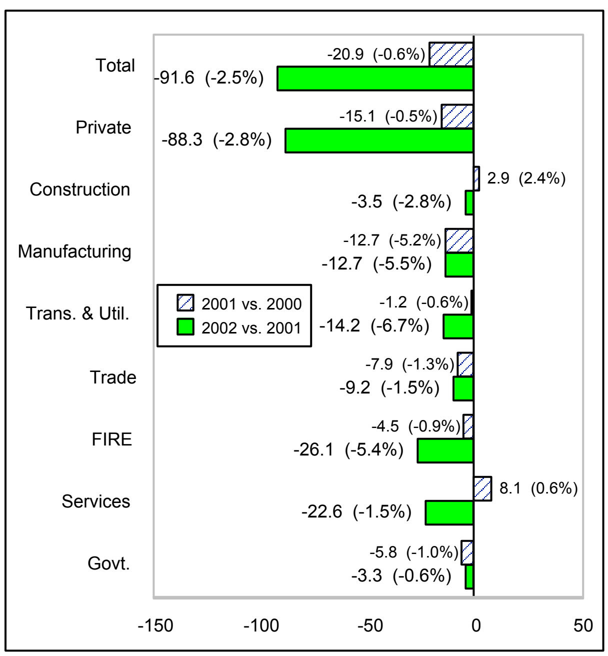
SOURCES: Actual=preliminary U.S. data from Department of Commerce, Bureau of Labor Statistics, and Federal Reserve Board of Governors. Mayor=forecasts by the NYC Office of Management and Budget in the January modification.
Comptroller=alternative forecasts by the NYC Comptroller's Office.

THE NEW YORK CITY ECONOMY

During the strong 2002 third quarter, it appeared that the City's economy might recover from its recession in the fourth quarter. However, the combination of the continued stock market declines, war fears and job losses resulted in negative growth. While the economic news in 2001 was poor, the construction and services sectors showed some job growth. In 2002, not even one sector ended above 2001, as may be seen in Chart 1.

Chart 1. ***NYC Job Growth and Percent Change 2001/2000 and 2002/2001***

(Jobs in thousands)



SOURCE: NYS Department of Labor, release of January 23, 2003.
NOTE: Jobs are based on annual averages of monthly data. Differences between years are shown and in parenthesis the percentage changes

The March revisions to 2003 job growth will likely be lower. The revised job numbers will be negatively impacted by federal, state, and city headcount reductions. Although the FIRE sector accounted for a mere 13 percent of New York City's jobs in 2000, this sector reflects 32.7 percent of personal income and 34.2 percent of earnings Based on the continuing weakness in market conditions, caused in part by the slowness of reforms to deal with the post-Enron loss of credibility of financial statements, and the increased uncertainty for the City from the country's move toward war with Iraq, both the Mayor and the Comptroller's Office project a decrease in gross product for the City in 2003. Because the Comptroller believes wages and other forms of income will be higher than the Mayor projects, the Comptroller projects a 1.5 percent GCP decrease, which is 0.7 percentage point above the Mayor's estimate. For 2004, the Comptroller's estimate is 0.9 percent, about a quarter of the Mayor's estimate, as is shown in Table 5. However, the Comptroller's estimate of job loss in 2003 is larger than the Mayor's and his estimate of job growth in 2004 is below that of the Mayor.

Table 5. ***Selected NYC Economic Indicators Annual Averages, Actual 2002 and Forecasts 2003-2004***

	2002 Actual	2003 Forecast		2004 Forecast	
		Comptroller	Mayor	Comptroller	Mayor
GCP Change (%)	(2.2)	(1.5)	(2.2)	0.9	3.7
Jobs Change (thousands)	(91.6)	(59.9)	(57.6)	31.7	49.1
Unemployment Rate (%)	7.7	8.2	n/a	7.7	n/a
Wage Rate (%)	(1.9)	0.8	0.6	3.0	4.9
Inflation Rate (%)	2.5	2.8	2.4	2.8	2.6

SOURCES: Actual=preliminary NYC data from NYS Department of Labor, Bureau of Statistics. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office.

Fiscal Challenges to Budget Balance

Despite instituting agency gap-closing initiatives of more than $2.1 billion since January 2002, and generating additional revenue of $1.7 billion through an 18.49 percent property tax increase, the City anticipates that it will face a $3.4 billion deficit in FY 2004, after prepaying $621 million of FY 2004 expenditures in FY 2003. Overall, the City expects revenues in FY 2004 to shrink by $2.4 billion, or 5.4 percent, to $42.1 billion, compared to FY 2003.[1] The drop is largely due to the infusion of extraordinary one-time revenues in FY 2003, including $1.5 billion in revenue from New York City Transitional Finance Authority borrowing, $149 million in FEMA reimbursements, $120 million in landfill reimbursements, and non-recurring grants which do not extend beyond FY 2003.

Although revenues are contracting, expenditures are expected to grow by $511 million, or 1.1 percent, to $45.5 billion.[2] The growth in expenditures is driven by escalating costs for pensions, debt service, health insurance and Medicaid. Together, spending in these areas is projected to rise by 16 percent, or $1.8 billion in FY 2004 to $13.3 billion. These costs will increase as a percentage of total expenditures from 25.5 percent in FY 2003 to 29.3 percent in FY 2004. Spending for all other needs, including wages and salaries are projected to be $1.3 billion less than in FY 2003.

The City has already imposed cost savings initiatives of approximately $4 billion. It is therefore particularly difficult to identify additional cost savings to close the remaining budget gap without affecting core services. To avoid onerous tax increases and cuts to essential services, the City has proposed a gap-closing program that requires the assistance and cooperation of the State and Federal governments as well as the labor unions. State, Federal and labor initiatives account for $2.9 billion of the City's $3.4 billion gap-closing program while further agency spending reductions together with non-tax revenue increases provide the remaining $487 million. If enacted as projected, the gap-closing program will produce a balanced budget of $44.9 billion.

While the City's FY 2004 gap-closing initiatives produce recurring budget relief averaging more than $2.5 billion a year in the outyears, persistent and ever-widening gaps will continue to plague the City. Even if the FY 2004 gap-closing programs were completely successful, the City would confront a deficit of $1.5 billion in FY 2005 and $2 billion in each of FYs 2006 and 2007.

The existence of persistent budget deficits is attributable to the inherent structural imbalance between expenditure and revenue growth. As Chart 2 on page 8 shows, expenditure growth, after adjusting for the effects of prepayments, consistently outpaces revenue gains in the first three years of the financial plan. Even though revenue growth

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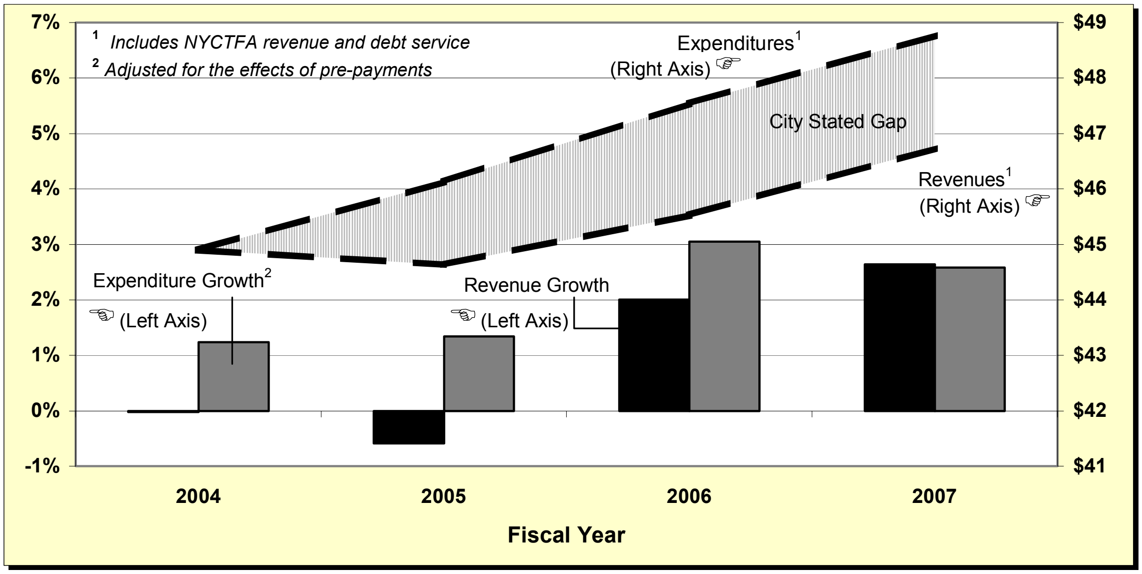
[1] Includes the portion of personal income tax retained to service New York City Transitional Finance Authority (NYCTFA) debt.

[2] Includes NYCTFA debt service and adjusted for an expected prepayment of $621 million.

is expected to edge ahead of expenditure growth in FY 2007, the cumulative disparity between spending and revenue growth continues to widen the gap.

Chart 2. ***Revenue and Expenditure Growth and the Outyear Gaps***

($ in billions)



REVENUE TRENDS

Even with the assumption of a personal income tax (PIT) reform that is expected to generate $962 million in additional income, the City expects FY 2004 revenue to decline by $10 million compared with FY 2003. In contrast, tax revenues are expected to climb by $2.6 billion. This gain is propelled by gap-closing actions taken by the City rather than an expectation of underlying strength in the economy. The recently implemented property rate increase combined with the proposed PIT reform (the Commuter tax) raise FY 2004 tax revenue estimates by $2.7 billion. Miscellaneous revenues are also projected to be higher mainly as a result of expected higher rental revenues for JFK and LaGuardia airports and proposed increases in fees and fines.

Table 6. ***FYs 2004- 2007 Revenue Growth (with PEGs)***

($ in millions)

		Annual Percentage Change				
	FY 2004	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 2007
Property Tax	$11,167	12.5%	3.7%	3.7%	3.8%	$12,459
PIT	5,614	24.6%	0.9%	(2.5%)	2.8%	5,678
Other Non-Property Tax	9,414	2.6%	6.9%	5.5%	4.8%	11,123
Total Tax Revenue	**$26,195**	**10.9%**	**4.2%**	**3.1%**	**4.0%**	**$29,260**
Miscellaneous Revenue	$4,690	(22.2%)	(15.4%)	0.2%	1.0%	$4,011
Unrestricted Aid	555	(60.5%)	0.0%	0.0%	0.0%	555
Federal Aid	4,886	(9.4%)	(15.1%)	(0.2%)	0.2%	4,151
State Aid	8,574	1.1%	1.0%	0.7%	0.4%	8,755
Total Revenue	**$44,900**	**(0.0%)**	**(0.6%)**	**2.0%**	**2.6%**	**$46,732**

As shown in Table 6 on page 8, total City revenue is expected to grow from $44.9 billion in FY 2004 to $46.7 billion in FY 2007, a growth of four percent. Tax revenues are the main engines of revenue growth over this period and are projected to increase 11.7 percent. All other revenues combined, excluding State aid, are projected to fall by 14 percent. State aid is expected to increase moderately.

The City's financial plan projects property tax and PIT revenues to increase by 12.5 percent and 24.6 percent respectively in FY 2004. The increase is due to the FY 2003 mid-year property tax increase and assumed PIT reform in FY 2004. Together, these two actions are anticipated to boost revenues by $2.7 billion, more than offsetting the drop in miscellaneous revenue as well as federal and unrestricted aid. The sharp decline in these revenues is due mainly to the loss of revenue from a one-time NYCTFA borrowing and a non-recurring anticipated federal aid prepayment of $650 million in FY 2003. Expectations of future growth in tax-revenues are dampened by declining miscellaneous revenues and federal aid.

Tax Revenues

Total tax revenues (after the gap-closing program and including NYCTFA revenues) will fund 58 percent of the City's FY 2004 budget, up from 53 percent in FY 2003. The relative share of tax revenue is higher for a number of reasons, including the over $1 billion property tax rate increase, the anticipated $962 million PIT reform, the lowering of Federal categorical grants by more than $1 billion and reduced estimates for other items such as miscellaneous revenues, unrestricted inter-governmental aid and other categorical grants. The property tax share of total revenue is 25 percent, up from 22 percent in FY 2003. The share of non-property tax revenues is 33 percent, up from 30 percent in FY 2003.

Total tax revenues are projected to account for 84 percent of City-funded revenues in FY 2004, up from 77 percent in FY 2003. Property taxes account for about 36 percent, up from 32 percent in FY 2003 and non-property taxes account for 48 percent, up from 46 percent in FY 2003.

FY 2004 Baseline Tax Revenue

Risks and Offsets
($ in millions)

	(Risk)/Offset
PIT	($194.8)
Business Tax	(50.1)
Sales Tax	37.0
All Other Taxes	29.1
Total	**($178.8)**

The Comptroller anticipates that the economy will recover more slowly in 2004 than the City. The City is assuming that the main constraint on growth now is the uncertainty pertaining to war with Iraq. The City is anticipating a quick resolution to the situation so that growth will quickly resume, assuming that the economic fundamentals are in place. The Comptroller believes that it will take more than a quick resolution to the war for the economy to recover. The stock market for instance, may not recover to pre-recession levels in the near future. **As a result there is a risk to FY 2004 non-property tax collections of $178.8 million as shown in the figure above.**

PEG Program for Taxes, FY 2004 ($ in millions)	
PIT Reform	$962
Tax Audit	20
Bus. Tax Loopholes	12
Real Estate Loopholes	8
Total $ million	**$1,002**

Additionally, it is unclear as to whether the City can achieve its ambitious gap-closing program. As shown in the figure to the right, the FY 2004 budget anticipates State approval for PIT reform. This reform is expected to generate $962 million in additional revenue as part of the FY 2004 PEG program. The City also anticipates an additional $20 million in tax audit revenues for FY 2004 from a tax amnesty program. As part of this program, the Department of Finance is expected to target delinquencies over three years old from general corporation, unincorporated business, utility, commercial rent and hotel taxes. The City also projects that legislation will be enacted to close tax loopholes related to the real property transfer and mortgage recording taxes bringing in $8 million. It further assumes that legislation will be passed to increase the rate of interest on underpayments and to close loopholes relating to real estate investment trusts. These actions should bring in $12 million in FY 2004. The last two items are expected to be successful and have been incorporated into the City's baseline tax revenue estimates.

The City projects tax revenues for FY 2004 totaling $26.2 billion. This amounts to $24.1 billion excluding audits, the school tax relief program, and the proposed PIT reform, but includes net lien sales on property and the portion of personal income tax set aside for NYCTFA. This $24.1 billion represents a projected increase of $1.6 billion, or 7.1 percent over FY 2003. This increase is mainly the result of the property tax rate increase, growth in assessed value of property and mild recovery of non-property taxes.

Of this increase of $1.6 billion, $1.2 billion, or 77.4 percent is attributable to an expected increase in the property-tax collections. The projected increase in property taxes reflects the 18.49 percent property tax rate increase and growth in billable assessed value of property, yielding anticipated growth of 12.5 percent in property tax collections.[3] Collections to date are strong and exceed the January modification projections by $486 million.

Non-property taxes, after declining 15.1 percent in FY 2002, are projected to remain flat in FY 2003, growing by merely one percent and remaining sluggish in FY 2004, growing only 2.9 percent. Common-rate-and-base non-property taxes (eliminating the effects of changes in tax policy), after declining 11 percent in FY 2002, are expected to decrease a further two percent in FY 2003 and to grow four percent in FY 2004.

After declining two consecutive years in both actual and common-rate-and-base, business taxes are projected to grow 10.1 percent on an actual basis and 9.3 percent on common-rate-and base in FY 2004. All three business taxes are expected to recover and experience positive growth. The general corporation tax (GCT) is projected to grow by 8.6 percent, the banking corporation tax (BCT) grows by 31.4 percent and the unincorporated business tax (UBT) by 6.2 percent. It is reasonable to expect a second

[3] These issues are discussed in "Property Taxes."

year of negative growth for the business income taxes as collections for the first seven months of FY 2003 are below FY 2002 first seven months' collections by $158 million.

Rising interest rates are expected to impact mortgage recording tax (MRT) and real property transfer tax (RPTT) revenues. MRT is expected to drop 13.4 percent and RPTT is expected to decline 9.1 percent below FY 2003. The commercial rent tax increase of 3.8 percent is anticipated because the property tax rate increase will result in higher rents. Although collection of interest-sensitive taxes may slow, they are not expected to slow as quickly as the City projects. Slower recovery than the City is expecting may not result in doubling of the federal fund rate in FY 2004.

As jobs experience positive growth in 2004, PIT will grow moderately at 3.2 percent after declining in FY 2002 and staying flat in FY 2003. Sales tax revenue is projected to grow only 2.6 percent in FY 2004.

The figure to the right shows growth rate assumptions for taxes that include net lien sales on property, portion of PIT set aside for NYCTFA, but excludes audits, STAR and the tax program for the PIT reform. The growth rates underlying the City's baseline tax revenue assumptions over the financial plan period are generally reasonable. Growth over the financial plan period averages 5.7 percent compared with the Comptroller's average tax revenue growth assumption of 5.9 percent. The Comptroller expects a weaker recovery in FY 2004 than the City is projecting but in the outyears growth is anticipated to exceed the City's expectations.

Tax Revenue Growth Assumptions
January Modification

	FY 2004	FY 2005	FY 2006	FY 2007
City	7.1%	5.9%	5.1%	4.7%
Comptroller	6.5%	5.9%	6.2%	5.0%

As a result, the Comptroller has identified risks to the tax revenue projections contained in the financial plan for FYs 2004 and 2005 and has noted additional upside potential in FYs 2006 and 2007 as illustrated in the figure above.

Tax-Revenue Risks and Offsets
January Modification

Tax	FY 2004	FY 2005	FY 2006	FY 2007
Property	$--	($22.3)	($41.6)	($65.4)
PIT	(194.8)	(165.6)	112.1	151.0
Business	(50.1)	(38.1)	(23.1)	23.7
Sales	37.0	23.9	19.9	51.5
All Other	29.1	32.9	36.3	41.6
Total	**(178.8)**	**(169.2)**	**103.6**	**202.4**

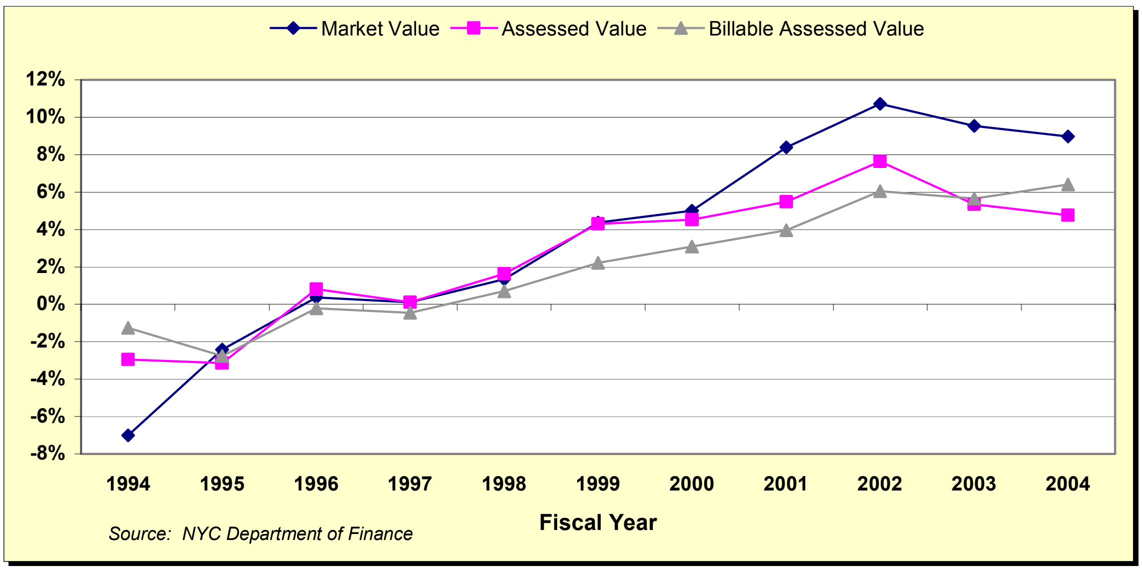
Property Taxes

Over the term of the financial plan, common-rate-and-base real estate tax growth is expected to slow to an average of about 3.7 percent. Market value growth is anticipated to slow in FYs 2003 and 2004. This slowdown is expected to continue as interest rates are forecast to rise and the higher property tax rate will negatively affect the real estate market.

Overall Growth

The tentative assessment roll for FY 2004 property values in the City, released on January 15, 2003 showed that market values continue to grow strongly, though at a decelerating rate as illustrated in Chart 3. Market value growth over the last 10 years peaked at 10.7 percent in FY 2002, before slowing to 9.6 percent in FY 2003 and nine percent in FY 2004. However, FY 2004 growth is still above the 8.4 percent it was three years prior. Market value growth increased in Class 1 and Class 4 but slowed in Class 2 and Class 3, enough to slow overall market value growth.[4]

Chart 3. ***Real Property, Growth of Market Value, Assessed Value and Billable Assessed Value, FYs 1994-2004***



Properties are assessed at a percentage of market values for tax purposes but legislation restricts the percent by which some classes of properties may increase. Class 1 assessment may not increase by more than six percent annually or more than 20 percent over five years. Rental units with fewer than 11 units in Class 2 may not increase more than eight percent annually or more than 30 percent in five years. There are no restrictions on Class 3 property. Assessments are not limited for Class 4 property and the remainder of Class 2 property but increases are phased-in over five years. In the early 1990's when market values declined, these constraints allowed assessed value growth to exceed market value growth. Between FYs 1995 and 1999, market values grew moderately and assessed value growth kept pace with market value growth without legislated restrictions imposing a restrictive impact. After FY 1999, market value growth continued to accelerate and outstripped assessed value growth.

[4] Property is divided into four classes for tax purposes. Class 1 consists of one-, two- and three-family homes and small condominiums and co-ops. Class 2 consists of large rental residential units. Class 3 consists of utility property and Class 4 is essentially commercial property.

Increased values that are not recognized are usually referred to as "in the pipeline." This pipeline cushions the taxable base when assessed value growth falls below the restrictions. The actual base on which tax is imposed is the lower of actual assessed value or the interim assessed value including phase-in and restrictions. This is called the billable assessed value (BAV). For much of the period, the phase-ins kept the interim value below the assessed value so that the actual tax base was lower than the assessed base. In FY 2004, this cushion will keep the interim or billable assessed value above assessments and serve to stabilize the tax base.

Growth by Class

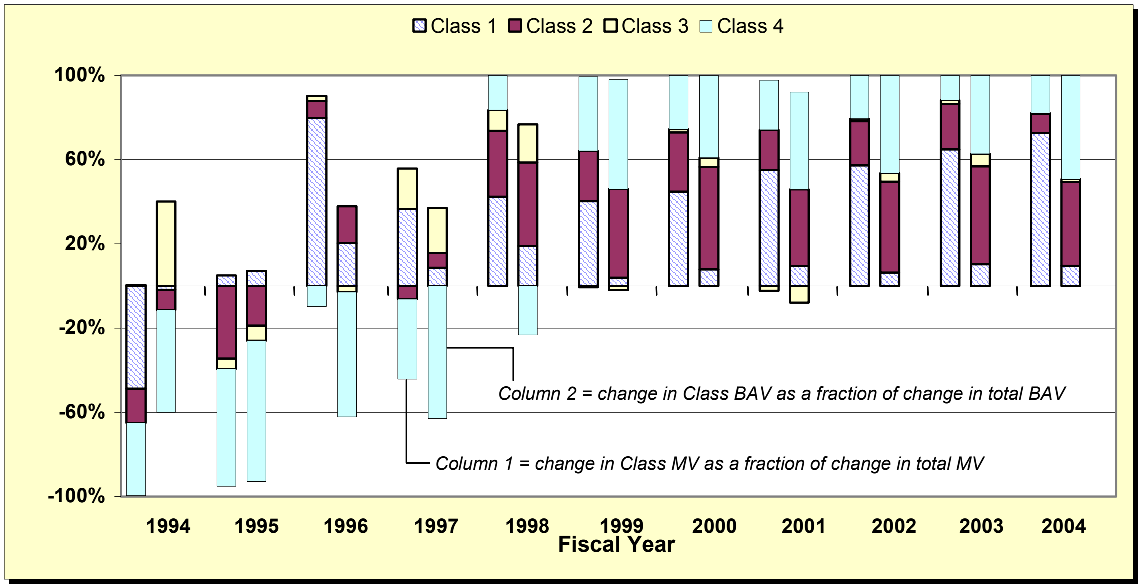
For much of the past decade, market values have grown fastest among Class 1 properties. This has been especially pronounced in the last four years. Class 1 properties have accounted for an increasing share of market value over time. Its share of market value has increased from 42.2 percent in FY 1994 to 49.7 percent in FY 2004, an increase of more than seven percentage points. Notably, in FY 1994 increases in Class 1 property values accounted for 49.2 percent of the change in total market value. In FY 2004, 72.5 percent of the increase in total market value is attributable to increases in the market value of Class 1 properties, an increase of more than 20 percentage points. This is illustrated in the first bar in each pair of bars in Chart 4 on page 14. While Class 1 properties have been driving overall market value growth, its contribution to the tax base has shown little change. Class 1 BAV as a proportion of total BAV moved from 10.9 percent in FY 1994 to 11.3 percent in FY 2004. The change in Class 1 BAV as a proportion of the change in total BAV has barely moved in the last five years as shown in the second bar in each pair of bars in Chart 4.

Class 2 market value growth slows significantly, from 9.4 percent in FY 2003 to 3.7 percent in FY 2004. The contribution of Class 2 market value growth to changes in market value is the smallest it has been in more than five years. Because of the five-year phase-in rule, the growth in the Class 2 BAV or tax base has remained stable at over seven percent growth. In contrast, reduced growth in Class 3 BAV tracked the slowdown in overall market value growth, as there are no restrictions on assessed value growth for Class 3.

Market value growth increase to six percent in Class 4 in FY 2004, from four percent in FY 2003. Growth in this class declined from 7.6 percent in FY 2002 to four percent in FY 2003 partly as a result of the destruction of, and damage to, properties in Lower Manhattan and the decline in value of hotel properties following the attacks on the World Trade Center (WTC). With the rebound of tourism and repair of damaged properties, market values for this class improved. Major commercial properties in the WTC vicinity and Battery Park City area, itemized in the tentative assessment roll, lost almost $900 million in market value in FY 2003 but have since recouped about $325 million. Market values for these properties have increased 11 percent in FY 2004. Residential property values in the Battery Park City area, which represents much of the residential properties in Lower Manhattan, increased by a modest four percent. These residential areas lost $134 million in FY 2003 and regained $17 million of this value in FY 2004. Values fell for a second year in Tribeca but these values may improve for FY

2005 as residential incentives to relocate in Lower Manhattan are utilized. In total, about \$3 billion in market value is still lost in Lower Manhattan.

Chart 4. *Change in Class MV and BAV as a Fraction of Total Change in MV and BAV*



Non-Property Taxes

Non-property taxes include all taxes other than the real property tax. The City's non-property tax assumptions for the financial plan period are generally reasonable. Non-property taxes are expected to grow weakly in FYs 2003 and 2004 but are projected to resume growth in FY 2005 and thereafter. The discussion that follows is based on common-rate-and-base taxes, which isolates the effect of the economy on taxes. The City experienced a major recession in 1989-92 and a comparatively milder one in 1994-95. As one would expect, non-property taxes contracted in both the current and the last two recessions. Based on the City's estimates, it will take five years to recover non-property tax revenues that were lost since FY 2001 as illustrated on Table 7. This duration is approximately the same amount of time it took the City to recover lost ground during the last major recession in 1989-92.

During the 1989-92 recession common-rate-and-base non-property taxes declined for two consecutive years but took five years to return to the FY 1989 levels. Similarly, the City anticipates that non-property taxes will decline for two consecutive years in the current recession and to recover to its FY 2001 level in five years.

Table 7. ***Time Taken to Recover Lost Ground for Tax Revenues, This and Last Two Recessions, Common-Rate-And-Base Taxes***

	This Recession			1994-95 Recession			1989-92 Recession		
	(1) Year Before Tax Decr.	Recovery to Column (1) Level	Years to Recover	(1) Year Before Tax Decr.	Recovery to Column (1) Level	Years to Recover	(1) Year Before Tax Decr.	Recovery to Column (1) Level	Years to Recover
PIT	2001	2007	6				1989	1993	4
Sales	2001	2004	4				1990	1994	4
Business	2001	2006	5	1994	1996	2	1988	1993	5
Non-Prop.	2001	2006	5	1994	1996	2	1989	1994	5
Property				1993	2002	9			
Total	2001	2005	4	1994	1996	2			

SOURCE: Office of Management and Budget.
Decr.=Decreased

Although the duration of the recovery is expected to be similar for both the 1989 and current recessions, the depth and severity of each recession is not comparable. The largest decline for non-property taxes in the 1989 recession was 3.6 percent in FY 1990. The largest decline in non-property taxes in the current recession is 11 percent, or three times the largest decline in the 1989 recession as illustrated in Table 8.

Table 8. ***Largest Percent Decline in Common-Rate-and-Base Taxes in This and the Last Two Recessions.***

	This Recession		1994-95 Recession		1989-92 Recession	
	Largest % Decline	Fiscal Year	Largest % Decline	Fiscal Year	Largest % Decline	Fiscal Year
PIT	(14.9%)	2002			(1.9%)	1992
Sales	(7.4%)	2002	--		(5.0%)	1991
Business	(16.7%)	2002	(18.4%)	1995	(17.4%)	1990
Non-Property	(11.0%)	2002	(2.0%)	1995	(3.6%)	1990
Property	--	--	(5.0%)	1996	(4.7%)	1995
Total	(5.3%)	2002	(1.9%)	1995		

SOURCE: Office of Management and Budget.

The impact of the current recession upon personal income tax revenue has been substantially worse than the last two recessions. According to the City's projections, PIT revenues will not recover to its previous levels for another six years. By comparison, PIT revenues recovered within four years from the 1989 recession and PIT did not decrease at all in the 1994 recession. PIT revenues declined for three years in the 1989 recession before it began to recover, and it is projected that PIT revenues will decline for only two years during the current recession. However, while the largest decline in PIT revenues was a mere 1.9 percent in 1989, it is 14.9 percent in this recession, almost eight times larger. Much of this difference can be attributed to stock market losses associated with the deflating dot.com bubble. It must be noted however, that the 1989 recession had a larger effect on employment. Between 1989 and 1992, the City lost an estimated 361,900 jobs. In comparison to the current recession, the City has thus far lost an estimated 173,100 jobs. Because of the stock market bubble in the late 1990's, an unusually large portion of PIT was derived from tax withholdings associated with bonus payments and capital gains payments. The 2000 stock market correction coupled with the market's current decline has resulted in a steep drop in PIT.

After the 1989 recession, the three business taxes did not recover to their pre-1989 recession levels for five years. It is projected that a similar length of time will elapse before business taxes recover to levels that predate the current recession. We further anticipate that the decline in tax revenue for the current recession will last approximately two years; similar to the 1989 recession. Despite the impact of the World Trade Center attacks on City businesses, the most severe decline in the business income taxes is comparatively not as extreme as the declines in the last two recessions. The steepest decline in this recession is 16.7 percent compared with 18.4 percent in the 1994 recession and 17.4 percent in the 1989 recession. The steepest decline for GCT was 16 percent in the 1989 recession, 10 percent in the 1994 recession and 20 percent in the current recession. The bank tax dropped 47 percent in FY 1990, 52 percent in FY 1995 and 26 percent in FY 2002. The bank tax is expected to fall 31 percent in FY 2003. The Unincorporated Business Tax (UBT) fell half-a-percent in the 1989 recession, 1.2 percent in the 1994 recession and four percent in the current recession.

Similar to the experiences of the 1989 recession, we anticipate that four years will elapse before sales tax revenues will return to their original levels. Sales tax contracted for two years during the 1989 recession but is expected to contract for only one year during the current recession. Revenues decreased five percent in FY 1991 but fell 7.4 percent in FY 2002.

Excluding PIT, the length of time to regain lost revenues is expected to be approximately the same in this recession as in the 1989 recession. In the 1989 recession, however, declines in the various non-property taxes took place at different times within the 1989-91 period. In contrast, in the current recession all the major non- property taxes declined in FY 2002. In the 1989 recession, the growth of property taxes offset the decline in non-property taxes and prevented overall tax revenues from contracting. For example, property tax revenues showed growth of up to 10 percent during the 1989 recession. In contrast, tax revenues fell five percent in FY 2002 because of the severe drop in non-property tax revenues. The increase in property tax revenue growth to eight percent in FY 2002 was not enough to offset the decline in non-property taxes. This is partly because of the effective freeze in the overall tax rate on property since 1994.

Although the 1994 recession was mild, total tax revenues also fell. This decline in tax revenue is similar to the current recession, because both property tax revenues and non-property tax revenues declined. Property taxes did not recover to their 1993 levels until nine years later in FY 2002.

The severity of the current recession can partly be explained by the concentration of the comparatively steep declines in FY 2002 tax revenues. In contrast, in the two previous recessions, the declines as well as the severest drops were spread over different fiscal years.

Miscellaneous Revenues

FY 2004 miscellaneous revenues, including income from permits, rents and asset sales, are projected to total $3.6 billion. This represents a net increase of $467 million from the amount forecasted for FY 2003. The increase in FY 2004 stems mainly from expected higher rental revenues for JFK and LaGuardia airports and higher fees from parking violation fines.

The recently released Governor's Executive Budget includes a one-time payment to the City of $500 million for airport rent owed from previous years. This payment reflects an effort to settle the ongoing lengthy arbitration between the City and the Port Authority of New York and New Jersey (PA) concerning the City's claim for outstanding rental payments and future airport lease renewals. In contrast, the City expects a one-time payment of $600 million for outstanding rental claims and anticipates rental income of $105 million for FY 2004. However, the City's expectation of rental income in FY 2004 may be too optimistic. The decline in travel as a result of the WTC attacks and the downturn in the economy reduced FY 2002 rental income to $10 million. In FY 2003, the City anticipates receiving only $3.5 million, the minimum rent payable for JFK and LaGuardia airports under the current PA lease.

Revenues generated from the issuance of parking violation fines are projected to total $533 million in FY 2004. This amount is $125 million higher than the amount forecasted for FY 2003 and $153 million more than collected in FY 2002. In order to collect the additional revenue, the City has proposed hiring 300 additional traffic enforcement agents in FY 2004.

Miscellaneous revenue projections are expected to decline from $3.6 billion in FY 2004 to $2.97 billion in FY 2005 and remain relatively level thereafter as shown in Table 9.

Table 9. *Miscellaneous Revenues*

($ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Licenses, Franchises, Permits	$362	$352	$356	$350	$350
Interest Income	43	67	95	116	126
Charges for Services	462	480	486	484	480
Water and Sewer Reimbursement	881	866	887	904	914
Rental Income	105	789	187	190	193
Fines and Forfeitures	536	666	665	665	665
Other Miscellaneous	741	378	297	249	253
Total Miscellaneous Revenues	**$3,130**	**$3,598**	**$2,973**	**$2,958**	**$2,981**

Interest income from the investment of various City cash balances are projected to increase to $116 million in FY 2006 and $126 million in FY 2007 from $95 million in FY 2005 and $67 million in FY 2004. The City expects to derive the bulk of this revenue from overnight investments of the City's cash balances, which are expected to generate $49 million in FY 2004, $69 million in FY 2005, $84 million in FY 2006, and $91 million in FY 2007. In previous fiscal years, the City earned higher amounts from overnight investments of cash, as shown in the figure above, as a result of higher interest rates and/or higher cash balances.

Interest Income ($ in millions)	
FY 2002	$58
FY 2001	$149
FY 2000	$140
FY 1999	$154
FY 1998	$161
FY 1997	$118

The miscellaneous revenues forecast also shows small increases in revenues from New York City Water Board reimbursements to the City for operations, maintenance, and rental of the water and sewer system. New York City Water Board payments are projected to increase to $904 million in FY 2006 and $915 million in FY 2007 from $887 million in FY 2005 and $866 million in FY 2004. These increases are attributable to higher rental payments in those fiscal years for the water and sewer system. Overall, payments from the New York City Water Board have averaged $778 million between FYs 1993 and 2002.

The category of "other miscellaneous" revenues are projected to decline between FYs 2004 and 2007. The revenue projection for FY 2004 is $378 million. Thereafter, the City expects a decline in the forecasted amount to $297 million in FY 2005, $249 million in FY 2006, and an increase to $253 million in FY 2007. Most of the decrease results from a projected drop in net revenues from the tobacco settlement. Net revenues from the tobacco settlement are projected to be $128 million in FY 2004, $65 million in FY 2005, $32 million in FY 2006, and $37 million in FY 2007. The continued decline in net tobacco settlement revenues, as shown in the figure above, results mainly from rising TSASC debt service costs as discussed beginning on page 42.

Tobacco Settlement ($ in millions)	
FY 2003*	$154
FY 2002	$211
FY 2001	$154
FY 2000	$247

The decline in rental income between FYs 2004 and 2005 is due primarily to the lower projection of rental income from the PA for JFK and LaGuardia airports. As discussed on page 17, in FY 2004 the City anticipates a one-time payment of $600 million from the PA to settle claims of back rent from previous years. In addition, airport rent from the PA is projected to be $105 million in FY 2004, $108 million in FY 2005, $111 million in FY 2006, and $114 million in FY 2007.

Intergovernmental Aid

The FY 2004 Preliminary Budget anticipates approximately $4.9 billion in Federal categorical grants and $8.6 billion in State categorical grants, as shown in Table 10 on page 19. Together, the two sources comprise approximately 31 percent of the City's overall revenue assumptions. About eighty percent of the projected Federal and State categorical grants support education and welfare, providing approximately 58 percent or $7.1 billion of total education funding ($12.2 billion) and approximately 42 percent or $3.7 billion of total welfare funding ($8.9 billion), excluding Medicaid.[5] The remaining Federal and State grants support a host of areas including housing, health and mental health, and higher education.

Table 10. ***Federal and State Aid Projections and Potential State Budget Impact***

($ in millions)

	FY 2004
Baseline Assumptions	
Federal Categorical Grants	$4,886
State Categorical Grants	8,574
Total Categorical Grants	$13,460
State Executive Budget Impact	
Failure to Include the City's Proposals	($1,414)
Potential Costs to the City	(1,069)
Potential Impact	($2,483)

Federal and State aid receipts are projected to decline from $13.5 billion in FY 2004 to $12.8 billion in FY 2005, before rising slightly to $12.9 billion by FY 2007, as shown in Table 11. These estimates reflect approximately 28 to 31 percent of the City's overall revenues.

The City's assumptions of Federal and State grants are virtually flat between FY 2004 and FY 2007. The FY 2004 estimates include a one-time Federal revenue infusion of $700 million for emergency preparedness programs. The City maintains that this funding will be dedicated towards security enhancements and equipment upgrades at City agencies in the event of further terrorist attacks. The City's conservative expectations in this area are prudent given the State's current fiscal challenges.

Table 11. ***Federal and State Aid Projections in the January Modification***

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Baseline Grants				
Federal Categorical Grants	$4,886	$4,150	$4,141	$4,151
State Categorical Grants	8,574	8,658	8,722	8,755
Total Federal and State Grants	**$13,460**	**$12,808**	**$12,863**	**$12,906**
Gap Closing Actions				
Personal Income Tax Reform	$962	$658	$159	$-----
Regional Transportation Initiatives	200	600	800	800
Agency Actions	52	36	36	36
Other State Actions	200	200	200	200
Federal Actions	200	250	250	250
Total Gap Closing Actions	**$1,614**	**$1,744**	**$1,445**	**$1,286**

[5] Total welfare expenditures include spending for the Agency for Children's Services, Department of Social Services, and Department of Homeless Services.

In contrast, the City's gap closing program is heavily dependent on several State actions that now appear doubtful. The City's reliance on actions such as personal income tax reform and regional transportation initiatives were problematic at the outset. Notably, the State has failed to include virtually all of the actions that the City requested in its gap-closing program. Indeed, the Governor's recently proposed budget could widen the City's FY 2004 budget gap by $844 million as discussed below. The City's request to the State was estimated to generate about $1.4 billion in FY 2004, and between $1 billion and $1.5 billion in FYs 2005-07. Additionally, the State has failed to provide funding for teacher salaries for extended school days that may cost the City $275 million in each of FYs 2004-07. The probability that the State will not provide sufficient levels of assistance to the City compounded by potential costs from various proposals in the Governor's Executive Budget, will significantly hamper the City's effort to balance its budget.

Impact of the State Executive Budget

The State estimates that the Governor's proposed budget will only have a marginally negative impact on the City's budget in FY 2004.[6] However, as shown in the figure to the right, the State Executive Budget contains certain proposals, mainly in the areas of education, Medicaid and welfare, offset by restoration of the sales tax on certain clothing purchases and an increase in fees, that could represent additional costs to the City of up to $844 million. Though the State seeks to balance these reductions through several revenue and mandate relief actions, some of these proposals appear uncertain and therefore may not achieve their expected values. Thus, while the Governor's proposed budget fails to include virtually the entire $1.4 billion in additional State assistance sought by the City as part of its PEG program, the State budget could potentially increase the City's FY 2004 budget gap by as much as $844 million.

Potential Costs to the City from the Governor's Proposed Budget
($ in millions)

Education Aid	$478
Extended School Days	275
Medicaid	255
Welfare	61
Sales Tax and Fee Incr.	(225)
Total	**$844**

Highlights of the State budget proposals include:

Education: School aid appropriations to the City will fall by $478 million under the State's proposals, representing about 37 percent of the statewide cut of $1.3 billion in school aid. These reductions include $152 million in computerized aids (including operating aid and special education excess costs aids), and $310 million in discretionary grants (including full elimination of funding for Universal Pre-Kindergarten, early grade class size reduction, minor maintenance aid, and a 67 percent cut in Teacher Support Aid). In addition, the State Executive Budget has not provided funding to support teacher salaries for extended school days in FY 2004, which could cost the City $275 million.

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[6] The State Executive Budget impact is based on an analysis provided by the State Division of Budget, indicating a cost of $31 million as a result of the Governor's budget proposals.

Funding for this initiative in FY 2003 was established mainly through the Municipal Bond Bank. However, the State has not identified recurring funding beyond the current school year.

Medicaid: The centerpiece of the Governor's Medicaid proposals involves a swap in which the State would fully assume the City's pharmaceutical costs, and in exchange, the City would assume an additional 12 percent in local share for hospital and clinic fee-for-service payments. The swap would cost the City an estimated $255 million in FY 2004. To offset this expense, the State has proposed a host of cost containment actions targeting greater Federal reimbursement, eliminating trend factors, and restricting costs in the Family Health Plus program. The State Legislature, in the past, has resisted enacting savings proposals in this area. Therefore, the benefit to the City from these cost containment actions could be significantly lower than projected by the State. Also, the State's estimate does not account for potential revenue loss at the Health and Hospitals Corporation.

Welfare: The City's preliminary analysis indicates that the Governor's proposals in the area of welfare could represent additional costs up to $61 million in FY 2004. These costs are expected to result from a cap on the use of Federal TANF funds in order to offset certain State and local welfare costs and reduced State reimbursement for local welfare administration costs.[7]

Potential Offsets: The State has proposed a revenue increase of $225 million derived from fee increases and a restoration of the sales tax on clothing. The reinstatement of the sales tax on clothing is expected to increase the City's sales tax receipts by $184 million in FY 2004.[8] The proposed restoration of the sales tax on clothing will exclude four one week "sales tax holidays." The remaining $41 million in revenue is expected from a higher parking ticket surcharge and additional local auto insurance policy surcharges. In addition, the State Executive Budget proposals assume the transfer of Pier A to the Battery Park City Authority. This action is anticipated to yield $150 million in budget relief for the City in FY 2004.

The State has also proposed mandate relief initiatives that include the repeal of the Wicks Law and tort reform. If enacted, these actions are projected to save the City $120 million in FY 2004 ($100 million from the Wicks Law repeal and $20 million in tort reform savings). The tort reform proposals include transferring jurisdiction to the Court of Claims, permitting collateral sources to offset damage awards, and imposing a market-based interest rate on judgments. While tort reform would not provide immediate major savings, the long-term savings could have a significant positive impact on the City's finances.

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[7] See "Public Assistance" in the "*Comptroller's Comments on the Proposed Fiscal Years 2003 to 2006 Financial Plan,*" June 2002 for a more detailed discussion of TANF funding.

[8] Since the State will also collect sales tax from these transactions, the proposal effectively adds $384 million to the City's tax burden.

EXPENDITURE ASSUMPTIONS

The City's projected FY 2004 spending is $44.9 billion including the gap-closing program. This amount is virtually unchanged from expected FY 2003 expenditures. However, the Preliminary FY 2004 budget assumes a prepayment of $621 million FY 2004 expenditures in FY 2003. After adjusting for prepayments, projected FY 2004 expenditures of $45.5 billion reflect an increase of $555 million, or 1.2 percent, over FY 2003 spending.[9]

As the figure to the right illustrates, the FY 2004 spending increase is driven by growth in pension contributions, health insurance costs, Medicaid spending, debt service and judgements and claims (J&C) settlements. The combined spending in these areas is projected to grow by $2.4 billion, or 20.3 percent while all other expenditures including wages and salaries are expected to decline by $1.9 billion, or 5.7 percent.

Expenditure Growth
($ in millions)

	FY 2003	FY 2004	Percent Change
Pension	1,784	2,611	46.4%
Health Insurance	2,243	2,430	8.3%
Medicaid	4,006	4,238	5.8%
J&C	613	658	7.3%
Debt Service[a]	3,356	4,499	34.1%
Wages and Salaries	16,565	16,027	(3.2%)
All Other[a]	16,399	15,058	(8.2%)
Total[b]	**44,966**	**45,521**	**1.2%**

[a] *Adjusted for pre-payments*
[b] *Net of intra-City sales*

The City must control spending categories exhibiting high rates of growth in order to address the structural imbalance between revenues and expenditures. As discussed in "Proposed Solutions" beginning on page 57, the City's gap-closing program includes various initiatives including tort reform, Medicaid cost containment, and pension and health insurance initiatives to reduce spending in these areas. However, these initiatives require the cooperation and approval of the State and Federal governments as well as the City's labor unions.

Expenditures, after adjusting for pre-payments, are projected to grow by 7.1 percent between FY 2004 and FY 2007, outpacing revenue growth by more than twice. As Table 12 on page 23 shows, pension contributions, fringe benefits costs, spending on medical assistance and debt service are the areas primarily responsible for expenditure increases. Spending in other areas are projected to decline over the term of the plan period.

[9] Includes adjustment for $677 million of FY 2003 expenditures that were pre-paid in FY 2002.

Table 12. ***FYs 2004-2007 Expenditure Growth***

($ in millions)

	FY 2004	Annual Percentage Change				FY 2007
		FY 03-04	FY 04-05	FY 05-06	FY06-07	
Salaries and Wages	$16,059	(3.2%)	(0.2%)	0.1%	0.0%	$16,051
Fringe Benefits	4,245	(9.7%)	6.2%	6.3%	6.3%	5,093
Pensions	2,611	46.4%	24.3%	25.5%	12.1%	4,567
Total PS	**$22,915**	**(0.7%)**	**3.8%**	**4.7%**	**3.2%**	**$25,711**
Public Assistance	$2,054	(8.9%)	0.5%	0.1%	0.1%	$2,069
Medical Assistance	4,238	5.8%	3.5%	3.3%	0.1%	4,535
Debt Service	4,499	34.0%	10.3%	2.3%	4.3%	5,295
Other OTPS	11,815	(3.8%)	(7.5%)	0.1%	1.9%	11,156
Total OTPS	**$22,606**	**3.2%**	**(1.1%)**	**1.2%**	**1.9%**	**$23,055**
Total Expenditure	**$45,521**	**1.2%**	**1.3%**	**3.0%**	**2.6%**	**$48,765**

The fastest growing expenditure category is pension contributions, which is projected to rise by almost 75 percent between FY 2004 and FY 2007. As discussed below, an entrenched bear market and legislative enhancements to pension benefits have caused pension liabilities to soar. At the same time, escalating medical costs and rising health insurance premiums continue to burden the City's budget with growth in medical assistance spending and fringe benefits costs, which are projected to rise from a combined total of $8.5 billion in FY 2004 to $9.6 billion in FY 2007, reflecting a 13.5 percent increase.

Pension Contributions

The City's contributions to the five actuarial pension systems, are projected to be about $2.7 billion in FY 2004, an increase of 44 percent from FY 2003. As a percentage of total revenues, these contributions are projected to balloon from 1.7 percent in FY 2000 to six percent in FY 2004 and to reach ten percent in FY 2007.

In dollar terms, contributions will increase from about $2.7 billion in FY 2004 to nearly $4.6 billion in FY 2007. Notably, this increase assumes that there will be no collectively bargained salary increases. Most of the cost increases are attributable to investment losses and benefit enhancements.

The prolonged bear market that began in 2000 continues to drive up the City's pension costs. Investment losses in FYs 2001 and 2002, combined with a provision for probable investment losses in FY 2003, account for approximately $834 million of the City's $2.7 billion projected pension contributions for FY 2004. Pension fund investments lost 8.3 percent during FY 2001 and approximately the same percentage in FY 2002. The investment performance in FY 2003-to-date has been dismal. Between July 1, 2002 and January 31, 2003, investments have lost approximately 7.3 percent on the market value of assets.

Table 13. ***City's Projected Contributions to the Five Actuarial Pension Funds***

($ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
January Modification	$1,845	$2,660	$3,286	$4,106	$4,593
Due to FY 2001 Investment Losses	$233	$474	$793	$1,173	$1,173
Due to FY 2002 Investment Losses	82	294	526	804	1,127
Contingency Provision for Potential FY 2003	--	66	162	287	437
Contributions Other Than for Investment Losses	$1,530	$1,826	$1,805	$1,842	$1,856

Accordingly, and as a contingency, the City has increased funding in the January modification to enable it to accommodate investment losses of up to 2.4 percent on the market value of pension assets.[10] As seen in Table 13, without these increases, the City's pension contributions would have been significantly lower and would have remained fairly level during the plan period.

Pension contributions would have been lower if substantial benefit enhancements had not been granted by the State Legislature over the last few years. Benefit improvements enacted by the State between 1995 and 2002 added an estimated $20 billion in employer pension liabilities and would have increased employer pension costs by over $2 billion annually over the term of the financial plan.[11] However, the full cost impact from the increased pension liabilities was mitigated by two factors. The City's contributions to NYCERS did not increase because its "asset cushion" absorbed all of the additional pension liabilities.[12] Second, during the plan years, the City will pay only a part of the annual actuarial cost of the permanent COLA enacted by Chapter 125 of the

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[10] The City's Financial Plan modification has assumed a zero percent investment return on the Actuarial Asset Value (AAV) during FY 2003, thereby assuming an eight percent shortfall relative to the Actuarial Interest Rate Assumption (AIRA). Since the Market Value of Assets (MVA) was substantially lower than the AAV on June 30, 2002, the eight percent shortfall in the AAV relative to the AIRA is equivalent to a 10.4 percent shortfall on the MVA relative to the AIRA. Hence the contingency funding for pension investment losses will accommodate up to 2.4 percent loss on market value. If FY 2003 investment returns are lower than that, each percentage point will require additional contributions by the City of approximately $6.3 million in FY 2004, $15.5 million in FY 2005, $27.6 million in FY 2006 and $42.1 million in FY 2007.

[11] The City is responsible for only part of the $20 billion in additional pension liabilities. Three of the City's actuarial pension systems, NYCERS, TRS, and BERS, are cost-sharing multiple-employer public employee retirement systems. For FY 2002, the City's total actuarially-determined contributions as a percentage of contributions for all employers to NYCERS was 48 percent, to TRS was 98 percent and to BERS was 96 percent. The City is fully responsible for funding the other two systems, POLICE and FIRE.

[12] As a result of a revaluation of actuarial assets and liabilities, as of June 30, 1999, the actuarial assets in NYCERS exceeded actuarial liabilities by about $7 billion. The "asset cushion" thus created absorbed the additional pension liabilities produced by benefit increases for NYCERS members, without any impact on NYCERS' employers' pension expenses. The remaining "asset cushion" in NYCERS will be fully depleted as of June 30, 2003, as investment losses experienced in FYs 2001 and 2002 are phased into the "actuarial asset value."

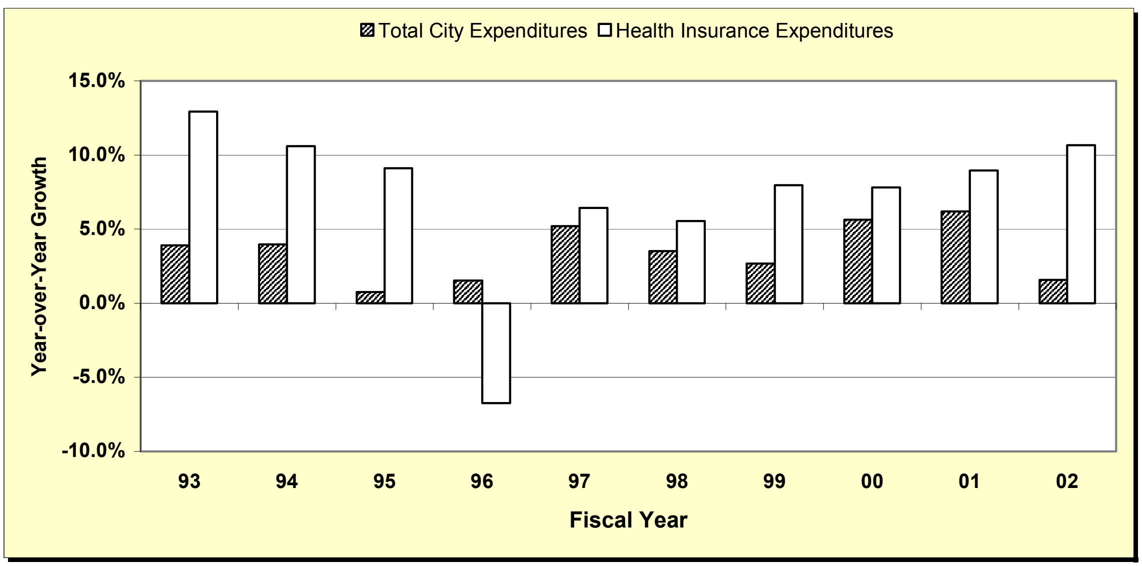
Laws of 2000, as the cost impact of this benefit is scheduled to be phased-in over ten years as legislated by Chapter 278 of the Laws of 2002.[13]

Health Insurance

While costs of fringe benefits, other than pensions and health insurance, are projected to fall by more than $640 million, or about 26 percent, in FY 2004, health insurance costs, like pensions, continue to exhibit persistent growth.[14] The City projects that health insurance costs will exceed $2.4 billion in FY 2004, an increase of 8.4 percent despite a projected decline in payroll.

Over the past decade, except for FY 1996, health insurance costs have consistently grown at a higher rate than combined City expenditures, as shown in Chart 5.[15] However, spending on health insurance once again resumed its upward trajectory in FY 1997 with growth reaching double digits in FY 2002.

Chart 5. *Growth Rates: Total Expenditures vs. Health Insurance Expenditures*



NOTE: FY 1995 health expenditures were adjusted to account for the return of $200 million in reserves that were held by the City's health insurance carriers. Similarly, FY 2001 health expenditures were adjusted for a $102 million write-down of prior years' payables.

[13] Without any phase-in, the Comptroller's Office estimates that the City's pension contributions would be about $250 million higher in FY 2004.

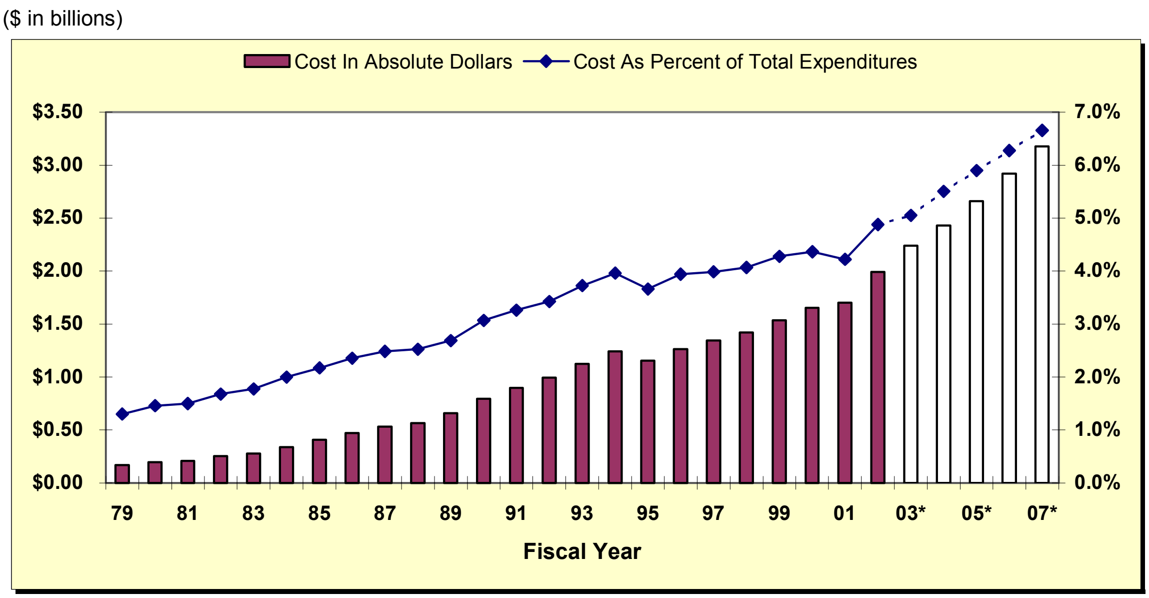
[14] The FY 2004 drop in fringe benefits costs stems primarily from the assumption of labor productivity savings of $600 million.

[15] Several initiatives implemented by the City helped reduce spending on health insurance in FY 1996. These included increasing retiree enrollment in Medicare risk programs, a health insurance waiver program for employees with duplicate coverage and a re-certification program for enrollees.

As a result, health insurance costs are consuming an increasing share of the budget as shown in Chart 6. Over the last ten years, health insurance costs have escalated from about $1.1 billion in FY 1993 to nearly $2 billion in FY 2002, a 77.4 percent surge while total expenditures have grown only 35.5 percent.

The January modification anticipates that this trend will continue. Spending on health insurance is expected to grow at an average of 9.1 percent, from $2.2 billion in FY 2003 to nearly $3.2 billion in FY 2007. Comparatively, total spending is expected to increase by an average of 1.9 percent, rising from $44.4 billion in FY 2003 to $47.8 billion in FY 2007.

Chart 6. Health Insurance Costs

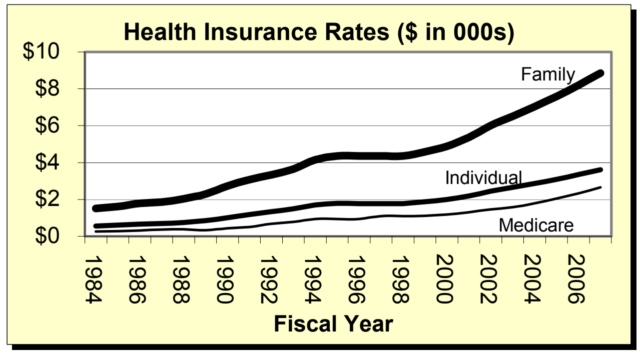


Research organizations attribute the increase in health insurance costs to several factors. When employers first turned to managed-care in the late 1980s and minimized in-patient stays, it generated significant cost savings in several areas. Although businesses are trying to offer new approaches to medical insurance, further economies are becoming more difficult to achieve.[16] Putting further pressure on cost increases is the huge demand for high-tech medical equipment like CAT scans and Magnetic Resonance Imaging, which are finding widespread surgical and diagnostic applications. Expensive new surgical therapies like organ transplants and artificial organs are becoming commonplace.[17] Also, shortages of nursing and technical personnel are driving up wages. Finally, the average age of retirees has kept rising as a result of longer life

[16] USA Today, Health & Science, August 27, 2001.

[17] Blue Cross Blue Shield, Health Watch, *Rising Cost of Health Care, 2003.*

expectancy, leading to higher per capita demand for medical and surgical services, because older people tend to have more health problems.[18]



The health insurance premium rates paid by the City for employees and retirees, after stabilizing somewhat in the mid-1990s, have begun increasing again as shown in the figure to the right. Overall, between 1984 and 2003, premium rates have increased at average annual rates of 8.5 percent for individuals, eight percent for families, and ten percent for Medicare-eligible individuals. The modification assumes that after a 7.9 percent increase in FY 2004, premium rates will continue to increase at eight percent annually.

The City has asked the municipal labor unions to propose $600 million in labor productivity savings. Among the ideas that have been discussed in the past is a proposal that requires employees to contribute towards their health insurance.[19] Contribution of each half-of-a-percent of employee salaries and wages would amount to about $80 million annually. That would equate to an average annual contribution of about $325 per employee.

Labor Issues

The Preliminary Budget for FY 2004 makes no provision for wage increases for City employees beyond the last round of collective bargaining. The City continues to indicate that it will agree only to wage increases that are fully funded through productivity initiatives. Wage agreements that are funded by productivity initiatives should not result in a widening of the budget gaps. It will cost approximately $200 million annually for every one-percentage point wage increase granted to employees.

The City has also proposed the negotiation of labor productivity actions with unions that will result in savings of $600 million annually beginning in FY 2004. Even without any proposed wage increases and the projection of a relatively constant workforce, City personal services expenditures are estimated to increase almost three percent annually between FYs 2004 and 2007. As shown in Table 14 on page 28, wages and salaries are projected to remain relatively constant between FYs 2004 and 2007.

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[18] U. S. News and World Report, September 16, 2002, *Paying a Premium, Healthcare Costs Rising Feverishly.*

[19] Some employees already contribute towards their health insurance in the form of co-payments on doctor's visits and tests, and some employees make supplementary payments, called Riders, to obtain enhanced insurance coverage.

However, the costs for fringe benefits and pensions are projected to increase, with pension costs increasing by more then 43 percent in FY 2004.

Table 14. *Personal Services Expenditures, FYs 2004-2007*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Salaries and Wages	$16,234	$16,203	$16,222	$16,226
Pensions	2,731	3,366	4,194	4,687
Fringe Benefits	4,245	4,510	4,793	5,093
Total	**$23,210**	**$24,079**	**$25,209**	**$26,005**
Projected Growth:				
Salaries and Wages	(3.51%)	(0.19%)	0.12%%	0.02%
Pensions	43.46%	23.25%	24.58%	11.75%
Fringe Benefits	(9.68%)	6.24%	6.27%	6.26%
Total	**(0.92%)**	**3.75%**	**4.69%**	**3.16%**

The productivity actions proposed in the FY 2004 Preliminary Budget may enable the City to curtail some of the expected growth in personal services expenditures. The options being considered by the City include the reduction of pension benefits for future employees, an increase in employee co-pays for health insurance, a reduction in vacation days and holidays for employees, an increase in the work week, and the enhancement of flexibility in work assignments. The City has begun preliminary discussions with the unions on proposed productivity options. A comprehensive plan must be developed and implemented by the start of FY 2004 in order to achieve the full value of the projected savings in the coming fiscal year.

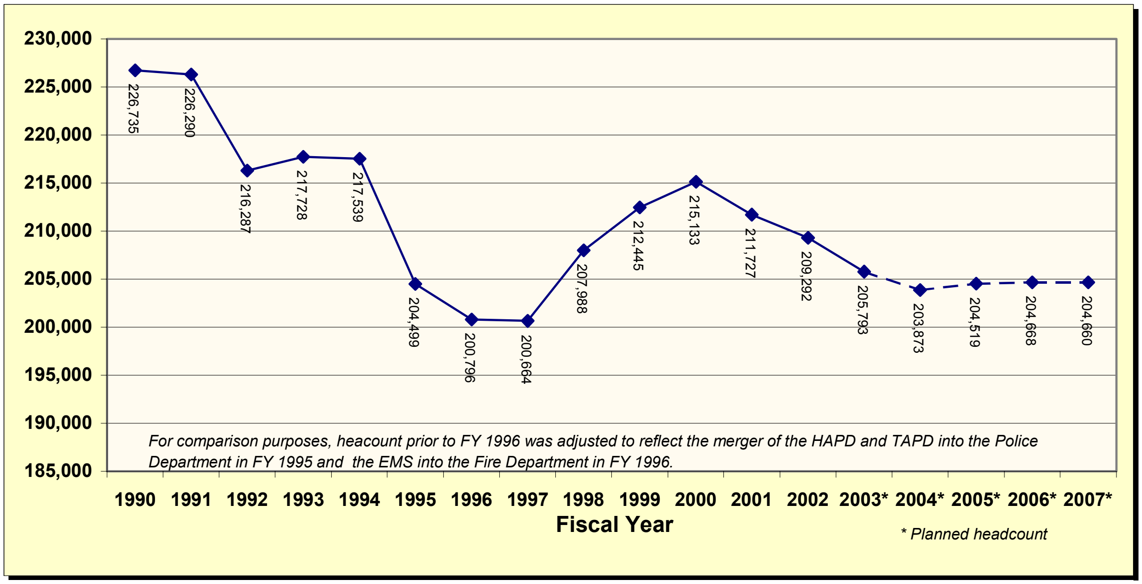
Headcount

The January modification projects the City's workforce will have 203,873 City-funded employees by June 30, 2004 as shown in Chart 7.[20] This represents a decline of 2,619 positions from the December 31, 2002 level. The decrease in the work force is mainly attributable to a hiring freeze and early-retirement incentive programs implemented in FY 2003.

Preliminary figures indicate that the City had a City-funded workforce of 206,492 employees as of December 31, 2002, which is 699 employees higher than the City's planned year-end headcount of 205,793 for FY 2003. Additionally, the Fire Department is expecting a new class of 250 to 300 recruits. If the City does not realize its planned headcount, PS savings will be lower than anticipated in the January modification.

[20] Planned total-funded headcount for June 30, 2004 is 242,730.

Chart 7. ***City-Funded Full-Time Workforce***



The City-funded work force is projected to increase by 787 employees, to 204,660 in FY 2007, from 203,873 in FY 2004 as illustrated in Table 15.

Table 15. ***NYC, Full-Time Year-End City-Funded Headcount***

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 04 - 07	Change As a percent FYs 04 - 07
Agency						
Uniformed:						
Police*	34,774	34,774	34,774	34,774	0	0.00%
Fire	10,658	10,658	10,658	10,658	0	0.00%
Corrections	9,086	9,041	9,041	9,041	(45)	(0.50%)
Sanitation	6,803	6,800	6,800	6,800	(3)	(0.04%)
Sub-total	**61,321**	**61,273**	**61,273**	**61,273**	**(48)**	**(0.08%)**
Pedagogical:						
Dept. of Education	78,209	78,209	78,209	78,209	0	0.00%
City University	2,302	2,302	2,302	2,302	0	0.00%
Sub-total	**80,511**	**80,511**	**80,511**	**80,511**	**0**	**0.00%**
Civilian:						
Police	8,832	8,832	8,832	8,832	0	0.00%
Admin for Children Svcs.	6,885	6,885	6,885	6,885	0	0.00%
Dept. of Health	2,174	2,559	2,670	2,664	490	22.54%
Social Services	7,648	7,661	7,674	7,674	26	0.34%
All Other Civilians	36,502	36,798	36,823	36,821	319	0.87%
Sub-total	**62,041**	**62,735**	**62,884**	**62,876**	**835**	**1.35%**
Total	**203,873**	**204,519**	**204,668**	**204,660**	**787**	**0.39%**

SOURCE:: Office of Management and Budget, January modification 2003.
*Uniform Police headcount through attrition replacement will be 37,210 by July 2003.

Most of the increase will result from expected hiring in the Department of Health. The plan projects the number of uniformed-personnel to remain relatively flat through FY 2007. Peak police headcount is expected to be 37,210 each July after a new police class is hired.[21]

The City now accounts for part-time employees as full time equivalents (FTEs). The City had 46,726 FTEs at the end of December 2002 and anticipates ending FY 2004 with 44,931 FTEs.

Table 16. *City-Funded Full-Time Equivalents*

	FY 2004	FY 2005	FY 2006	FY 2007
Pedagogical:				
Dept. of Education	14,430	14,430	14,430	14,430
City University	1,670	1,670	1,670	1,670
Sub-Total	**16,100**	**16,100**	**16,100**	**16,100**
Civilian:				
Police	5,664	5,664	5,664	5,664
Dept. of Education Non-Peds	14,111	14,111	14,111	14,111
Dept. of Health	1,936	1,936	1,936	1,936
Social Services	1,691	1,697	1,697	1,697
All Other Civilians	5,429	5,348	5,357	5,357
Sub-Total	**28,831**	**28,756**	**28,765**	**28,765**
Total	**44,931**	**44,856**	**44,865**	**44,865**

This represents a decline of 2,937 from the expected level at the end of FY 2003, mainly from a decline in FTEs in the Department of Parks and Recreation. The City's forecast of FTEs remains relatively constant through FY 2007 as shown in Table 16 above.

Overtime

The under-budgeting of overtime will add $102 million to the FY 2004 budget gap, as illustrated in Table 17. The Comptroller's projection assumes overtime spending in FY 2004 will be at the same rate as experienced in the first seven months of FY 2003. In addition, planned lower headcount levels in FY 2004 will exert upward pressure on overtime spending.

The City's annual overtime spending, excluding WTC-related overtime, has increased significantly to $797 million in FY 2002 from $449 million in FY 1997. This growth in overtime spending was attributable to major unplanned events, wage increases and the expansion of overtime-funded anti-drug and quality-of-life initiatives in the Police Department. Between FYs 1997 and 2002, uniform overtime increased by 85 percent. On a yearly basis, the City has consistently under-budgeted overtime projections

[21] See "Headcount" beginning on Page 15 of the Comptroller's *State of City's Economy and Finances,* December 2002.

in the beginning of the fiscal year and then increased appropriations throughout the year to cover actual expenditures.

Table 17. ***Projected Overtime Spending, FY 2004***

($ in millions)

	Comptroller's Projection Overtime FY 2004	Planned Overtime FY 2004	FY 2004 Risk
Uniform			
Police	$294.0	$227.7	$(66.3)
Fire	89.8	72.1	(17.7)
Corrections	46.8	42.1	(4.7)
Sanitation	54.6	58.1	3.5
Total Uniformed	$485.2	$400.0	$(85.2)
Others			
Police-Civilian	$27.0	$13.3	$(13.7)
Admin for Child Svcs	13.0	23.7	10.7
Environmental Protection	20.8	19.4	(1.4)
Transportation	31.7	26.9	(4.8)
All Other Agencies	100.2	93.1	(7.1)
Total Civilians	$192.7	$176.4	$(16.3)
Total City	**$677.9**	**$576.4**	**$(101.5)**

Judgments and Claims

The Preliminary Budget for FY 2004 projects Judgment and Claims (J&C) expenditures of $658 million, an increase of seven percent from the anticipated cost of J&C in FY 2003. J&C costs have increased at an annual average rate of 8.5 percent from $231 million in FY 1992 to $522 million in FY 2002. It is likely that J&C expenditures in FY 2004 may increase at a similar rate, which could result in a possible risk to the City's budget. However, the City is hopeful that its ongoing procedures of early settlement initiatives, aggressive investigative programs, and the possibility of some level of tort reform will slow the growth of J&C expenditures in FY 2004.

Tort Claims Resolved in First Half of Fiscal Year

	FY 2001	FY 2002	FY 2003
Settlements	5,594	4,168	5,636
Cost ($ millions)	$175	$184	$270
Avg Cost ($ 000s)	$31	$44	$48

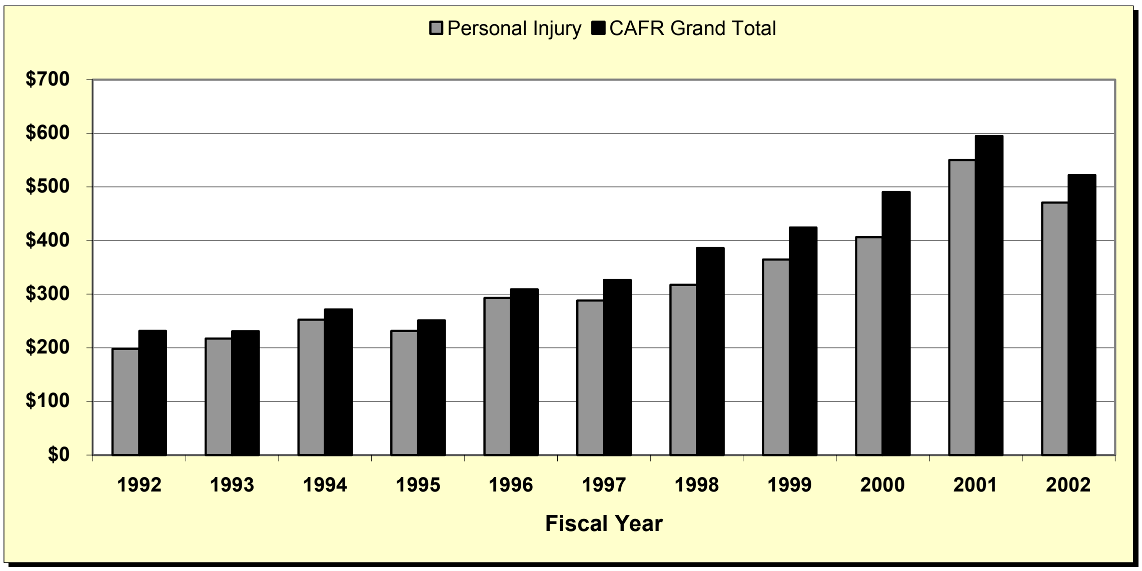
The growth in J&C expenditures is being fueled by the continued increase in the cost of settling tort (personal injury and personal property) claims. Recent experience has shown that juries are awarding higher compensation to claimants and these verdicts are being sustained by the Appellate Court. During the first half of FY 2003, the average cost to resolve tort claims increased to $48,000 from $44,000 in the same period for FY 2002 and $31,000 in the same period for FY 2001. This is an increase of more than 50 percent when compared to FY 2001 as shown in the figure above.

The January modification projects an annual growth of five percent in J&C expenditures from $658 million in FY 2004 to $691 million in FY 2005, $728 million in

FY 2006, and $767 million in FY 2007. J&C expenditures have increased significantly over the last ten years from $231 million in FY 1992 to $522 million in FY 2002. The major factor driving this increase has been the continued growth in the cost to resolve personal injury (PI) claims, mainly as a result of the higher awards for medical malpractice claims. In addition, the City's early settlement initiatives in recent years have increased the number of cases settled and also contributed to the higher cost. As shown in Chart 8, the costs to resolve PI claims have increased approximately 138 percent from $198 million in FY 1992 to $471 million in FY 2002.[22]

Chart 8. ***Annual Claims and Personal Injury Costs***

($ in millions)



About one third of annual J&C expenditures results from settlements for medical malpractice cases, which are filed against the Health and Hospitals Corporation (HHC). Since FY 1992, this cost has increased at an annual average rate of nine percent to $191 million in FY 2002. When compared with the number of medical malpractice cases that are settled annually, the average cost has increased from $382,717 in FY 1992 to $639,261 in FY 2002 as shown in Table 18. These cases account for about three percent of the total number of claims resolved annually.

The City has had success from its early settlement initiatives and various investigative procedures that were implemented in recent fiscal years. For example, early settlement initiatives in handling 953 claims against the DOE between September 1997 and June 2000 lowered the average cost by 77 percent to $4,451 from $19,412. Furthermore, the Comptroller's risk management and fraud units have taken action to reduce the number of claims filed and the amount of money paid on fraudulent claims through the use of education, litigation support, and training initiatives.

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[22] The drop in J&C cost in FY 2002 stems from the disruption to the court system and subsequent delays in settling claims because of the terrorist attacks, a $50 million class action settlement in FY 2001 and a decrease in the number of claims filed in recent years.

In FY 2002, HHC and the City reached agreement whereby the Corporation will be responsible for the financial obligations of claims resolved against HHC.[23] In return, the City agreed to fund debt service attributable to the construction and rehabilitation of HHC facilities. HHC's costs for J&C are projected at $185 million in FY 2004, $190 million in FY 2005, $195 million in FY 2006, and $200 million in FY 2007. Any costs above the amount budgeted for HHC pose a risk to the City.

Table 18. ***Medical Malpractice Claims Resolved***

	Average Cost	Cases Resolved
FY 2002	$639,261	298
FY 2001	$491,429	321
FY 2000	$517,525	291
FY 1999	$397,979	297
FY 1998	$404,342	277
FY 1997	$428,184	255
FY 1996	$367,196	280
FY 1995	$316,745	234
FY 1994	$353,161	231
FY 1993	$292,127	264
FY 1992	$382,717	216

The January modification includes savings of at least $100 million beginning in FY 2004 that would result from proposed tort reforms. The City's J&C costs, mainly for tort claims, have increased significantly in recent years due primarily to larger jury awards. Most cities and states, the medical industry, and the auto industry are also experiencing this pattern of increasing J&C costs. In 2001, more than 50 percent of all medical malpractice awards were for over $1 million with awards averaging $5 million. These lofty awards have prompted President Bush to support tort reform initiatives including a proposed cap on non-economic damages. The City's proposal includes:

- Offsetting tort awards for public employees, which were filed against public entities, with disability pensions and other similar benefits.
- Limiting the City's liability for economic losses to the same proportion as the City's responsibility for claimants' injuries.
- Barring recovery of economic damages by a claimant who is responsible for 50 percent or more of the injuries suffered.
- Implementing a cap of $250,000 for non-economic loss.
- Shifting claims against the City to the State's Court of Claims where judges, not juries, make award decisions.

[23] HHC is only responsible for J&C cost up to the amount contained in the financial plan. Any costs above planned expenditures are funded by the City.

- Holding landlords of commercial and multi-dwelling properties liable for accidents that occur on sidewalks abutting their properties.

The above measures, which require State approval before they can be implemented, would enable the City to contain J&C costs. Similar legislation in the past has failed to gain State approval. However, the recent awareness and support for tort reform, has led to the inclusion of tort reform proposals in the Governor's Executive Budget and has increased the probability that some level of tort reform may gain approval in the near future.

Medicaid

The City projects that Medicaid expenditures will reach $3.5 billion in FY 2004, representing approximately eight percent of the total expense budget.[24] Of this total, the City-funded share of Medicaid spending is estimated at $3.3 billion, reflecting an increase of approximately $275 million or nine percent from the FY 2003 estimate of $3.1 billion. A majority of the expected growth can be traced to projected pharmacy costs, the fastest growing component in the Medicaid budget, rising by $104 million in FY 2004. Growth in other major components of the Medicaid budget are $34 million for acute care, $22 million for outpatient services, and $8 million for long term care. In addition, spending for a host of other areas, including mental health rehabilitation, dental, transportation, and physician services, is expected to increase by $107 million.

The assumed growth in overall Medicaid expenditures appears reasonable and consistent with recent trends. **However, the City could face a potential risk of $50 million in FY 2004 for the cost of care provided to recipients who are transitioning from the Disaster Relief Medicaid program into the traditional program.** The City has not separately provided funding for this group, which is currently estimated at approximately 350,000 recipients.

In addition, the State Executive Budget includes a Medicaid cost containment package that, according to State estimates, would reduce the City's Medicaid spending by $24 million in FY 2004. However, the most significant proposal in this package would add substantial costs to the City's budget. The proposed action involves a funding swap whereby the State would take over the City's pharmaceutical costs, in exchange for an additional 12 percent share in City contribution for fee-for-service hospital and clinic costs. The State contends that even though the initiative would cost the City $255 million in FY 2004, the City would realize savings over the long term by enrolling Medicaid recipients in managed care. The State has proposed various savings actions that would offset this cost. However, many of these savings are not likely to materialize and they do not reflect the probable negative impact on HHC revenues. These proposed savings include maximizing Federal reimbursement for indigent care ($57 million), eliminating hospital and nursing home trend factors ($40 million), restructuring graduate medical

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[24] The Medicaid estimate does not include the City's share of Medicaid revenue to the Health and Hospitals Corporation.

education payments ($40 million), and limiting rate increases and tightening eligibility requirements for the Family Health Plus program ($31 million).

The January modification projects that City-funded Medicaid expenditures will grow to $3.6 billion by FY 2007. While the City has built in significant growth in its projected Medicaid costs for FY 2004, the assumed growth rates for these expenditures fall off precipitously in FYs 2005-07. Thus, the City's Medicaid estimates in the latter part of the plan period may be understated by significant amounts.

The City's Medicaid cost projections, broken down by major components, are shown in Table 19. On average, about 34 percent of total spending is projected in the acute care category, comprising of hospital services and skilled nursing facilities. Approximately 20 percent of the total is devoted to outpatient services, including clinics and prepaid health care. Another 19 percent of expenditures are expected in the pharmacy category. The remainder consists of eight percent for long-term care and 19 percent for all other services, including areas such as transportation, dental, and physicians.

Table 19. ***City-Funded Medicaid Spending by Major Categories***

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Acute Care	$1,155	$ 1,180	$ 1,205	$ 1,205
Outpatient Services	702	714	727	727
Long Term Care	269	274	279	279
Pharmacy	575	648	714	714
Other	639	656	673	678
Total	**$3,341**	**$3,473**	**$3,599**	**$3,603**

The City projects that City-funded Medicaid spending will grow by about four percent in FY 2005, 3.6 percent in FY 2006 and then stay flat in FY 2007. These assumptions may prove insufficient to support the likely growth in Medicaid and therefore could pose risks of $70 million in FY 2005 and $120 million in FY 2006. By FY 2007, the City may need to add $260 million to its current Medicaid estimate because of the stagnant growth assumed for that year. The City could also face risks of about $40 million in each of FYs 2005-07 for increased costs in the DRM program.

Public Assistance

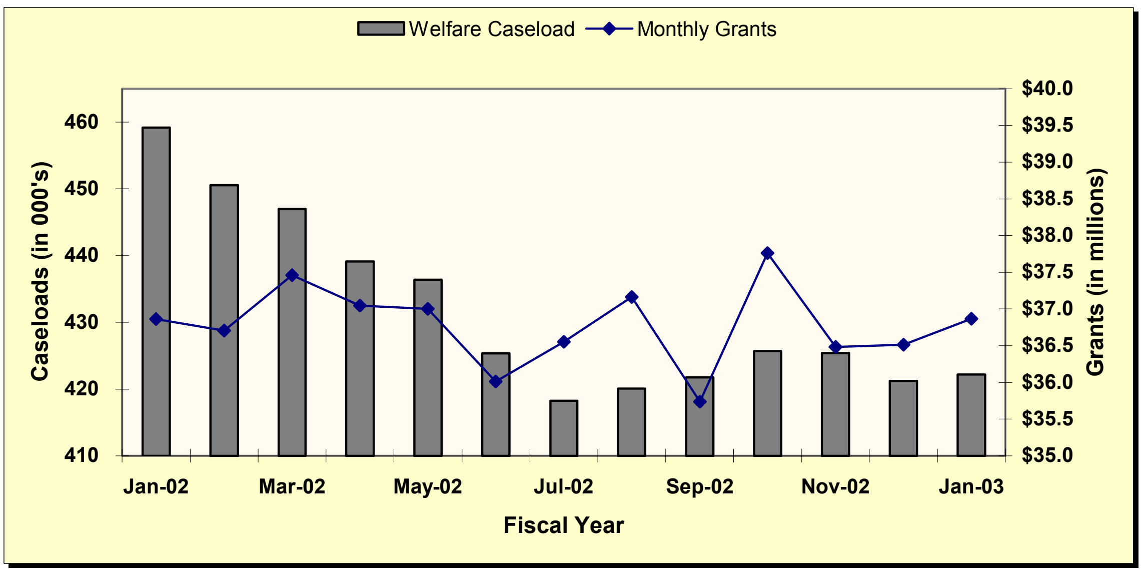
Public assistance spending is projected to reach $1.1 billion and comprises approximately 2.6 percent of the City's overall expenditures in the FY 2004 Preliminary Budget.[25] The City's share of these expenditures is estimated at approximately $433 million, based on flat caseload projections of 420,764 recipients through FY 2004. The City's assumptions in this area, although fairly consistent with monthly grant

[25] Budget estimates used in this section are based on the City's baseline grant projections in the income maintenance portion of public assistance spending.

expenditures in recent months, could be exposed to reversal of caseload trends or higher grant levels**.**

Welfare rolls have continued on a course of decline since 1995, when a peak of 1,160,593 recipients was reached. The latest actual caseload reported for January 2003 shows a total of 422,185 recipients, representing a 64 percent decline from the historical peak. Monthly grant expenditures have experienced a similar drop of 61 percent from a peak of $248 million, to $97 million. The composition of the City's welfare caseload has also undergone a significant change since the imposition of a five-year limit in the Federally funded Family Assistance (FA) program. Since November 2001, FA caseload has fallen by 182,900 recipients or 47 percent, mainly as a result of the imposed time limit. The Time Limit category under the Safety Net Assistance (SNA) program, which was created to accommodate transfers of former FA recipients who reached the five-year limit, currently has a caseload of about 128,500.

Chart 9. Public Assistance Caseload and Expenditures, January 2002-January 2003



Monthly spending for public assistance has fluctuated between $95 million and $103.3 million over the past 13 months. The City-funded share of these expenditures has been range-bound even more narrowly at between $35.7 million and $37.8 million each month, despite a caseload decline of about eight percent over the same span, as shown in Chart 9. The City's FY 2004 spending projections would provide about $36 million in City-funded share of monthly grant expenditures. While these estimates are consistent with the recent spending trend, City allocations to the public assistance budget may prove inadequate in the event of rising grant costs. **Therefore, the City could face a risk of $15 million in FY 2004 based on more conservative assumptions of monthly grant expenditures.**

Over the course of the financial plan, the City estimates that welfare rolls will remain flat at the projected June 2003 level of 420,764. City-funded costs for public assistance are similarly expected to remain level at $433 million each year. Although the

City's public assistance caseloads continued to fall in recent months, the correlation between caseload and actual spending has become less clear. The transfer of former Family Assistance (FA) recipients into the Safety Net Assistance (SNA)-Time Limit category may also have had an impact on the relationship between caseload and expenditures.

The assumptions in the January modification would support about $36 million in public assistance expenditures each month during FYs 2004-2007. These funding allocations are consistent with recent trends. However, they provide no cushion against an upturn in caseload and the corresponding increase in expenditures. Thus, the City could face risks in its public assistance budget of $20 million in each of FYs 2005-07.

Department of Education

The FY 2004 Preliminary Budget projects funding of approximately $12.2 billion for the Department of Education (DOE), representing about 28 percent of the City's overall expense budget. Federal and State grants make up about $7.1 billion or 58 percent of education funding. About $9.1 billion or 75 percent of the total education budget is devoted to personal services expenditures.

The major components of the DOE budget by program area are illustrated in Table 20. General education instruction and administrative spending comprise roughly 35 percent of education spending, while the special education component (including non-public school payments) constitute almost 17 percent of the overall budget. Categorical program spending represents another 18 percent of the funding allocations. Two other major components, support services and fringe benefits costs, are projected to consume 15 percent and 13 percent of the DOE budget, respectively.

Table 20. ***DOE Funding by Program Areas in the FY 2004 Preliminary Budget***

($ in millions)

Program Area	FY 2004	Pct Total
District Instruction/Admin-Gen Ed	$3,010	24.7%
High School Instruction/Admin-Gen Ed	1,314	10.8%
Special Education Instruction/Admin	1,478	12.1%
Support services	1,788	14.7%
Central Administration	184	1.5%
Fringe Benefits & Collective Bargaining	1,580	13.0%
Non-Public School Payments-Spec Ed	536	4.4%
Non-Public School Payments-Other	133	1.1%
Categorical Programs	2,158	17.7%
Total DOE Budget	**$12,180**	**100.0%**

The DOE has absorbed a budget cut of $130 million in the current modification as part of citywide agency reductions, bringing the cumulative budget reductions to approximately $330 million since June 2002. Despite the cut taken in the Preliminary Budget, funding for education has actually increased by $41 million, attributable mostly to collective bargaining transfers for certain non-pedagogical staff, recognition of new needs in various special education programs, and a projected surplus roll from FY 2003.

The Preliminary Budget also includes about $20 million in new funding for Children First initiatives, a program under which the Chancellor is expected to introduce a unified curriculum at the DOE and consolidate the current 40 school district offices into ten learning support centers headed by regional superintendents.

The City projects education spending to rise steadily from $12.2 billion in FY 2004 to $12.5 billion in FY 2007, representing a growth of about three percent over this span. Aside from areas such as Medicaid, debt service and pension contributions discussed previously, education is one of the few segments of the City's budget that is expected to grow in the current modification. It should be noted that the DOE appropriations in FYs 2004-2007 already reflect cuts of between $310 million to $330 million annually, as part of agency reductions instituted since June 2002.

As shown in Table 21, DOE spending in the outyears is projected to be driven by the growth in expenditures for support services and fringe benefits. Spending for support services, which covers transportation, school facilities, school safety, food services, and heat, light, and power, is estimated to grow by 6.6 percent between FYs 2004-07. Over this same period, fringe benefits costs are projected to increase by 13.7 percent, mostly attributable to rising health insurance costs. Unlike prior years, school enrollment is not a major factor driving expenditures at DOE. The City projects DOE enrollment to fall gradually from 1,082,089 in FY 2004 to 1,064,804 in FY 2007, representing a drop of almost two percent in the school register.

Table 21. *DOE Funding by Program Areas, January 2003 Financial Plan*

($ in millions)

Program Area	FY 2004	FY 2005	FY 2006	FY 2007
District Instruction/Admin-Gen Ed	$3,010	$2,991	$3,002	$3,014
High School Instruction/Admin-Gen Ed	1,314	1,298	1,298	1,298
Special Education Instruction/Admin	1,478	1,476	1,476	1,476
Support services	1,788	1,826	1,865	1,906
Central Administration	184	182	183	183
Fringe Benefits & Collective Bargaining	1,580	1,646	1,720	1,796
Non-Public School Payments-Spec Ed	536	550	564	578
Non-Public School Payments-Other	133	148	148	148
Categorical Programs	2,158	2,140	2,140	2,140
Total DOE Budget	**$12,180**	**$12,257**	**$12,396**	**$12,540**

The fiscal outlook for the DOE appears daunting in light of the recently released State proposed budget. Under the Governor's proposals, State support for education would fall by $478 million in FY 2004. The comprehensive nature of the proposed school aid cuts would reach most instructional areas, including the full elimination of funding for major programs such as Universal Pre-Kindergarten and early grades class size reduction.

The State's proposed budget also has failed to meet the City's request for $275 million to support teacher salaries for a longer school day. The change entails an additional 20 minutes of instruction each school day. Thus far, the State has provided a one-time revenue, mainly from the Municipal Bond Bank, to fund this need in FY 2003. However, the City has not identified a recurring funding source for this initiative in future years. Therefore, the DOE budget could face a substantial education aid shortfall of $753 million in FY 2004 if the State budget is enacted as proposed by the Governor.

Health and Hospitals Corporation

The City projects the Health and Hospitals Corporation (HHC) will end FY 2004 with a steady cash balance of $259 million.[26] Although HHC's budget estimates include an operating deficit of $192 million in FY 2004, the Corporation expects to more than offset this deficit with revenue and savings actions of $230 million and an opening cash balance of $221 million. As shown in Table 22, expenditure growth at HHC is expected to significantly outpace revenue growth beyond FY 2004. As a result, the projected deficits will widen to between $408 million and $527 million annually, thus requiring significantly higher levels of additional Federal and State assistance for the Corporation to maintain a positive cash balance. The viability of such proposals appears even more uncertain now given that Medicaid actions contemplated in the State Executive Budget, if enacted, would have a negative impact on HHC's revenue assumptions.

Table 22. *Summary of HHC Financial Plan Projections*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Opening Cash Balance	$221	$259	$181	$39
Total Receipts	$4,124	$4,040	$4,107	$4,186
Total Disbursements	4,316	4,448	4,634	4,683
Projected Operating Loss	($192)	($408)	($527)	($497)
Gap Closing Actions	$230	$330	$385	$460
Closing Cash Balance	$259	$181	$39	$2

HHC's revenue assumptions for FYs 2004-07 are relatively stable in the January modification, fluctuating within a range of about $150 million between $4 billion and $4.2 billion. The modest growth in revenues is the major reason for HHC's rising deficits in the latter phase of the plan. The only area of significant growth is Medicaid, which through fee-for-service, managed care and Family Health Plus (FHP), is expected to grow by $211 million or about 10 percent between FY 2004 and FY 2007. Medicaid revenues make up, on average, about 56 percent of HHC's revenue receipts. This growth is partly offset by a decline in Federal managed care demonstration grants beginning in FY 2005. Other major sources of revenues in the HHC budget include reimbursement from indigent care pools and Medicare, which together represent about 25 percent of its

[26] Includes $95 million in a designated fund for the Corporation's ongoing and future infrastructure improvements, equipment, and technological needs.

revenues. In addition, HHC receives payments for various contractual services provided on the City's behalf that constitute about eight percent of its total revenues.

Meanwhile, the City projects HHC disbursements to rise from $4.3 billion in FY 2004 to $4.7 billion in FY 2007, representing an increase of more than eight percent. The majority of this growth can be attributed to higher expenditures of $201 million for fringe benefits and $104 million for non-personal services. Spending for salaries and wages, which constitutes more than 40 percent of overall costs, is estimated to remain basically flat except for the assumption of an extra pay period in FY 2006. The City indicates that HHC's expense projections do not contain provisions for collective bargaining increases.

To achieve the projected cash balances in FYs 2004-07, the Corporation plans to rely on additional Federal and State revenues that range from $175 million to $300 million annually and savings actions of between $55 million and $160 million each year. At this time, these proposals are largely unspecified, except for the planned attrition of 1,600 positions by June 2004.

Debt Service

The January modification contains $4.6 billion in debt service costs in FY 2004 growing to $5.5 billion by FY 2007. This is an increase of $898 million, or 19.5 percent. As shown in Table 23, major elements accounting for 94 percent of the increase are general obligation (GO) debt service in the amount of $537 million, NYCTFA debt service in the amount of $204 million, and TSASC debt service of $102 million.

Table 23. ***Annual Debt Service Cost***

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Changes FY 2004-07
City GO Bonds	$2,954	3,228	$3,302	$3,491	$537
NYCTFA	809	1,024	1,010	1,013	204
TSASC	97	163	200	199	102
MAC	531	490	492	493	(38)
DASNY and Other Conduit Issuers	204	218	272	297	93
Total Debt Service	**$4,595**	**$5,123**	**$5,276**	**$5,493**	**$898**

SOURCE: January 2003 Financial Plan, Office of Management and Budget

The $4.6 billion in debt service contained in the FY 2004 Preliminary Budget represents an increase of $1.1 billion, or 32.8 percent from FY 2003. Estimated FY 2004 debt-service constitutes 17.4 percent of local tax revenues and 10.2 percent of total revenues. Major elements of the increase are GO debt service in the amount of $544 million, NYCTFA in the amount of $249 million, and the Municipal Assistance Corporation (MAC) in the amount of $317 million. Most of the growth can be traced to actions taken by the City that reduced debt service by more than $840 million in FY 2003, including refundings that did not increase debt service costs over the term of the financial plan. As Table 24 shows, without these actions the effective growth in debt service in FY 2004 would have been $388 million or nine percent.

Table 24. *Changes in Annual Debt Service Costs, FY 2003 to FY 2004*

($ in millions)

	FY 2003	FY 2004	Change
City General Obligation Bonds	$2,846	$3,007	$161
Transitional Finance Authority	689	849	160
TSASC	103	97	(6)
MAC	490	531	41
DASNY and Other Conduit Issuers	172	204	32
Total Effective Debt Service	**$4,300**	**$4,688**	**$388**
Refundings and Other Actions:			
GO Refunding Savings	($436)	($53)	383
NYCTFA Refunding Savings	(129)	(40)	89
MAC Acceleration of Debt-Service Reserve Fund and Interest Earnings	(276)		276
Subtotal	($841)	($93)	$748
Total Debt Service in Financial Plan	$3,459	$4,595	$1,136

SOURCE: January 2003 Financial Modification, Office of Management and Budget.

General Obligation Bonds

GO debt service, as shown in Table 25, is the largest component of total debt service at $3 billion, or 64.3 percent in FY 2004 and remains steady at 63.6 percent by FY 2007. Currently estimated at $2.954 billion in FY 2004, $2.74 billion, or 93 percent of the estimated debt service due in FY 2004 is from debt issued prior to January 31, 2003. The remaining balance of approximately $215 million is comprised of projected debt service of $116 million on debt yet to be issued, estimated variable-rate interest costs of $116 million, and estimated short-term interest costs from projected note borrowing of $35 million. Other miscellaneous changes netting to a decrease of about $52 million account for the balance.[27]

Table 25. *Components of Debt Service by Percent Share, FY 2004*

	FY 2004
City General Obligation Bonds	64.3%
Transitional Finance Authority	17.6%
TSASC	2.1%
MAC	11.6%
DASNY and Other Conduit Issuers	4.4%
Total Debt Service	**100.0%**

SOURCE: January 2003 Financial Plan, Office of Management and Budget

Over the financial plan period, there are planned GO bond issues of $10.2 billion that result in additional debt service costs of $731 million by FY 2007. Thus, of the $3.5 billion in estimated GO debt-service costs in FY 2007, approximately $2.7 billion is obligated to be paid from debt issued prior to January 31, 2003. The remaining estimated balance of $787 million is comprised of $731 million in debt service from debt to be

[27] One-time FEMA revenue of $59.8 million accounts for the majority of this decrease.

issued after January 31, 2003 and $74.6 million for estimated interest cost on short-term notes offset by $19 million of projected interest earnings on invested GO bond proceeds.

Municipal Assistance Corporation

After adjusting for prepayments, estimated debt-service costs for MAC are $531 million in FY 2004 and comprise 11.6 percent of total debt service. All of these costs are from debt issued prior to January 31, 2003 and are obligated to be paid.[28] Estimated debt service costs for MAC will decline slightly to $494 million by FY 2007 representing nine percent of total debt service in that year. MAC, supported by City sales tax collections, will make its last debt-service payments on July 1, 2008.[29] The sunset of MAC will allow sales tax revenue to be used for other purposes beginning in FY 2009.[30]

Transitional Finance Authority

Estimated debt-service costs for NYCTFA are $809.3 million in FY 2004 growing to $1 billion by FY 2007. Approximately $738 million, or 91 percent of the FY 2004 costs are from debt issued prior to January 31, 2003 and are obligated to be paid. The remaining balance of $71 million is composed of offsetting items. These include $103 million in projected debt service from NYCTFA debt yet to be issued, offset by assumed savings from variable rate issues of $25 million and interest earnings on bond proceeds and the debt service fund of $7 million.

Accounting for 17.6 percent of total debt service in FY 2004, NYCTFA's percentage grows slightly to 18.4 percent by FY 2007. Approximately $838 million, or 83 percent of FY 2007 costs are from debt incurred prior to January 31, 2003 and are obligated to be paid. The remaining balance of $175 million is comprised of offsetting items. These include $194 million in projected debt service from NYCTFA debt yet to be incurred, offset by assumed savings from variable rate issues of $13 million and interest earnings on the debt service fund of $6 million.

NYCTFA is considering increasing the amount of money it retains for payment of debt service and other expenses and thus decreasing the residual payment to New York City. The result would be a decrease in the prepayment of New York City General Obligation bond debt service, and a corresponding decrease in the amount of real estate taxes being spent for operating purposes.

Tobacco Settlement Asset Securitization Corporation

Estimated debt-service costs for TSASC are $97.3 million in FY 2004 growing to $199.4 million by FY 2007. All of the FY 2004 costs are from debt issued prior to

[28] There are no plans to issue any further MAC debt.

[29] Although MAC's final scheduled principal payment is on the first day of FY 2009, its final City sales tax retention is in FY 2008.

[30] Sales tax revenue is currently pledged as secondary source of funding for NYCTFA obligations.

January 31, 2003 and are obligated to be paid. With total estimated tobacco revenue receipts in FY 2004 of $225.2 million, this leaves a residual of $127.9 million for use in the general fund after accounting for debt service. Although TSASC anticipates issuing $815 million in bonds in FY 2004, the additional debt service will not be paid until FY 2005.

Accounting for 2.1 percent of total debt service in FY 2004, this percentage grows to 3.6 percent by FY 2007. Of the estimated TSASC debt service amount in FY 2007, approximately $91 million is obligated to be paid from debt incurred prior to January 31, 2003. Thus, approximately $108 million of debt service will result from planned debt issues of $1.5 billion over the term of the financial plan.

TSASC is the City's highest cost of debt ranging from 25 to 50 basis points above GO bonds. With pressure on the City's debt limit subsiding as the full value of real property in the City increases, and GO borrowing decreasing due to reductions in the capital program, the need to use TSASC debt in the future should be reexamined. More discussion of the City's debt limit will take place after the release of the Mayor's FY 2004 Executive Budget in April 2003.[31] Any diminished use of TSASC debt, however, will have to be replaced by other financing sources. Such an alternative, however, should be more cost-effective than the further use of TSASC debt and allow for the release of more residual tobacco revenues to the City's general fund.

Lease-Appropriation Debt Service

Estimated debt-service costs for bonds issued by the Dormitory Authority of the State of New York (DASNY) and other conduit issuers total $204 million in FY 2004, and comprise 4.4 percent of total debt service, growing to a projected $297 million, or 5.4 percent of total debt service by FY 2007. Approximately $198 million, or 97 percent of the FY 2004 costs are from debt issued prior to January 31, 2003 and are obligated to be paid. The differential of approximately $6 million is from an anticipated Economic Development Corporation (EDC) issue for a potential New York Stock Exchange project.

Approximately $258 million of the FY 2007 amount, or 87 percent of lease debt service costs, are from debt issued prior to January 31, 2003. The differential of approximately $64 million is from additionally planned DASNY courts debt service, Lincoln Center and New York Stock Exchange debt service, and anticipated HHC debt issues for general hospital purposes.

Debt Burden

With the implementation of forecast reductions to the capital plan, the City's debt burden has remained steady since the November modification. With significant cuts to

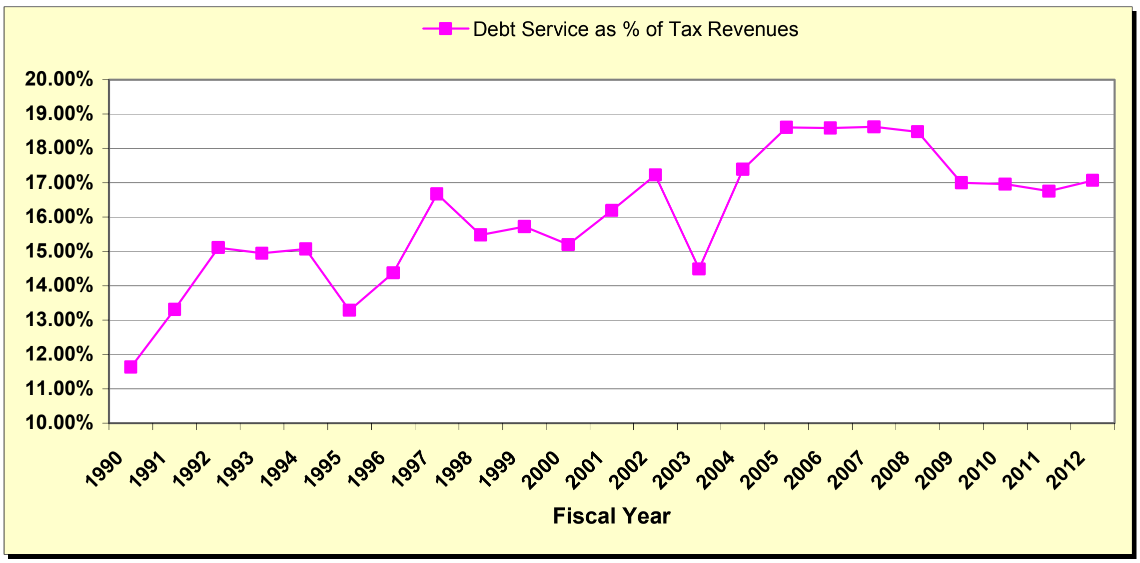
[31] The debt limit is calculated by multiplying the five-year average of the full value of real property by ten percent. For further discussion, please see the FY 2003 Annual Report of the Comptroller on Capital Debt and Obligations, December 2002. The report may be found on the Comptroller's website www.Comptroller.nyc.gov

the capital program incorporated in the January Capital Commitment Plan, the benefits of these reductions will manifest themselves in the outyears of the plan.

Total debt service as a percent of tax revenues ("the ratio") is estimated to be 17.4 percent in FY 2004, and 18.6 percent in each of FYs 2005-07. Primarily as a result of the retirement of all MAC debt by FY 2009, the ratio declines and remains stable at about 17 percent from FYs 2009-12.

Chart 10. *Debt Service as a Percent of Tax Revenues*

($ in millions)



SOURCE: FYs 1990-2002 Annual Financial Reports NYC Office of Comptroller, and January 2003 Financial Plan modification, Office of Management and Budget, January 2003.

The 1.2 percentage point increase in the ratio from FY 2004 to FY 2007 results from the difference between the annual average percent growth in debt service compared with the percent growth in tax revenues. Chart 10 shows the impact of total debt-service growing at an estimated average annual rate of 6.1 percent compared with annual average tax revenue growth of 3.7 percent over the term of the financial plan.

Financing Program

The financing program for FYs 2004-07 sums to $21.3 billion, a decrease of $2.9 billion from the November modification. Planned GO debt issuance sum to $10.2 billion over the period, or 48 percent of the total financing program. New York Water Finance Authority (NYCWFA) debt accounts for $7.3 billion, or 34 percent of the program. TSASC debt issues are expected to total $1.5 billion, or seven percent of the financing program. NYCTFA's share of the program declines significantly to 3.3 percent as NYCTFA issues the last of its planned debt during FY 2004 in the amount of $705 million.

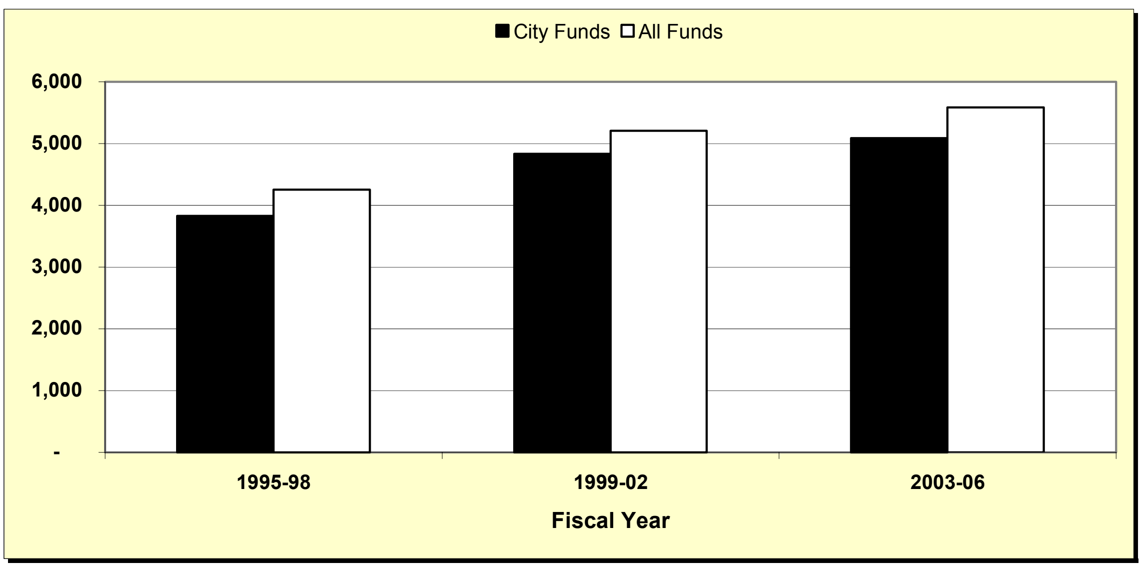
Planned new money debt issues for DASNY courts projects in the amount of $1.1 billion account for 5.2 percent of the financing program. Other conduit issuers comprise the remaining 2.1 percent of the financing program between FYs 2004 and 2007.

CAPITAL PLAN

The January Capital Commitment Plan for FYs 2003-06 sums to $24.8 billion over the four-year period, of which $22.8 billion is in City funds. When factoring in $2.4 billion of adjustments for the reserve for unattained commitments, these figures decline to $22.4 billion in all funds and $20.4 billion in City funds.[32] Although this represents a decrease of 23.7 percent in City funds excluding DEP and 16 percent in all funds from the September Capital Plan, the average annual planned commitment levels remain high by historical comparisons at $5.6 billion. As shown in Chart 11, over a four-year period, actual commitments averaged $4.3 billion per year between FYs 1995-98, and $5.3 billion per year between FYs 1999-2002.

Chart 11. ***Capital Commitments Continue to Increase***

($ in millions)



SOURCE: FY 2003 January Capital Commitment Plan, Office of Management and Budget, January 2003.

As in the past, three major program areas comprise just below 60 percent of all planned capital commitments during FYs 2003-06. They are 1) environmental protection; 2) mass transit, highways, roads, and bridges; 3) and education. Other areas of significance are housing and economic development, sanitation, parks and cultural affairs, and hospitals.

[32] The reserve for unattained commitments is the estimated amount of contract registrations that are *not likely* to occur in a given fiscal year.

Proposed Capital Reductions – September 2002 to January 2003

As noted above, the January Capital Commitment Plan for FYs 2003-06 totals $22.4 billion in all funds, after adjusting the reserve for unattained commitments, or $4 billion less than the September Capital Plan.

Table 26. ***The 15 Agencies with the Highest Percent Reductions (All Funds)***

($ in thousands)

Agency Name or Project Type	September 2002 for FYs 2003-06	January 2003 for FYs 2003-06	January minus September	Percent Change
S.I. Rapid Transit	$ 6,000	$3,500	($2,500)	(41.7%)
Economic Development	1,389,905	901,451	(488,454)	(35.1%)
Citywide Services – Equipment	654,138	424,515	(229,623)	(35.1%)
Fire Department	491,396	324,691	(166,705)	(33.9%)
Police Department	496,646	330,001	(166,645)	(33.6%)
Juvenile Justice	19,518	12,976	(6,542)	(33.5%)
Highway Bridges	2,127,220	1,434,582	(692,638)	(32.6%)
Courts	1,730,627	1,202,254	(528,373)	(30.5%)
Real Property	36,905	25,833	(11,072)	(30.0%)
Homeless Housing	122,204	85,552	(36,652)	(30.0%)
Department of Corrections	640,009	450,138	(189,871)	(29.7%)
Department for the Aging	44,582	31,487	(13,095)	(29.4%)
Admin. For Children's Services	125,630	89,009	(36,621)	(29.1%)
Brooklyn Public Library	53,044	37,731	(15,313)	(28.9%)
Queens Public Library	35,155	25,078	(10,077)	(28.7%)
Subtotal	**$7,972,979**	**$5,378,798**	**($2,594,181)**	**(30.0%)**
As a percent of Grand Total	27.0 %	21.7 %	55.0 %	
All Other	$21,500,653	$19,381,583	($2,119,070)	(9.9%)
Grand Total	**$29,473,632**	**$24,760,381**	**($4,713,251)**	**(16.0%)**
Without Water & Sewer	$22,181,716	$17,302,594	($3,943,236)	(17.8%)

SOURCE: FY 2003 January Capital Commitment Plan, Office of Management and Budget, January 2003. Italicized agencies are those which appear in both Tables 26 and 27.

Despite significant City funded reductions of almost 24 percent excluding DEP, combined with virtually no change in overall non-City funding, planned annual capital commitments over FYs 2003-06 are forecast to be, on average, 6.4 percent higher than FYs 1999-2002, and 31.3 percent higher than FYs 1995-98.

Seven agencies overlap in both the category of largest percent declines and absolute dollar decreases as shown in Tables 26 and 27. The 15 agencies with the largest percent decreases are, by and large, agencies with the fewest capital dollars to begin with. Computed in terms of all funds, the top 15 decreases in percent terms range from 28.7 percent to 41.7 percent, but only account for 22 percent of the January Capital Commitment Plan, and 55 percent of the reduction. As shown in Table 27, the 15 agencies with the largest absolute dollar reductions comprise 55 percent of the January Capital Commitment Plan and comprise 99 percent of the capital plan reduction from September to January.

Thus, the average total capital program amount of the 15 agencies with the largest percentage reductions from September to January was $359 million, whereas the average total capital program amount for the 15 agencies with the largest absolute dollar reductions was $916 million.

Table 27. ***The 15 Agencies with the Highest Absolute Dollar Reductions (All Funds)***

($ in thousands)

Agency Name or Project Type	September 2002 for FYs 2003-06	January 2003 for FYs 2003-06	January minus September	Percent Change
Education	$3,824,419	$2,888,533	($935,886)	(24.5%)
Highway Bridges	*2,127,220*	*1,434,582*	*(692,638)*	*(32.6%)*
Courts	*1,730,627*	*1,202,254*	*(528,373)*	*(30.5%)*
Economic Development	*1,389,905*	*901,451*	*(488,454)*	*(35.1%)*
Housing	1,752,558	1,428,612	(323,946)	(18.5%)
Highways	1,476,587	1,176,972	(299,615)	(20.3%)
Citywide Services – Equipment	654,138	424,515	(229,623)	(35.1%)
Cultural Affairs	763,325	547,477	(215,848)	(28.3%)
Department of Correction	640,009	450,138	(189,871)	(29.7%)
Transit Authority	913,025	745,892	(167,133)	(18.3%)
Fire Department	491,396	324,691	(166,705)	(33.9%)
Police Department	496,646	330,001	(166,645)	(33.6%)
Public Buildings	543,509	388,807	(154,702)	(28.5%)
Parks Department	749,504	677,224	(72,280)	(9.6%)
Waterway Bridges	862,258	816,098	(46,160)	(5.4%)
Subtotal	**18,415,126**	**13,737,247**	**(4,677,879)**	**(25.4%)**
As a percent of Grand Total	**62.5%**	**55.5%**	**99.2%**	
All Other	$ 11,058,506	$11,023,134	$(35,372)	(0.32%)
Grand Total	**$29,473,632**	**$24,760,381**	**($4,713,251)**	**(16.0%)**
Without Water & Sewer	$ 22,181,716	$17,302,594	($3,943,236)	(17.8%)

SOURCE: FY 2003 January Capital Commitment Plan, Office of Management and Budget, January 2003. Italicized agencies are those which appear in both Tables 26 and 27

Programmatic Review

The decrease in the Capital Plan for FYs 2003-06, from September to January, is primarily concentrated in the program areas of education, highway bridges, courts, economic development, housing, and highways. These six program areas represent 69.4 percent of capital plan commitment reductions from September to January in FYs 2003-06 yet comprised only 36.4 percent of the capital plan. Each program area, with references to the recent reduction program, as well as comparisons to historical commitments, is described below.

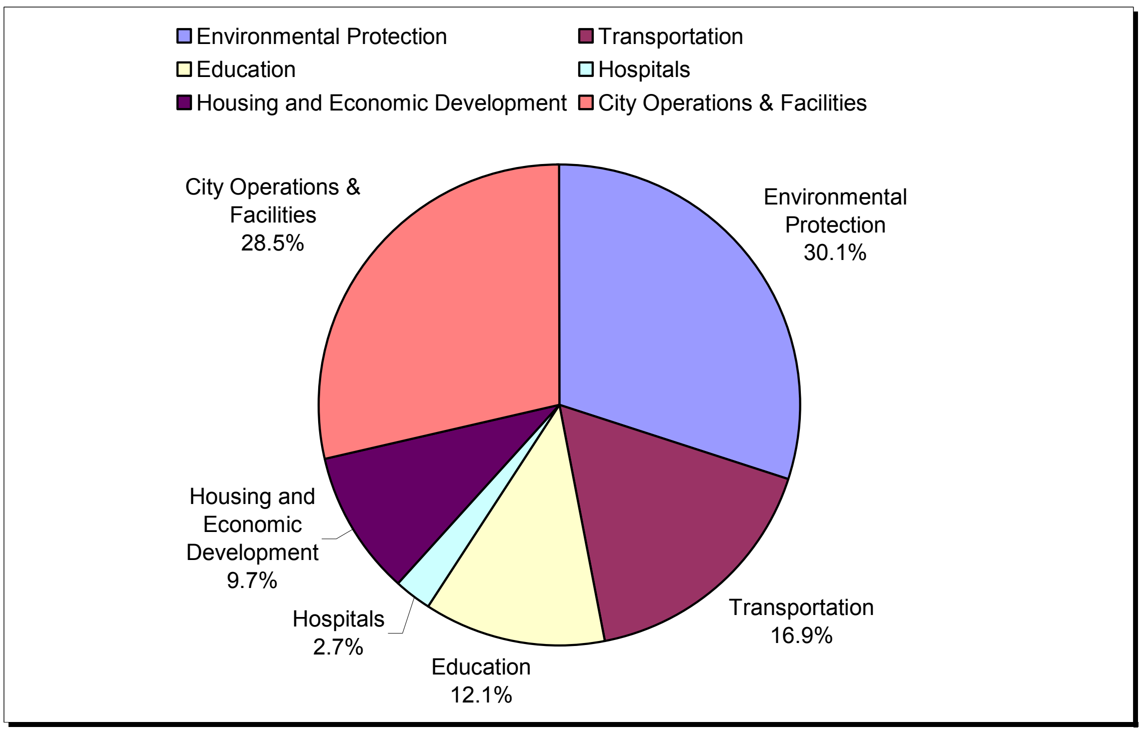
Environmental Protection

Driven largely by Federal and State mandates, the Department of Environmental Protection (DEP) continues to comprise a large part of the plan. Although not funded by general obligation debt, at $7.5 billion over FYs 2003-06, DEP garners 30.1 percent of the January Capital Commitment Plan, or $166 million higher than in September as shown on Chart 12. Thus, DEP is one of the few agencies whose capital plan increased since September. Reductions to DEP's capital program do not reduce the City's debt service. Its capital program is funded primarily from the issuance of Water Finance Authority bonds. Benefits from a reduction in DEP capital commitments would theoretically accrue to ratepayers through lower water and sewer rates and/or a slower pace of growth in those rates. DEP is reexamining its capital program and is expected to release a report shortly.

Education

Capital commitments for Education total $3 billion between FYs 2003 and 2006, or 12.1 percent of total citywide estimated commitments as shown in Chart 12.

Chart 12. ***January 2003 Capital Plan, FYs 2003-2006, Shares of $24.76 billion***



SOURCE: January 2003 Capital Commitment Plan, Office of Management and Budget, January 2003

This compares with $4 billion, or 13.5 percent of total commitments in September. In FYs 1999-2002, education commitments were $6.4 billion, or 30.3 percent of total City-funded commitments. The current January modification is composed of $2.9 billion of commitments for the Department of Education, and $107 million for the City University of New York (CUNY). Highlights of the current education plan include the construction of 26 new schools and 19,000 new seats by FY 2006.

The CUNY capital plan is primarily concerned with the upgrade and maintenance of the community college physical plant. This includes such projects as the rehabilitation and replacement of roofs, windows, and doors and the purchase and installation of electronic data processing equipment.

Transportation

The category of transportation is composed of two distinct elements, projects for mass transit administered by the Metropolitan Transportation Authority (MTA) on behalf of New York City Transit, and the Highways and Bridges program which is administered by the Department of Transportation (DOT).

The January modification for FYs 2003-06 contains $750 million in capital commitments for mass transit projects, and $3.4 billion for DOT programs. Combined, this program area makes up 16.9 percent of the January modification as shown on Chart 12.

Mass transit commitments are highly concentrated in FY 2003 with commitments totaling $525 million, largely the result of the fulfillment of the New York Coliseum agreement whereby $345 million in capital dollars were made available to the MTA. Commitments in the latter years of FYs 2004-06 were reduced by about 30 percent to $225 million over the three-year period. This compares with $322 million over FYs 1999-2002. Support to the MTA for capital work at New York City Transit (NYCT) constitutes a small portion of the NYCT's overall capital program of over $12 billion. MTA bonds and other federal grants support a significant portion of its capital needs.

The January modification for FYs 2003-06 contains $3.4 billion for street resurfacing, highway reconstruction, and bridge rehabilitation that is managed by the City's DOT, or 13.9 percent of January modification commitments. This compares with $2.1 billion in FYs 1999-2002, or ten percent of total capital commitments. There was great priority given to waterway bridge projects which were reduced by 5.4 percent from the September Capital Plan to $816.1 million. Highway bridges, however, were reduced by 32.6 percent to $1.4 billion, and streets and highways projects by 20.3 percent to $1.2 billion. Although the DOT capital program was reduced by an average of 23.3 percent, projects for structures rated "in poor condition" were not cut from the plan, with all reductions coming from projects rated "in fair condition" and/or "in good condition."

City Operations and Facilities

The category of City Operations contains over 15 City agencies and quasi-governmental entities, including the Department of Sanitation, the Department of Correction, the Police and Fire Departments, the Department of Parks, public buildings, court facilities, public libraries and cultural institutions. The January modification for this category consists of $7.1 billion, or 28.6 percent of total capital commitments. This program area was reduced by $1.8 billion from the September Capital Plan, or by 20.6 percent. It compares favorably to FYs 1999-2002 when actual commitments totaled $5.1 billion, or 24.4 percent of total commitments.

Projects for court facilities make up the largest share of this category at $1.2 billion or 4.9 percent of total citywide commitments between FYs 2003-06. This includes the ongoing $628 million project for the new court facility at 330 Jay Street in Brooklyn, $145 million for the new Bronx Criminal Court, and $47 million for the Queens Family Court.

At $1.2 billion between FYs 2003-06, the capital program for the Department of Sanitation comprises 4.7 percent of total commitments. This compares with $964 million in the September Capital Plan, or an increase of $202 million. This 21 percent increase is driven primarily by a $347 million increase for the reconstruction of six marine transfer stations (MTS) citywide bringing the MTS project to a total of $416 million. This increase, however, comes at the expense of programmatic reductions to its equipment, collection truck, and sanitation garage projects.

The January modification contains $759 million for public libraries and cultural affairs, or 3.1 percent of total citywide commitments. Highlights include $116 million in funding for the New York Public Library, $37.7 million for the Brooklyn Public Library, $32 million for the Research Libraries, and $25.1 million for the Queens Public Library. On average, the libraries were reduced 27.4 percent from the September Capital Plan.

The Department of Cultural Affairs (DCA) capital plan totals $547.5 million between FYs 2003-06, or 2.2 percent of total commitments. This level of planned commitments is reduced by $215.8 million from the September Capital Plan, or by 28.3 percent. Highlights of the plan include $58 million for the Lincoln Center master plan, over $50 million for various projects at the American Museum of Natural History, $29 million for the Museum of the City of New York master plan, and $18 million for various projects at the Metropolitan Museum of Art.

Three project types administered by the Department of Citywide Administrative Services are public buildings, citywide equipment purchases, and citywide computer equipment purchases. The January modification for FYs 2003-06 contains $389 million for a variety of public works projects, $424.5 million for equipment purchases citywide, and $154 million for computer equipment. Combined, these project types comprise just below four percent of the January modification. In total, these project types were reduced by $404 million from the September Capital Plan, or by 29.5 percent.

Public works projects are primarily driven by projects involving the rehabilitation of City-owned office space, the renovation of leased space, fulfilling legal mandates and correction of unsafe conditions. The major projects for equipment purchases citywide are the construction of an infrastructure for an emergency class frequency (Channel 16), system upgrades for the Department of Finance, and various improvements to the City's payroll system.

Housing and Economic Development

The categories of housing and economic development account for $2.4 billion of capital commitments between FYs 2003-06, or 9.7 percent of total commitments. This is a $840.6 million reduction from the September Capital Plan, or a 25.9 percent decrease.

Housing accounts for $1.4 billion in capital commitments, or 5.8 percent of total commitments. This represents a decrease of $323.9 million, or an 18.5 percent cut from the September Capital Plan.

The primary program areas in housing are the disposition of in-rem City buildings to tenant and other not-for-profit organizations, and a variety of loan programs which allow privately owned properties to renovate buildings through the use of low-interest loan programs.

The January modification for economic development contains $901.5 million between FYs 2003-06, or 3.6 percent of total capital commitments. This represents a decrease of $488.5 million, or a reduction of 35 percent. The highlights of the plan include $111 million for the modernization and reconstruction of markets citywide, $98 million for the reconstruction of the Whitehall Ferry Terminal, $84 million for the reconstruction and modernization of piers citywide, $65 million for the economic development of waterfront areas for industrial and commercial purposes, and $41 million for non-commercial waterfront development.

Hospitals

The January modification for FYs 2003-06 totals $658.6 million, or 2.7 percent of total commitments. Compared with the reductions sustained citywide, hospital projects were reduced by a modest 5.5 percent, or $38.3 million from the September Plan.

Three major projects continue to dominate the hospitals plan which include: 1) $247 million for a new DNA lab for the Office of the Chief Medical Examiner; 2) $162 million for the Bellevue Remodeling Project; and 3) $147 million for the major reconstruction of the Kings County Hospital Center.

Preliminary Ten-Year Capital Strategy

The Preliminary Ten-Year Capital Strategy is a charter mandated biennial report which documents the projected capital programs for all city agencies over the next ten years.

The currently proposed Preliminary Ten-Year Capital Strategy (PTYCS) for FYs 2004-13 is $40.3 billion, of which $37.6 billion is in City funds. This is $14.1 billion less than the Ten-Year Capital Strategy (TYCS) presented in April 2001 for FYs 2002-2011, or a reduction of 26 percent. With the exception of water mains, traffic signals and street lights, and franchise bus transportation, every other capital project type decreased in absolute dollars. The PTYCS is comprised of eight major groupings by agency, and by three broad categories of underlying capital work, as shown on Table A3 on page 65.

Programmatic Review

Projected capital commitments in the PTYCS remain primarily concentrated in the areas of education, bridges and highways, and environmental protection. These three program areas combined, account for 65 percent of the PTYCS.

Education

Projected capital commitments for education total $9.8 billion, or 24 percent of the entire PTYCS. This is $3.6 billion lower than the April 2001 TYCS, or a decrease of 26.9 percent. The PTYCS contains $9.7 billion for the Department of Education, as well as $96.3 million for the City University of New York (CUNY).

The Department of Education's PTYCS is comprised of six major categories: 1) $4 billion for system expansion - new schools; 2) $2 billion for emergency, unspecified, and miscellaneous; 3) $1.1 billion for other forms of system expansion; 4) $985 million for the rehabilitation of school components; 5) $897 million for major modernizations of schools; and 6) $634 million for educational enhancements. The planned $4 billion in capital commitments for system expansion will allow the department to build 26 new schools and create over 19,000 new seats by 2006.

Although $2 billion is dedicated to the category of emergency, unspecified, and miscellaneous, not much more program detail exists for this area. In general, it will cover capital-eligible administrative costs, emergency projects, research and development, and prior-plan completion costs. The $1.1 billion allocated for system expansion will be used for leases, building additions, transportables, modular classrooms, new athletic fields, and playgrounds.

The rehabilitation of school components category for $985 million will be used to maintain roofs and parapets, resurface floors, install new windows and lighting features, and re-develop existing playgrounds. Other critical projects include asbestos and lead paint removal, coal furnace conversions, and the installation of air conditioners. School modernization projects include the replacement of electrical, plumbing, and heating systems. Educational enhancements include new and refurbished science labs, computer network upgrades, and enhanced Internet access.

Bridges and Highways

Projected capital commitments for bridges and highways total $8.2 billion, or 20.3 percent of the entire PTYCS. This is a $2.5 billion decline from the April 2001 TYCS, or a decrease of 23.1 percent.

The PTYCS for bridges totals $4.5 billion, or 11.1 percent of the total plan. Four major categories comprise the bridges program: 1) $1.8 billion for the reconstruction of bridges rated "fair"; 2) $1.4 billion for bridge life extension; 3) $804 million for the reconstruction of the East River bridges; and 4) $272 million for the rehabilitation of "poor" bridges.

The reconstruction of "fair" bridges category will address the needs of 91 bridge structures by FY 2013. A total of 89 bridge structures in the category of bridge life extension are scheduled for major rehabilitative work by FY 2013. All bridges in this category are rated "fair".

The reconstruction of all four East River bridges will either be complete or in the final stages of work by FY 2010. The only remaining work on these bridges will be the seismic retrofit of the four bridges, planned for commitment in FY 2010 with effectuation in subsequent fiscal years. The category of "poor" bridge reconstruction with $272 million in planned commitments will provide for the registration of capital contracts for the reconstruction, and/or demolition of all bridges currently rated "poor" by FY 2007.

The PTYCS for highways contains $2.8 billion of anticipated capital commitments, or 6.9 percent of the total plan. This represents a reduction of $811 million from the TYCS in April 2001, or a decrease of 22.5 percent. The major elements of the highways PTYCS are street reconstruction for $1.5 billion, street resurfacing for $803 million, and sidewalk & ramp reconstruction of $473.5 million.

Planned commitments for street reconstruction will enable the reconstruction of 219 linear miles of streets, citywide. This includes federal funding for the reconstruction of 16 linear miles of streets surrounding Ground Zero.

Planned commitments for street resurfacing will provide the resources for the resurfacing and milling of 2,103 linear miles of streets and City-owned arterial highways. An estimated $323 million of capital commitments will provide for approximately 44.7 million square feet of sidewalks, and $151 million will enable the installation of pedestrian ramps at 51,758 street corners throughout the City.

Environmental Protection

Projected capital commitments for environmental protection total $8 billion, or 19.8 percent of the entire PTYCS.[33] This is a $1.3 billion decline from the April 2001 TYCS, or a decrease of 14.1 percent.

DEP is primarily responsible for the management of the City's water supply system, as well as collecting, treating, and disposing of waste and storm water. The five project types that achieve this objective are water pollution control, water mains, sewers, water supply, and equipment.

The PTYCS for water pollution control sums to $3.5 billion and includes $1.5 billion for the stabilization of wastewater treatment plants, $1.1 billion for consent decree upgrading and reconstruction, $501 million for water quality mandates, and $376 million for plant upgrades and reconstruction of individual components within wastewater treatment facilities.

The PTYCS for projects related to water mains sums to $2.4 billion and consists of three major projects: $1 billion for the Croton Filtration project, $626 million for trunk and distribution main extensions, and $483 million for water quality preservation projects. The PYTCS for projects related to sewers sums to $1 billion and consists of

[33] DEP is expected to revise its PTYCS to an estimated $16 billion over FYs 2004-13 in late March 2003.

two major projects: $505 million for extensions to accommodate new housing and commercial development, and $449 million for the replacement of chronically failing components of the sewer system.

The PYTCS for projects related to water supply projects sums to $662 million and consists of two major projects: $230 million for stage 1 of City water tunnel number 3 and $422 million for stage 2 of City water tunnel number 3. This has been an ongoing project for many years and funds will be committed by FY 2005 for the tunnel's eventual completion. The PYTCS for equipment related purchases sums to $343 million and consists of four major projects. There are planned commitments of $101 million for utility relocations for sewer and water main projects, and $94 million for landfill remediation. There are planned commitments of $80 million for various conservation efforts, and $60 million for the purchase and reconstruction of field facilities citywide.

Housing and Economic Development

Projected capital commitments for housing and economic development total $4.4 billion, or 10.9 percent of the entire PTYCS. This is a $2 billion decline from the April 2001 TYCS, or a decrease of 31.3 percent.

Housing accounts for $3.7 billion of commitments over the ten-year period, or 9.1 percent of the total PTYCS. The major categories of the housing PYTCS are assistance to private owners, new housing construction, and occupied in-rem rehabilitation/ privatization.

Various programs, including article 7A, article 8A, the participation loan program, and supportive housing loan programs, will provide $1.5 billion in assistance to private owners. Existing programs such as Nehemiah, ANCHOR, mixed use, and the new ventures incentive program will provide $1.1 billion for new construction of housing units to low and moderate-income homeowners and renters. Approximately $850 million will be provided to fund the rehabilitation of city-owned units and effectuate their disposition to private not-for-profit and tenant-based organizations.

Other City Services

Projected capital commitments for other city services total $3.8 billion, or 9.4 percent of the entire PTYCS. This is a $2.4 billion decline from the April 2001 TYCS, or a decrease of 39.3 percent. This category includes such agencies and project types as public buildings, parks, social services, cultural institutions and libraries, data processing, fire department, and hospitals.

Capital projects related to public works and buildings account for $947 million in the PTYCS, or 2.4 percent of the plan. Parks and recreation accounts for $601 million, or 1.5 percent of the plan. Social services comprises about $624 million of the PTYCS and consists of such agencies as Homeless Services ($209 million), Human Resources ($172 million), Administration for Children's Services ($144 million), and the Department of Health ($99 million).

Estimated commitments to cultural institutions citywide total $416 million, or about one percent of the PTYCS. Public libraries across the City account for $99 million of the PTYCS, or 0.25 percent of the strategy.

Projects related to the purchase and installation of data processing equipment accounts for $350 million of the PTYCS, or just below one percent. Projects related to the renovation, rehabilitation, and other system requirements of the Fire Department total $443 million in the PTYCS, or 1.1 percent of the total plan. Capital projects at various hospitals citywide sum to $217 million. This is a significant decrease from the prior ten-year plan as HHC assumes greater responsibility for the financing of its capital program.

Administration of Justice

Projected capital commitments for the administration of justice total $3.1 billion, or 7.6 percent of the entire PTYCS. This is a $1.1 billion decline from the April 2001 TYCS, or a decrease of 25.6 percent. The administration of justice includes such agencies as the Department of Correction, Courts, Police Department, and Juvenile Justice.

Capital commitments are estimated to be $1.4 billion for the Department of Correction, $1.2 billion for court facilities citywide, $439 million for the Police Department, and $14 million for Juvenile Justice.

Sanitation

Projected capital commitments for the Department of Sanitation total $2.3 billion, or 5.6 percent of the entire PTYCS. This is a $606 million decline from the April 2001 TYCS, or a decrease of 21 percent. Major categories in the Department of Sanitation's (DOS) PTYCS include garages and facilities, equipment purchases, and solid waste management infrastructure.

About 38 percent, or $858 million of the DOS strategy is dedicated to the construction and reconstruction of garages throughout the City. Approximately 36 percent, or $838 million of the DOS PTYCS is allotted to equipment acquisition. This is primarily for the purchase of sanitation vehicles of all kinds, including collection trucks and street sweepers. Approximately 24 percent, or $542 million of DOS's PTYCS is related to the provision of the necessary facilities and infrastructure to assist long-term waste disposal. Marine transfer stations will be an important component of this long-term strategy.

Mass Transit

Projected capital commitments for mass transit total $748 million, or 1.9 percent of the entire PTYCS. This is a $657 million decline from the April 2001 TYCS, or a decrease of 46.8 percent.

The City capital funding in the PTYCS of New York City Transit projects consists of $350 million of trackwork projects, $393 million in miscellaneous transit improvement projects, and $5 million for the Staten Island Railway. The NYCT, a subsidiary of the Metropolitan Transportation Authority, has its own calendar year capital plan for 2000-04. The City contributions constitute a small part of the NYCT's $12.5 billion plan.

Projects Underlying the Preliminary Ten-Year Capital Strategy

All projects contained in the strategy can be classified into three broad categories: 1) State of Good Repair; 2) Program Expansion; and 3) Programmatic Replacement.

The PTYCS contains $16.9 billion to maintain assets in a state of good repair. This comprises 42 percent of the strategy and contains such items as East River and other bridge reconstruction, the rehabilitation of reconstruction of schools, highway reconstruction and resurfacing, and the rehabilitation of in-rem housing and other housing support.

Planned commitments to effectuate program expansions total $13.4 billion. This comprises 33 percent of the strategy and contains such items as new school construction, assistance to owners of private housing, neighborhood based and other housing initiatives, the Croton filtration project, and construction of court facilities.

Commitments in the general category of programmatic replacements reflect the remaining $10 billion in the PYTCS. This comprises 25 percent of the strategy and contains such items as water pollution control plant stabilization, consent decree upgrading and construction, water quality mandates and preservation, school modernizations, and purchases of sanitation equipment.

Proposed Solutions

The City has proposed gap-closing initiatives totaling $3.4 billion to address the FY 2004 budget gap. After incorporating almost $4 billion in locally-generated actions since June 2002, the City is depending upon the assistance of the State and Federal governments as well as the labor unions to close the bulk of the FY 2004 budget gap.[34] As Table 28 shows, gap-closing initiatives requiring the approval or cooperation of other levels of government and the City's labor unions account for $2.9 billion, or 85.6 percent, of the $3.4 billion gap-closing program.

Table 28. ***FY 2004 Preliminary Budget Gap-Closing Program***

($ in millions)

Gap-Closing Initiative	FY 2004 Relief	Percent Total	Required Actions
Agency Programs	$487	14.4%	Timely Implementation and Regular Monitoring by Agencies
Airport Arbitration Settlement	600	17.7%	Port Authority Agreement
Airport Lease	90	2.6%	Port Authority Agreement
PIT reform	962	28.4%	State Legislative Approval
Regional Transportation Initiative	200	5.9%	State Legislature Approval
State Actions	252	7.4%	State Legislature Approval
Federal Actions	200	5.9%	Federal Legislative Approval
Productivity Savings	600	17.7%	City Union Negotiation and Approval
Total	**$3,391**	**100.0%**	

Agencies, with the exception of the DOE and uniformed agencies, were directed to identify additional savings equal to six percent of their City-funded spending. The DOE and uniformed agencies were asked to develop savings equal to three percent of City-funded spending. The agency programs reflect initiatives that were developed to comply with the Mayor's directive. Because these initiatives are within each agency's control, the key to realizing these savings lies in timely implementation of the initiatives and regular monitoring to ensure that the initiatives will achieve the targeted savings.

State actions will have a major impact on balancing the FY 2004 budget. Initiatives requiring State Legislature approval account for $1.4 billion of the gap-closing actions.[35] A key initiative is the proposal to restructure the PIT whereby the top rate of the PIT will be lowered to 2.8 percent while at the same time requiring non-City residents who work in the City to pay the same tax rate as City residents. The City expects this initiative to generate $962 million in FY 2004. State approval will also be required to implement proposed regional transportation initiatives, which includes the proposal to toll the East River bridges. This initiatives is expected to generate another $200 million in FY 2004.

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[34] This includes $2.2 billion in agency savings and non-tax revenues as well as $1.7 billion in property-tax revenue from the 18.49 percent mid-year property tax increase in FY 2003.

[35] The City has assumed a total of $275 million in its baseline expenditure estimates in DOE State funds to pay for the extended school day negotiated in the last teachers' contract. In total, the City is depending upon $1.7 billion in State aid to balance its FY 2004 budget.

Table 29. ***No Cost State and Federal Gap-Closing Initiatives***

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
State Gap-Closing Initiatives				
Medicaid Cost Containment	$250	$214	$221	$221
Establish an Early Intervention Pool (2.4% Assessment)	150	150	150	150
Tort Reform	100	103	106	109
Debt Finance Reform/Refinance Community College Debt	80	30	30	30
Increase the Authorization for Taxi Medallions	65	65	65	--
Property Tax Surcharge on Class 1 Absentee Landlords	44	45	47	48
Department of Finance Enforcement Initiatives	39	23	23	23
Bond Act Funds for Municipal Recycling	30	--	--	--
Flexible use of Child Care Funding	25	25	25	25
Increase Assessment on Fire Insurance Premiums from 2% to 4%	13	13	13	13
Nighttime Thoroughbred Racing at OTB	15	15	15	15
Increase Authorization of Red Light Cameras	4	24	35	35
Total	**$815**	**$707**	**$730**	**$669**
Federal Gap-Closing Initiatives				
Flexibility in Hazard Mitigation Grant or First Responder Funding for Uniform Operating Funds	$250	$250	$250	$250
Federal Welfare Spending Mandate Relief	40	10	10	10
Flexible Use of Community Development Block Grant	20	20	--	--
Total	**$310**	**$280**	**$260**	**$260**

To achieve the $200 million in State actions and additional $200 million in Federal actions, the City has assembled a menu of State and Federal initiatives totaling $815 million and $310 million respectively, as shown in Table 29. These proposals will not result in any additional outlays by the State or the Federal government.

The City has begun preliminary discussion with the labor unions to identify productivity savings of $600 million. The City's proposals for productivity gains include payroll deductions for basic health insurance as well as increases in employees' co-payments, reductions in employees' vacation days and holidays, extension of the civilian work week to 40 hours, greater flexibility in work assignments and pension administration reform together with a new pension system for future employees.

Because the bulk of the budget relief hinges on the actions of parties outside of City government, the success of the gap-closing program is by no means certain. In fact, the Governor's recent State Executive Budget proposal is not supportive of the City's position. Not only did the Governor fail to include most of the State gap-closing actions but proposed education cuts and other actions in the Governor's budget result in a net loss of $844 million to the City. These actions considerably weaken the City's FY 2004 budget condition. If the State budget is enacted as proposed, the City will be forced to implement significant cuts in core services and to consider significant tax increases. These draconian measures would in turn produce adverse long-term consequences to the City's economy and its fiscal outlook. It is therefore crucial that the State share responsibility as a stakeholder in the City's economic health.

APPENDIX – I Federal Disaster Relief Aid

To help New York with its clean-up and rebuilding efforts following the events of September 11th, the Federal Government pledged more than $21 billion as part of a $40 billion national emergency aid proposal. The Federal Disaster Relief package contains three key elements: 1) $8.8 billion to help New York City finance the rescue, recovery, and clean-up efforts at the WTC site under the oversight of the Federal Emergency Management Agency (FEMA); 2) $5 billion in the Liberty Zone Package to provide economic stimulus to businesses in the lower Manhattan area largely through tax incentives and job creation; and 3) $3.5 billion for redevelopment of the WTC site and vicinity through the Lower Manhattan Development Corporation (LMDC) and the Empire State Development Corporation (ESDC). In addition, the package includes funding that supports a wide range of initiatives such as the upgrade and reconstruction of mass transit infrastructure, roadway and tunnel repairs, small business loans, and health monitoring.

Table 30. *Federal Disaster Relief Aid to New York City*

($ in billions)

Federal Funding	Appropriated	Released	Benefit
FEMA	$8.799	$2.347	Emergency/Recovery Work, Transit Projects and Aid to Individuals
Liberty Zone Package	5.029	0.489	Tax Benefits to Businesses/Refunding Savings
LMDC and ESDC	3.450	0.828	Business Compensation and Job Retention/Creation
All Other	4.091	0.000	Transit and Transportation Projects, Individual Assistance and Security
TOTAL	$21.369	$3.664	

As of February 6, 2003, FEMA has released $1.7 billion to reimburse the City and State for response and recovery efforts including costs relating to overtime, personnel expenses, replacement costs of lost equipment, the repair of public vehicles, and non-Federal transit and road repairs. Another $330 million has been granted to individuals and families who were affected by the disaster. These grants provide aid for expenses such as mortgages, rents, crisis counseling, food stamps, and unemployment benefits. The remaining funds that were released were primarily for small business assistance or loans.

The City indicates that the claiming process for FEMA reimbursement is still ongoing. Thus far, the City has filed $1.7 billion in claims, and FEMA has approved about $1.5 billion of this requested aid. The City has realized about $1.3 billion of this assumption.[36] In addition, the Federal government recently announced that it would release another $650 million in FEMA funding, which will provide fiscal relief to the

[36] This figure represents cumulative revenue received to date in FYs 2002 and 2003.

City. The January modification has already reflected the assumption that this additional aid will be received in FY 2003.

LMDC and ESDC have approved grants and loans of approximately $828 million through December 2003 to assist businesses and individuals in Lower Manhattan. About $514 million was granted to more than 20,000 companies as economic compensation for losses due to the September 11th attacks. Another $214 million was approved for more than 60 firms, enabling these companies to remain in Lower Manhattan and to create new jobs. Approximately $32 million was also approved in bridge loans for over 900 companies. The remaining funds were distributed as grants to small businesses and residents that chose to remain in or move to Lower Manhattan.

Among the revenue and tax benefits in the Liberty Zone Package is a potential benefit to the City that would be realized through advanced refunding of municipal bonds. The Federal Government has adjusted the law to provide the City flexibility in refunding its bonds. The City, thus far, expects to reap refinancing savings of up to $489 million from this amendment in FYs 2003 and 2004.

APPENDIX – II Revenue and Expenditure Details

Table A1. ***FY 2004 Preliminary Budget Revenue Detail***

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Taxes:						
Real Property	$11,294	$11,710	$12,133	$12,586	11.4%	$1,292
Personal Income Tax	$5,183	$5,559	$5,954	$6,287	21.3%	$1,104
General Corporation Tax	$1,274	$1,454	$1,574	$1,649	29.4%	$375
Banking Corporation Tax	$295	$369	$440	$473	60.3%	$178
Unincorporated Business Tax	$849	$921	$980	$1,042	22.7%	$193
Sale and Use	$3,601	$3,810	$3,989	$4,198	16.6%	$597
Commercial Rent	$413	$425	$435	$455	10.2%	$42
Real Property Transfer	$422	$455	$485	$526	24.6%	$104
Mortgage Recording Tax	$388	$418	$441	$476	22.7%	$88
Utility	$271	$279	$280	$285	5.2%	$14
All Other	$721	$748	$769	$781	8.3%	$60
Tax Audit Revenue	$522	$502	$502	$502	(3.8%)	($20)
PEG(HPD Lien Sale)	$0	$0	$0	$0	0.0%	$0
PEG Tax Initiative(PIT, Property)	$962	$658	$159	$0	(100.0%)	($962)
Total Taxes	$26,195	$27,308	$28,141	$29,260	11.7%	$3,065
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$352	$356	$350	$350	(0.6%)	($2)
Interest Income	$67	$95	$116	$126	88.1%	$59
Charges for Services	$480	$486	$484	$480	0.0%	$0
Water and Sewer Charges	$866	$887	$904	$914	5.5%	$48
Rental Income	$789	$187	$190	$193	(75.5%)	($596)
Fines and Forfeitures	$666	$665	$665	$665	(0.2%)	($1)
Miscellaneous	$378	$297	$249	$253	(33.1%)	($125)
Intra-City Revenue	$1,039	$1,036	$1,034	$1,033	(0.6%)	($6)
Total Miscellaneous	$4,637	$4,009	$3,992	$4,014	(13.4%)	($623)
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$228	$228	$228	$228	0.0%	$0
Total Unrestricted Intergovernmental Aid	$555	$555	$555	$555	0.0%	$0
Transitional Finance Authority 9/11	$0	$0	$0	$0	0.0%	$0
						$0
Anticipated State and Federal Aid:						$0
Anticipated State Aid	$0	$0	$0	$0	0.0%	$0
Anticipated Federal Aid	$0	$0	$0	$0	0.0%	$0
Total Anticipated Aid	$0	$0	$0	$0	0.0%	$0
Other Categorical Grants	$785	$688	$709	$725	(7.6%)	($60)
Inter Fund Agreements	$322	$320	$320	$320	(0.6%)	($2)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra City Revenue	($1,039)	($1,036)	($1,034)	($1,033)	(0.6%)	$6
TOTAL CITY FUNDS	**$31,440**	**$31,829**	**$32,668**	**$33,826**	**7.6%**	**$2,386**

Table A1 (Con't). *FY 2004 Preliminary Budget Revenue Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Federal Categorical Grants:						
Community Development	$265	$258	$243	$243	(8.3%)	($22)
Welfare	$2,157	$2,152	$2,156	$2,163	0.3%	$6
Education	$1,279	$1,261	$1,261	$1,261	(1.4%)	($18)
Other	$1,185	$479	$481	$484	(59.2%)	($701)
Total Federal Grants	**$4,886**	**$4,150**	**$4,141**	**$4,151**	(15.0%)	($735)
State Categorical Grants						
Welfare	$1,584	$1,591	$1,592	$1,590	0.4%	$6
Education	$5,802	$5,871	$5,938	$5,962	2.8%	$160
Higher Education	$164	$164	$164	$164	0.0%	$0
Department of Public Health	$471	$479	$484	$493	4.7%	$22
Other	$553	$553	$544	$546	(1.3%)	($7)
Total State Grants	**$8,574**	**$8,658**	**$8,722**	**$8,755**	2.1%	$181
TOTAL REVENUE	**$44,900**	**$44,637**	**$45,531**	**$46,732**	**4.1%**	**$1,832**

Table A2. *FY 2004 Preliminary Budget Expenditure Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Mayoralty	$69.305	$69.304	$69.304	$69.304	(0.0%)	($0.001)
Board of Elections	$58.204	$58.204	$58.204	$58.204	0.0%	$0.000
Campaign Finance Board	$16.668	$17.731	$17.731	$17.731	6.4%	$1.063
Office of the Actuary	$3.735	$3.736	$3.736	$3.736	0.0%	$0.001
President, Borough of Manhattan	$3.330	$3.330	$3.323	$3.323	(0.2%)	($0.007)
President, Borough of the Bronx	$4.943	$4.812	$4.748	$4.748	(3.9%)	($0.195)
President, Borough of Brooklyn	$4.260	$4.260	$4.207	$4.207	(1.2%)	($0.053)
President, Borough of Queens	$3.953	$3.953	$3.773	$3.773	(4.6%)	($0.180)
President, Borough of S.I.	$3.359	$3.359	$3.359	$3.359	0.0%	$0.000
Office of the Comptroller	$53.398	$53.398	$53.398	$53.398	0.0%	$0.000
Dept. of Emergency Management	$3.920	$3.920	$3.920	$3.920	0.0%	$0.000
Tax Commission	$1.885	$1.885	$1.885	$1.885	0.0%	$0.000
Law Department	$100.909	$100.338	$100.338	$100.338	(0.6%)	($0.571)
Department of City Planning	$17.438	$17.266	$17.266	$17.266	(1.0%)	($0.172)
Department of Investigation	$17.902	$17.662	$17.662	$17.662	(1.3%)	($0.240)
NY Public Library-Research	$16.188	$16.188	$16.188	$16.188	0.0%	$0.000
New York Public Library	$84.831	$84.831	$84.831	$84.831	0.0%	$0.000
Brooklyn Public Library	$62.058	$62.058	$62.058	$62.058	0.0%	$0.000
Queens Borough Public Library	$59.282	$59.282	$59.282	$59.282	0.0%	$0.000
Department of Education	$12,173.244	$12,250.023	$12,389.879	$12,533.406	3.0%	$360.162
City University	$457.809	$458.243	$457.879	$457.879	0.0%	$0.070
Civilian Complaint Review BD.	$10.241	$10.095	$10.095	$10.095	(1.4%)	($0.146)
Police Department	$3,224.149	$3,256.284	$3,253.744	$3,253.744	0.9%	$29.595
Fire Department	$1,042.320	$1,040.567	$1,039.214	$1,038.641	(0.4%)	($3.679)
Admin. for Children Services	$2,202.020	$2,210.014	$2,210.014	$2,210.014	0.4%	$7.994
Department of Social Services	$5,998.724	$6,140.678	$6,280.967	$6,297.060	5.0%	$298.336
Dept. of Homeless Services	$662.182	$662.577	$662.385	$662.884	0.1%	$0.702
Department of Correction	$841.227	$850.425	$844.379	$844.379	0.4%	$3.152
Board of Correction	$0.870	$0.870	$0.870	$0.870	0.0%	$0.000
Department of Employment	$90.689	$90.380	$90.380	$90.380	(0.3%)	($0.309)
Citywide Pension Contributions	$2,611.422	$3,246.411	$4,073.723	$4,566.540	74.9%	$1,955.118
Miscellaneous	$3,960.237	$4,209.843	$4,487.716	$4,761.746	20.2%	$801.509
Debt Service	$3,045.271	$3,446.501	$3,574.409	$3,788.138	24.4%	$742.867
M.A.C. Debt Service	$22.991	$490.400	$491.900	$494.100	2049.1%	$471.109
NYCTFA Debt Service				$1,012.659		$1,012.659
Public Advocate	$1.726	$1.726	$1.726	$1.726	0.0%	$0.000
City Council	$47.296	$47.296	$47.296	$47.296	0.0%	$0.000
City Clerk	$2.985	$2.865	$2.865	$2.865	(4.0%)	($0.120)
Department for the Aging	$185.995	$185.995	$185.995	$185.995	0.0%	$0.000
Department of Cultural Affairs	$102.481	$102.481	$102.481	$102.481	0.0%	$0.000
Financial Info. Serv. Agency	$35.229	$35.354	$35.244	$35.244	0.0%	$0.015
Department of Juvenile Justice	$100.910	$99.936	$103.936	$103.936	3.0%	$3.026
Office of Payroll Admin.	$10.242	$9.917	$9.857	$9.857	(3.8%)	($0.385)
Independent Budget Office	$2.384	$2.384	$2.384	$2.384	0.0%	$0.000

Table A2 (Con't). *FY 2004 Preliminary Budget Expenditure Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Equal Employment Practices Com	$0.556	$0.556	$0.556	$0.556	0.0%	$0.000
Civil Service Commission	$0.540	$0.540	$0.540	$0.540	0.0%	$0.000
Landmarks Preservation Comm.	$3.188	$3.188	$3.188	$3.188	0.0%	$0.000
Districting Commission	$0.000	$0.000	$0.000	$0.000		$0.000
Taxi & Limousine Commission	$23.155	$23.155	$23.155	$22.837	(1.4%)	($0.318)
Commission on Human Rights	$7.164	$7.164	$7.164	$7.164	0.0%	$0.000
Youth & Community Development	$117.696	$117.696	$117.696	$117.696	0.0%	$0.000
Conflicts of Interest Board	$1.500	$1.500	$1.500	$1.500	0.0%	$0.000
Office of Collective Barg.	$1.553	$1.553	$1.553	$1.553	0.0%	$0.000
Community Boards (All)	$11.942	$11.942	$11.942	$11.942	0.0%	$0.000
Department of Probation	$73.644	$73.140	$70.256	$70.256	(4.6%)	($3.388)
Dept. of Small Business Services	$27.716	$27.569	$27.943	$29.212	5.4%	$1.496
Housing Preservation & Dev.	$356.370	$352.197	$358.893	$358.348	0.6%	$1.978
Department of Buildings	$49.921	$49.921	$49.921	$49.921	0.0%	$0.000
Department of Public Health & Mental Hygiene	$1,314.502	$1,366.561	$1,394.796	$1,423.474	8.3%	$108.972
Health and Hospitals Corp.	$852.871	$870.975	$889.253	$889.253	4.3%	$36.382
Dept. of Environmental Prot.	$695.951	$694.726	$693.726	$693.726	(0.3%)	($2.225)
Department of Sanitation	$950.358	$964.509	$964.509	$964.509	1.5%	$14.151
Business Integrity Commission	$5.054	$4.904	$4.904	$4.904	(3.0%)	($0.150)
Department of Finance	$183.794	$183.005	$183.005	$183.005	(0.4%)	($0.789)
Department of Transportation	$428.813	$432.103	$431.892	$431.963	0.7%	$3.150
Dept. of Parks and Recreation	$176.757	$179.480	$179.480	$179.480	1.5%	$2.723
Dept. of Design & Construction	$86.007	$86.007	$86.007	$86.007	0.0%	$0.000
Dept. of Citywide Admin. Services	$237.081	$242.222	$241.322	$241.322	1.8%	$4.241
D.O.I.T.T.	$88.398	$87.277	$90.342	$89.795	1.6%	$1.397
Dept. of Records & Info. Serv.	$3.214	$3.215	$3.215	$3.215	0.0%	$0.001
Department of Consumer Affairs	$13.381	$13.307	$13.281	$13.394	0.1%	$0.013
District Attorney - N.Y.	$64.338	$64.338	$64.338	$64.338	0.0%	$0.000
District Attorney – Bronx	$38.559	$38.559	$38.559	$38.559	0.0%	$0.000
District Attorney – Kings	$63.658	$63.658	$63.658	$63.658	0.0%	$0.000
District Attorney – Queens	$33.727	$33.727	$33.727	$33.727	0.0%	$0.000
District Attorney – Richmond	$5.574	$5.574	$5.574	$5.574	0.0%	$0.000
Off. Of Prosec. & Spec. Narc.	$13.946	$13.946	$13.946	$13.946	0.0%	$0.000
Public Administrator - N.Y.	$1.042	$1.042	$1.042	$1.042	0.0%	$0.000
Public Administrator – Bronx	$0.357	$0.357	$0.357	$0.357	0.0%	$0.000
Public Administrator – Brooklyn	$0.480	$0.480	$0.480	$0.480	0.0%	$0.000
Public Administrator – Queens	$0.373	$0.373	$0.373	$0.373	0.0%	$0.000
Public Administrator – Richmond	$0.252	$0.252	$0.252	$0.252	0.0%	$0.000
State and Federal Actions	$375.000	($775.000)	($975.000)	($975.000)	(360.0%)	($1,350.000)
General Reserve	$300.000	$300.000	$300.000	$300.000	0.0%	$0.000
Energy Adjustment	$11.853	$20.741	$29.191	$29.191	146.3%	$17.338
Lease Adjustment	$18.621	$34.805	$50.485	$65.931	254.1%	$47.310
OTPS Inflation Adjustment	$33.764	$69.712	$106.702	$144.734	328.7%	$110.970
City-Wide Totals	**$44,900.192**	**$46,131.393**	**$47,537.871**	**$48,765.454**	**8.6%**	**$3,865.262**

Table A3. *January 2003 Ten Year Plan Comparison*

($ in millions)

Agency Program	Projected Capital Commitments April-01 City Funds	Projected Capital Commitments April-01 All Funds	% of Total	Projected Capital Commitments January-03 City Funds	Projected Capital Commitments January-03 All Funds	% of Total	Change in Total Funds
Education	$13,313,508	$13,343,508	24.5%	$9,748,246	$9,748,246	24.2%	(3,595,262)
Bridges	$5,386,891	$5,958,065	11.0%	$3,401,330	$4,467,886	11.1%	(1,490,179)
Housing	$4,400,435	$4,997,495	9.2%	$3,201,315	$3,661,557	9.1%	(1,335,938)
Water Pollution Control	$4,269,644	$4,525,075	8.3%	$3,271,503	$3,523,750	8.8%	(1,001,325)
Highways	$3,406,251	$3,606,408	6.6%	$2,635,591	$2,795,251	6.9%	(811,157)
Water Mains	$2,219,840	$2,219,840	4.1%	$2,442,455	$2,442,455	6.1%	222,615
Sanitation	$2,875,638	$2,875,638	5.3%	$2,256,319	$2,269,569	5.6%	(606,069)
Corrections	$1,833,998	$1,833,998	3.4%	$1,413,192	$1,416,942	3.5%	(417,056)
Courts	$1,366,121	$1,380,785	2.5%	$1,201,468	$1,201,468	3.0%	(179,317)
Sewers	$1,171,832	$1,171,832	2.2%	$1,005,095	$1,005,095	2.5%	(166,737)
Public Buildings	$1,320,965	$1,321,834	2.4%	$946,917	$946,917	2.4%	(374,917)
Mass Transit	$1,405,750	$1,405,750	2.6%	$748,140	$748,140	1.9%	(657,610)
Water Supply	$861,571	$861,571	1.6%	$661,500	$661,500	1.6%	(200,071)
Economic Development	$1,064,178	$1,282,706	2.4%	$637,629	$637,629	1.6%	(645,077)
Parks & Recreation	$1,009,748	$1,024,930	1.9%	$593,761	$601,157	1.5%	(423,773)
Traffic	$374,231	$478,961	0.9%	$286,038	$501,659	1.2%	22,698
Fire	$683,048	$683,048	1.3%	$443,043	$443,043	1.1%	(240,005)
Police	$824,286	$824,286	1.5%	$438,601	$438,601	1.1%	(385,685)
Cultural Affairs	$587,880	$599,201	1.1%	$405,798	$415,883	1.0%	(183,318)
Data Processing Equipment	$643,289	$643,289	1.2%	$350,121	$350,121	0.9%	(293,168)
DEP Equipment	$415,578	$506,709	0.9%	$270,153	$342,716	0.9%	(163,993)
Franchise Transportation	$32,721	$242,488	0.4%	$24,148	$261,596	0.6%	19,108
Hospitals	$728,449	$728,449	1.3%	$217,207	$217,207	0.5%	(511,242)
Homeless Services	$322,265	$322,265	0.6%	$209,109	$209,109	0.5%	(113,156)
Human Resources	$156,575	$222,147	0.4%	$115,159	$171,970	0.4%	(50,177)
Children's Services	$204,278	$237,969	0.4%	$126,181	$143,579	0.4%	(94,390)
Housing Authority	$141,856	$141,856	0.3%	$111,086	$111,086	0.3%	(30,770)
Health	$169,536	$169,536	0.3%	$95,929	$98,929	0.2%	(70,607)
CUNY	$64,076	$114,414	0.2%	$57,382	$96,304	0.2%	(18,110)
Ferries	$181,882	$221,682	0.4%	$74,109	$74,109	0.2%	(147,573)
Transportation Equip.	$113,808	$113,808	0.2%	$66,808	$66,808	0.2%	(47,000)
Real Property	$82,560	$82,560	0.2%	$47,014	$47,014	0.1%	(35,546)
New York Public Library	$59,609	$59,609	0.1%	$43,304	$43,304	0.1%	(16,305)
Brooklyn Public Library	$35,036	$35,036	0.1%	$33,591	$33,591	0.1%	(1,445)
Aging	$43,919	$43,919	0.1%	$28,783	$28,783	0.1%	(15,136)
Queens Public Library	$24,311	$24,311	0.04%	$16,073	$16,073	0.04%	(8,238)
Juvenile Justice	$82,959	$87,440	0.2%	$14,379	$14,379	0.04%	(73,061)
New York Research Lib.	$13,446	$13,446	0.02%	$5,642	$5,642	0.01%	(7,804)
Grand Total	$51,891,968	$54,405,864	100.00%	$37,644,119	$40,259,068	100.00%	(14,146,796)

GLOSSARY OF ACRONYMS

AAV	Actuarial Assets Value
BAV	Billable Assessed Value
BCT	Banking Corporation Tax
BERS	Board of Education Retirement System
COLA	Cost of Living Adjustment
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DCA	Department of Cultural Affairs
DEP	Department of Environmental Protection
DRM	Disaster Relief Medicaid
DOE	Department of Education
DOT	Department of Transportation
DOS	Department of Sanitation
EDC	Economic Development Corporation
ESDC	Empire State Development Corporation
FA	Family Assistance

FEMA	Federal Emergency Management Association
FHP	Family Health Plus
FIRE	Finance, Insurance and Real Estate
FTE	Full-Time Equivalents
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
JFK	John F. Kennedy Airport
J&C	Judgments and Claims
LMDC	Lower Manhattan Development Corporation
MAC	Municipal Assistance Corporation
MRT	Mortgage Recording Tax
MTA	Metropolitan Transportation Authority
MTS	Marine Transfer Stations

MV	Market Value
MVA	Market Value of Assets
NYC	New York City
NYCERS	New York City Employees Retirement System
NYS	New York State
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
NYCWFA	New York City Water Finance Authority
OMB	Office of Management and Budget
OTPS	Other Than Personal Services
PA	Public Assistance
PA	Port Authority of New York and New Jersey
PEG	Program to Eliminate the Gap (an action that is part of a gap-closing program)
PI	Personal Injury
PIT	Personal Income Tax
PS	Personal Services

PYTCS	Preliminary Ten-Year Capital Strategy
RPTT	Real Property Transfer Tax
SNA	Safety Net Assistance
STAR	School Tax Relief Program
TANF	Temporary Assistance to Needy Family
TRS	Teachers' Retirement System
TSASC	Tobacco Settlement Asset Securitization Corporation
TYCS	Ten Year Capital Strategy
UBT	Unincorporated Business Tax
U.S.	United States
WTC	World Trade Center