The Comptroller's Comments on the Fiscal Year 2006 Executive Budget

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

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I. Executive Summary

An extraordinary surge in FY 2005 revenues is enabling the City to end the current fiscal year with an unprecedented surplus of $3.3 billion. The FY 2006 Executive Budget presented by the Mayor on May 5, 2005 would use the entire surplus to balance the FY 2006 budget. Because the extraordinary revenue growth that generated this year's surplus is not expected to continue, large gaps characterize subsequent years of the financial plan.

The windfall generated in FY 2005 will allow the City to address some of the quantifiable risks cited by the Comptroller's Office in response to the January Preliminary Financial Plan. In particular, the previous plan assumed that $750 million of State and federal gap-closing assistance would be available in FY 2006. This assumption has been reduced to a much more modest amount of $50 million.

Risks And Offsets To The FY 2006 Budget

The Comptroller's Office has identified $665 million in risks in the Executive Budget for Fiscal Year 2006. The largest risk results from the cost of retroactive collective bargaining agreements with the teachers' and the uniformed employees' unions. The pattern set by other settled contracts includes wage increases that are partly offset by productivity savings. The administration has maintained that similar provisions would apply to the outstanding contracts and has set aside reserves accordingly. However, the inability to reach labor agreements in a timely fashion makes it far more difficult for the City to achieve its goal of funding raises through offsetting productivity. The Comptroller's Office estimates the additional cost of funding the retroactive wage increases will be $455 million in FY 2006.

Overtime costs and the introduction of a new State social services block grant account for the remaining risks. The City has been unable to limit overtime costs to budgeted targets, making this a chronic management problem for City agencies, especially the Police Department. Additionally, the State has enacted a social services block grant that could require service reductions unless the City replaces $35 million in funding.

The Comptroller's Office projects higher tax revenues of $485 million that may be available to offset these risks in FY 2006. Of this amount, $240 million is attributable to the sales tax. The City is unlikely this year to attain its worthy goal of reinstating the sales tax exemption on clothing and footwear items costing up to $110, and baseline sales tax collections should be greater than the City projects by $10 million. The Comptroller's Office expects other tax collections to be greater for economic reasons. These offsets reduce the net risk to the FY 2006 budget to $180 million.

Other Concerns

In addition to the risks identified by the Comptroller's Office, the Executive Budget raises other concerns. Among these are issues that may affect expenses in FY 2006, but whose outcomes are uncertain or difficult to quantify. First, while the

Comptroller's Office has identified the risk pertaining to the retroactive portion of collective bargaining agreements with teachers and uniformed personnel, overall wage increases could be greater than the City has planned. Each additional percentage point increase will cost the City $145 million annually.

Second, the City's Chief Actuary has recommended a number of adjustments that would affect the City's pension obligations. These recommended adjustments taken as a whole would reduce the City's projected costs by $764 million in FY 2006. However, the Executive Budget includes costs of $325 million to reflect only some of the actuarial recommendations. Additionally, the Boards of the five pension systems must approve the Actuary's recommendations, some of which require State legislation.

Third, the financial condition of the Health and Hospitals Corporation (HHC) continues to be a cause for concern. In recent years, the City has prepaid significant portions of its subsidy a year early to keep HHC's year-end cash balances at a respectable level. However, a more viable way of addressing this problem is to recognize the need for an adequate level of support from the outset. Given recent subsidy levels, an adequate level of support could necessitate an infusion of at least $200 million in FY 2006.

Another area of concern is the issue of transparency in the Department of Education budget. In FY 2006, the Department of Education will begin to reflect its budget in broad units of appropriation that will diminish the level of budget detail needed for citizens to evaluate fully the Department's performance. Units of appropriation should reflect school operations in meaningful detail.

Outyear Gaps

The outyears of the financial plan period show large budget gaps of $4.473 billion in FY 2007, $4.236 billion in FY 2008, and $3.703 billion in FY 2009. These gaps reflect the fact that non-recurring resources used to balance the FY 2006 budget will not be available to fund recurring and growing expenses in future years. Spending growth will be driven by pension costs, debt service, and employee health care costs. Medicaid costs, which have been rising rapidly, are to be capped by State actions going forward. Outyear gaps could be exacerbated by developments such as a resolution of the CFE school finance lawsuit that results in a local funding requirement or inadequate reserves for future collective bargaining agreements. In addition, the level of Medicaid spending in the outyears reflects sizable savings from the State guarantee of capped Medicaid costs to local governments; a reversal of this action could increase the gaps substantially.

The pattern of significant current-year surpluses accompanied by large outyear budget gaps is by now a familiar one. In part, it reflects a conservative approach to revenue forecasting. However, the conservative revenue forecasting strategy is not matched by planned spending. Consequently, adopted budgets are balanced with non-recurring resources while higher-than-projected tax revenues contribute to year-end surpluses. These surpluses are used to fund recurring spending in the following year's budget, leaving little or nothing in reserve for unanticipated downturns.

In short, the City's heavy reliance on year-to-year surpluses to balance the budget is unsustainable over the long term, because surpluses can disappear quickly and without notice. Given the City's volatile revenue base, in times of fiscal stress budget balance is often achieved at the expense of continuity of City services, higher taxes, or costs to future taxpayers because no other resources have been set aside for use in downturns. The actions taken to balance the FY 2003 and FY 2004 budgets—which included issuing $1.5 billion in debt for operating purposes, implementing service cuts, and imposing increases in several taxes—serve as a case in point.

It would be a much better practice to put some portion of budget surpluses aside specifically to be used as a reserve during unanticipated downturns. The establishment of a Rainy Day Fund (RDF) would reduce the need for the counter-productive actions that are typically taken in response to budget shortfalls. An RDF would serve the dual purpose of cushioning services during downturns and creating incentives for better fiscal management and restraint in good years. Any changes to the City Charter and modifications to State law required to implement a Rainy Day Fund would be well worth the effort.

Table 1. FYs 2006-2009 Financial Plan

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FY 2006-FY 2009 Dollar	Changes FY 2006-FY 2009 Percent
Revenues						
Taxes:						
General Property Tax	$12,479	$13,216	$14,176	$14,850	$2,371	19.0%
Other Taxes	17,208	17,352	17,518	18,472	1,264	7.3
Tax Audit Revenues	512	509	509	509	(3)	(0.6)
Tax Reduction Program	(235)	(177)	(17)	(38)	197	(83.8)
Miscellaneous Revenues	4,765	4,462	4,485	4,506	(259)	(5.4)
Unrestricted Intergovernmental Aid	562	562	562	562	0	0.0
Anticipated State & Federal Actions	50	0	0	0	(50)	(100.0)
Less: Intra-City Revenues	(1,249)	(1,249)	(1,249)	(1,249)	0	0.0
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)	0	0.0
Subtotal: City Funds	$34,077	$34,660	$35,969	$37,597	$3,520	10.3%
Other Categorical Grants	923	927	932	938	15	1.6
Inter-Fund Revenues	364	355	343	343	(21)	(5.8)
Total City & Inter-Fund Revenues	$35,364	$35,942	$37,244	$38,878	$3,514	9.9%
Federal Categorical Grants	5,081	4,858	4,848	4,847	(234)	(4.6)
State Categorical Grants	9,279	9,361	9,421	9,464	185	2.0
Total Revenues	$49,724	$50,161	$51,513	$53,189	$3,465	7.0%
Expenditures						
Personal Service						
Salaries and Wages	$17,771	$18,018	$18,246	$18,518	$747	4.2%
Pensions	4,762	5,018	4,911	4,783	21	0.4
Fringe Benefits	5,552	5,811	6,154	6,477	925	16.7
Subtotal-PS	$28,085	$28,847	$29,311	$29,778	$1,693	6.0%
Other Than Personal Service						
Medical Assistance	$5,024	$5,172	$5,319	$5,458	$434	8.6%
Public Assistance	2,408	2,353	2,353	2,353	(55)	(2.3)
Pay-As-You-Go Capital	200	200	200	200	0	0.0
All Other	13,902	13,885	14,005	14,184	282	2.0
Subtotal-OTPS	$21,534	$21,610	$21,877	$22,195	$661	3.1%
Debt Service						
Principal	$1,427	$1,720	$1,711	$1,730	$303	21.2%
Interest & Offsets	1,951	2,451	2,816	3,150	1,199	61.5
Total	$3,378	$4,171	$4,527	$4,880	$1,502	44.5%
Prepayment	(3,271)	0	0	0	3,271	(100.0)
NYCTFA						
Principal	$341	$369	$414	$432	$91	26.7%
Interest & Offsets	606	586	569	556	(50)	(8.3)
Total	$947	$955	$983	$988	$41	4.3%
General Reserve	300	300	300	300	0	0.0
	$50,973	$55,883	$56,998	$58,141	$7,168	14.1%
Less: Intra-City Expenses	(1,249)	(1,249)	(1,249)	(1,249)	0	0.0
Total Expenditures	$49,724	$54,634	$55,749	$56,892	$7,168	14.4%
Gap To Be Closed	**$0**	**($4,473)**	**($4,236)**	**($3,703)**	**($3,703)**	

NOTE: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.

Table 2. Plan to Plan Changes, Adopted Budget FY 2005 vs. Executive Budget FY 2006

($ in millions)

	FY 2006	FY 2007	FY 2008
Revenues			
Taxes:			
General Property Tax	$65	$256	$649
Other Taxes	1,509	1,200	535
Tax Audit Revenues	4	0	0
Tax Reduction Program	70	133	47
Miscellaneous Revenues	486	231	221
Unrestricted Intergovernmental Aid	0	0	0
Anticipated State & Federal Actions	(350)	(400)	(400)
Less: Intra-City Revenues	(118)	(119)	(119)
Disallowances Against Categorical Grants	0	0	0
Subtotal: City Funds	$1,666	$1,301	$933
Other Categorical Grants	93	87	93
Inter-Fund Revenues	29	24	12
Total City & Inter-Fund Revenues	$1,788	$1,412	$1,038
Federal Categorical Grants	435	223	223
State Categorical Grants	719	726	715
Total Revenues	$2,942	$2,361	$1,976
Expenditures			
Personal Service			
Salaries and Wages	$507	$765	$1,093
Pensions	655	503	409
Fringe Benefits	121	89	86
Subtotal-PS	$1,283	$1,357	$1,588
Other Than Personal Service			
Medical Assistance	$27	($22)	($82)
Public Assistance	106	50	50
Pay-As-You-Go Capital	0	0	0
All Other	1,118	923	865
Subtotal-OTPS	$1,251	$951	$833
Debt Service			
Principal	($90)	$80	$89
Interest & Offsets	1	64	139
Total	($89)	$144	$228
Prepayment	(3,051)	0	0
NYCTFA			
Principal	($8)	($18)	$3
Interest & Offsets	0	(3)	(2)
Total	($8)	($21)	$1
General Reserve	0	0	0
	($614)	$2,431	$2,650
Less: Intra-City Expenses	(118)	(119)	(119)
Total Expenditures	($732)	$2,312	$2,531
Gap To Be Closed	$3,674	$49	($555)

Note: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.
As FY 2005, June 2004 Financial Plan did not include a forecast for FY 2009, plan-to-plan changes are unavailable for that fiscal year.

Table 3. FYs 2006-2009 Risks and Offsets

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
City Stated Gap	**$0**	**($4,473)**	**($4,236)**	**($3,703)**
Tax Revenue Assumptions				
Personal Income Tax	$80	$65	($40)	($175)
Business Taxes	90	15	(25)	(150)
Sales Tax	240	165	(20)	(100)
Real Estate Transaction Taxes	50	85	55	0
All Other Taxes	25	45	20	20
Subtotal	**$485**	**$375**	**($10)**	**($405)**
Expenditure Projections				
Uniformed and Teachers' Labor Productivity Savings	($455)[a]	($370)	($370)	($370)
Overtime	(175)	(75)	(75)	(75)
Flex Fund for Family Services	(35)	(75)	(75)	(75)
Subtotal	**($665)**	**($520)**	**($520)**	**($520)**
Total Risk	**($180)**	**($145)**	**($530)**	**($925)**
Restated Gap	**($180)**	**($4,618)**	**($4,766)**	**($4,628)**

[a] The $455 million risk includes $100 million in retroactive cost of the partial impact of the increase for FY 2005 and the full year cost of $357 million in FY 2006.

II. Balancing the FY 2006 Budget

On May 5, 2005, the City released its FY 2006 Executive Budget that projects a balanced budget of $49.7 billion.[1] The FY 2006 Executive Budget closes a $3.7 billion gap projected in the June 2004 Financial Plan and funds additional agency spending of $1.7 billion, as shown in Table 4. This is made possible mainly as a result of improved revenue collections in FY 2005 that are benefiting FY 2006. Since budget adoption in June 2004, the City has accumulated a record $3.3 billion FY 2005 surplus that will be used to prepay certain FY 2006 expenses, and has increased its FY 2006 revenue projections by $1.8 billion. These resources will be supplemented with $563 million in additional gap-closing actions.

Table 4. Changes to the City's FY 2006 Estimates `

($ in millions, positive numbers decrease the gap)

June 2004 Gap	**$3,674**
Changes to Revenue Projections	
Tax Revenues	$1,648
Non-Tax Revenues	490
Anticipated State and Federal Actions	(350)
Total Revenue	**$1,788**
Changes to Expenditure Estimates	
Agency Spending	($1,728)
Gap-Closing Actions	563
Prepayment	3,051
Total Expenditure	**$1,886**
Executive Budget Gap	**$0**

NOTE: Revenues include the portion of PIT retained for NYCTFA debt service.

Tax revenue growth has exceeded expectations substantially. In FY 2005, real estate transaction tax and personal income tax (PIT) revenues together have exceeded the June 2004 Financial Plan forecast by $2.1 billion. Historically low mortgage rates and a robust real estate market continue to fuel real estate transactions in FY 2005, while job growth and gains in wages and non-wage earnings contribute to the growth in PIT revenue. In FY 2006, tax revenues are projected to be $1.6 billion higher than at the time of budget adoption in June 2004. Revisions to property, personal income, business and real-estate transaction tax revenues account for $1.5 billion of this increase.

City-fund expenditures are expected to total $35.4 billion in FY 2006, an increase of $1.9 billion from the June 2004 Financial Plan projection. The largest increase is $649 million in City pension contributions, mainly the result of $222 million in

[1] Revenues include the portion of personal income tax (PIT) revenue that is retained for New York City Transitional Finance Authority (NYCTFA) debt service. Expenditures include NYCTFA debt service.

reallocation of baseline cost and $325 million from anticipated changes to actuarial assumptions, as discussed in “Pension” beginning on page 20.

A. THE USE OF NON-RECURRING RESOURCES

To balance the FY 2006 budget, the City is relying on $3.7 billion in non-recurring resources because recurring expenditures far exceed recurring revenues. The non-recurring resources consist mostly of prepayments that will draw down the entirety of an unprecedented prior year surplus of $3.3 billion, none of which is planned to be available to benefit FY 2007.[2] Without these prepayments FY 2006 total-fund expenditure would be $53.9 million.

Adjusting for prepayments, FY 2006 City-fund expenditures will be $38.6 billion, representing spending growth of 7.4 percent from FY 2005. The growth is driven by spending on pension contributions, health insurance, judgments and claims, Medicaid, and debt service, which together are projected to grow by 13.2 percent.

FY 2006 City-fund revenues are projected to be $35.4 billion, a drop of 4.0 percent from FY 2005. However, FY 2005 revenues include a one-time payment of $744 million from the Port Authority of New York and New Jersey for retroactive rents and past underpayments for LaGuardia and JFK airports, and $631 million from State reimbursement for MAC debt service. After adjusting for these non-recurring revenues, FY 2006 revenues are expected to remain relatively flat, declining 0.4 percent from the adjusted FY 2005 revenue of $35.5 billion. This modest decline, despite projected economic growth, is due primarily to the expiration of the temporary tax increases enacted in 2003.

The use of the FY 2005 surplus to balance the FY 2006 budget is a departure from past practice of adding to the surplus and rolling it into the following year during times of economic growth. In fact, the projected prepayment of $3.3 billion is the largest ever made by the City, as reflected in Chart 1. The second largest prepayment was used to benefit the FY 2002 budget which ultimately required additional resources because of the recession and terrorist attack on the World Trade Center.

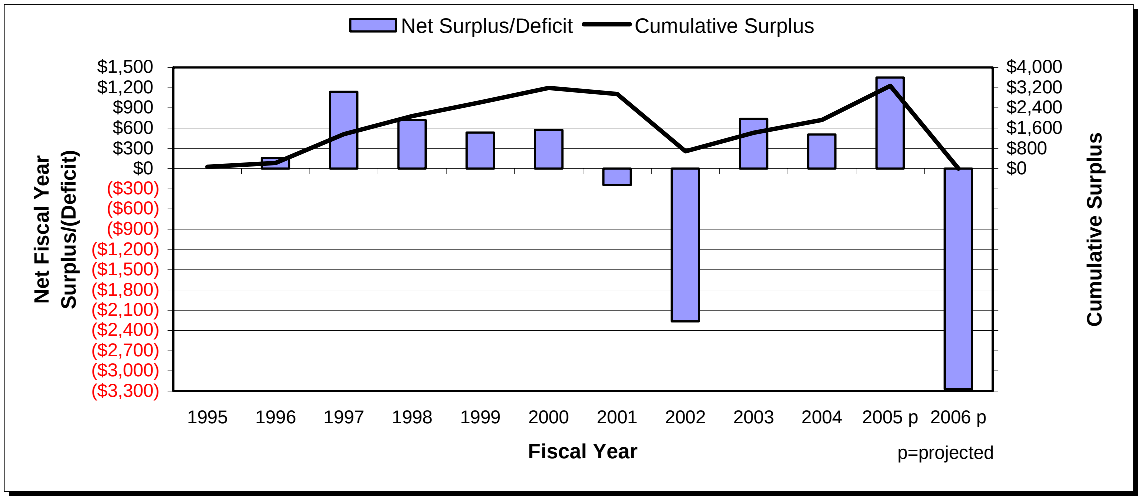
Since the reliance on the surplus to close the gap does not address the underlying structural imbalance between revenue and expenditure growth, large budget gaps characterize the outyears. The City expects to face gaps of $4.5 billion, $4.2 billion, and $3.7 billion in FYs 2007, 2008 and 2009, respectively. The use of the surplus during a period of economic growth and the ensuing budget gaps underscore the City’s need to seek changes in State law and City Charter to establish a Rainy Day Fund (RDF). An RDF would require a certain amount of surplus resources to be set aside to address

[2] The use of the $3.3 billion surplus consists of prepayments of $1.8 billion for debt service, $208 million for Transit Authority (TA) subsidy, $172 million for Health and Hospitals Corporation (HHC) subsidy, $152 million for library subsidies, and a transfer of $947 million to NYCTFA that will reduce PIT retention for NYCTFA debt service by a like amount in FY 2006.

shortfalls in years marked by economic downturns. This would help to smooth out the City's volatile revenue stream and impose fiscal discipline in periods of economic growth.

Chart 1. ***Use of Surpluses***
FY 1995-FY 2006

($ in millions)



NOTE: 1) Net surplus or deficit is the difference between revenues and expenditures after adjusting for prepayments. For example, FY 2002 revenues and expenditures before adjusting for prepayments were $40.87 billion and $40.86 billion, respectively. FY 2002 expenditures reflect a prepayment of FY 2002 obligations in FY 2001, which reduced FY 2002 expenditures by $2.94 billion, and a prepayment of FY 2003 obligations in FY 2002, which increased FY 2002 expenditures by $681 million. FY 2002 expenditures, after adjusting for these prepayments, were $43.12 billion, resulting in a net deficit of $2.3 billion for FY 2002

2) The FY2003 surplus was made possible with proceeds of $1.5 billion from a NYCTFA disaster related bond issuance. Without the $1.5 billion borrowing, the City would have been confronted with a $764 million deficit.

B. RISKS AND OFFSETS TO RISKS

While the City has presented a balanced budget for FY 2005, there are significant risks to the budget. As Table 3 on page 3 shows, the Comptroller's Office estimates that the City may have under-budgeted FY 2006 expenditures by about $665 million. However, the City's revenue forecast appears to be conservative and higher-than-projected revenues could offset the expenditure risk by $485 million. As a result, the Comptroller's Office projects net risks of $180 million, $145 million, $530 million, and $925 million for FYs 2006, 2007, 2008, and 2009, respectively.

The Comptroller's Office anticipates that sales tax revenues in excess of the City's projection will offset about half the risk to the City's FY 2006 expenditure estimates. The City's sales tax revenues forecast is predicated on the assumption that the City will accelerate the reinstatement of its share of the sales tax exemption on purchase of clothing and footwear under $110 from April 2007 to June 2005. However, it is more likely that the City's share of the sales tax exemption will be restored in April 2007, resulting in additional sales tax revenue of $230 million in FY 2006. The remaining offsets to risks stem mainly from the higher estimates for personal and business tax revenues by the Comptroller's Office compared with the Executive Budget projections.

Funding for the next round of collective bargaining for teachers and uniformed employees whose contracts expired in FYs 2002 and 2003 presents the largest risk to the budget. The City has included in its budget projections funding for teachers', police officers', and firefighters' labor settlements patterned after the DC 37 2002-2005 contract. The DC 37 contract provides for a lump sum payment of $1,000 upon ratification of the contract, a 3 percent increase on the 13th month of the contract and a second increase of 2 percent on the 25th month of the contract to be funded with productivity savings. Since the contracts for teachers and uniformed employees expired in FY 2002 and FY 2003, it is not possible to fund the second increase retroactive with productivity savings. The cost to the City of the second increase of 2 percent for teachers and uniformed employees is $100 million for FY 2005, $355 million for FY 2006, and $370 million in the outyears. It appears unlikely that any contract agreement will be ratified before the end of the current fiscal year. As such, the City will have to fund the FY 2005 cost in FY 2006, resulting in additional FY 2006 labor cost of $455 million.

The uncertainty of the outcomes of the teachers', police officers', and firefighters' contracts that were presented to the Public Employment Relations Board (PERB) for impasse proceeding could also impose additional cost to the City. Any settlement of the contracts for teachers and uniformed employees that exceeds the DC 37 settlement would result in additional cost to the City. Every percentage point increase in wages and salaries above that of the DC 37 settlement would cost the City $145 million.

Overtime spending also poses a significant risk to the budget. As discussed in "Overtime" beginning on page 17 the Comptroller's Office estimates that FY 2006 overtime expenditure may be $175 million higher than the City's projection. In addition the City has not taken into account the full impact from the new Flex Fund for Family Services, which as discussed in "Federal and State Aid" beginning on page 15, could require additional City funding of up to $35 million to maintain the same level of service.

Additional resources could emerge in FY 2006. As discussed in "Pension" beginning on page 20, it appears that the City was conservative in its estimates of City pension contributions. While the Chief Actuary has recommended a set of changes, the City's projected pension contributions of $4.6 billion reflects only a portion of those changes. It is likely that if the Chief Actuary's recommendations were to be adopted, some of the recommended changes that would result in savings to the City would also be adopted. If all of the Chief Actuary's recommendations were adopted, pension contributions could be $764 million, $523 million, and $6 million below the City's projections for FYs 2006, 2007, and 2008, respectively. However, contributions would be $180 million above the City's estimate by FY 2009. If none of the recommendations are adopted, the City's FY 2006 contribution would be $287 million below current estimates. Thus, the potential lower pension contributions could provide a significant cushion against FY 2006 or FY 2007 expenditure.

While they do not pose a risk to the FY 2006 budget, the Campaign for Fiscal Equity (CFE) decision and the City's Medicaid growth assumptions could expose the City to significant cost pressure in the outyears. The City's DOE expenditure projections do not contain any funding for the CFE decision as the City is assuming that this will be the State's responsibility. However, the State may require the City to pay a portion of the CFE funding, which could add significant cost to the outyears of the Financial Plan. Lastly, Medicaid spending projections in the outyears reflect the State's initiative to cap localities' Medicaid spending growth at 3.25 percent in FY 2007 and 3.0 percent in 2008 and beyond. Under this initiative, the State would absorb all expenditures in excess of this cap. However, the State could face its own fiscal challenges in the outyears and any reversal of this measure could impose significant burden on the City's expenditures in the outyears.

III. The City's Economic Outlook

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2005-2009

The Comptroller forecasts strong economic growth in 2005, with 30,000 new jobs, followed by slower growth in 2006-2009, when job growth will average 27,000 new jobs per year. The Comptroller's employment forecast is associated with real Gross City Product (GCP) growth of 3.3 percent in 2005, followed by an average growth rate of 2.6 percent in the following four years.

The Administration's employment forecast is more optimistic than that of the Comptroller's Office. The Executive Budget forecast calls for 10,000 more net new jobs in 2005 than the Comptroller's Office projects and an average of 30,000 new jobs per year in the following four years. The Executive Budget forecasts GCP growth of 2.6 percent in 2005, on par with the average growth rate in the following four years. The Administration is projecting higher interest rates which imply higher mortgage rates. The Administration forecasts a slowing down in FY 2006 of the intense pace of home sales and mortgage refinancings.

Overall, the Comptroller's GCP forecast is more optimistic than the Administration's in the near term, while the Administration's forecast shows more robust growth in 2008 and 2009, as shown in Table 5.

Three leading indicators of the City's economic performance improved in the first quarter of 2005. The NYC business conditions index is the NAPM-NY's composite gauge of current NYC business conditions. It averaged 338.9 in the first quarter of 2005, which was 27.7 percent higher than the first quarter of 2004.

The number of NYC building permits authorized rose 8.1 percent in the first quarter of 2005, on a year-over-year basis. According to the Conference Board, the NYC help-wanted-advertising index rose 16 percent in the first quarter of 2005 compared to the first quarter of 2004. This index uses the monthly advertising volume in major newspapers to provide a measure of the supply of jobs.

Based on these leading indicators, the Comptroller's Office believes that 2005 will be a good economic year for the City, with growth subsiding in subsequent years (See Table 5).

Table 5. NYC Forecasts of (1) Change in GCP, Percent, and (2) Change in Payroll Jobs, Year-over-Year, Calendar Years 2005-2009

		2005	2006	2007	2008	2009
Change in GCP, percent	Comptroller	3.3	2.9	2.7	2.4	2.4
	Mayor	2.6	1.7	0.6	3.9	4.0
Change in Payroll Jobs, '000	Comptroller	30.0	28.0	26.0	25.0	28.0
	Mayor	39.9	37.8	24.8	26.4	31.4

Source: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the Mayor (Office of Management and Budget) in the Executive Budget, 2005-2009.

B. UNDERLYING FACTORS AFFECTING THE FORECAST

Underlying the economic forecast for the City are the outlook for the national and international economies and issues surrounding the economic competitiveness of New York City.

At the national level, a number of developments are expected to dampen overall demand. Short-term interest rates are expected to continue rising, with the Federal Funds rate expected to increase to 3.5 percent later this year, a 2.5 percentage point increase since June 2004. Higher interest rates are expected to dampen consumer spending and private investment. In addition, consumer spending will be squeezed because of the higher cost of living, higher oil prices, weak job and income growth, and high debt burdens. Large and growing government deficits may lead to government spending reductions or tax increases, reducing demand.

Internationally, higher oil prices continue to exert pressure on the economy. Every one-cent increase at the pump reduces U.S. consumer spending on other goods by one billion dollars per year. According to the Energy Information Administration (EIA), the national average gasoline price per gallon is projected to be $2.12 in 2005, compared with $1.89 in 2004. This implies a redirection of consumer spending of $24.7 billion.

The status of currency exchange rates is the subject of speculation and uncertainty. The dollar has depreciated against the euro, but not against Asian currencies such as China's renminbi or the currencies of some other Asian countries that have been building reserves of dollars, euros and other major currencies. Recent statements and actions by Asian central bankers suggest that the end of their heavy purchases of U.S. Treasury securities as reserves may be approaching. This implies a depreciation in the value of the dollar against Asian currencies, which has possible adverse implications for U.S. inflation, and interest rates.

The City's tax burden, inflation rate, and cost of living are all well above those of other large cities in the United States. However, according to Mercer Human Resources Consulting, the cheap dollar in 2004 has made the City less expensive than competitive overseas cities like London, Tokyo, Moscow, Hong Kong and Beijing, which could bolster the City's job growth and real estate market. Already, the cheap dollar has had a positive effect on the City's tourism industry.

Uncertainty about the future of the City's financial markets, already buffeted by the aftermath of 9/11, stagnant equities prices, and a series of scandals, has been intensified by the increased role of electronic exchanges. The New York Stock Exchange's decision to merge with the electronic-based Archipelago Holdings Inc. has heightened concerns about possible job losses in the City's financial sector.

The City's inflation rate is running above the nation's, aggravating the high costs of living or doing business in New York. In 2004, the inflation rate in the NYC metropolitan area surged to 3.5 percent─the highest since 3.6 percent in 1992─and higher than the 2.7 percent for the U.S. urban average rate. The City's core inflation rate, which includes all items except food and energy, was 2.9 percent, substantially greater than the U.S. rate of 1.8 percent. The City's prices rose faster than the nation's in every category except transportation and medical care. The City's inflation rate continues to run ahead of the nation's in 2005.

U.S. Forecasts. The consensus shows that the U.S. economy will not match the 2004 GDP growth rate of 4.4 percent. The nation's record budget deficits and trade deficits are causing bottlenecks in supply and inflationary concerns, especially with respect to energy. The outlook is for higher interest rates that will slow the economy down to 3.5 percent growth in 2005 and then gradually to 2.6 percent growth in 2009.

Table 6 shows the forecasts of the Mayor and Comptroller for GDP and payroll jobs from 2005 through 2009. Except for 2006 and 2007, when the Comptroller's forecasts are above or similar to the Mayor's, the Comptroller expects the nation's GDP to grow more slowly as compared to the Mayor's forecasts. Regarding payroll jobs, the Mayor is more optimistic than the Comptroller for 2005 but is less optimistic for the subsequent years.

Table 6. Forecasts of U.S. Real GDP and U.S. Payroll Jobs, Percent Change, Calendar Years 2005-2009

		2005	2006	2007	2008	2009
U.S. Real GDP	Comptroller	3.5	3.4	3.0	2.8	2.6
	Mayor	3.7	3.0	3.0	3.1	3.2
U.S. Payroll Jobs	Comptroller	1.4	1.3	1.3	1.3	1.3
	Mayor	1.7	1.2	0.9	0.7	0.8

Source: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the NYC Office of Management and Budget for 2005-2009.

IV. Revenue Assumptions

A. REVENUE OUTLOOK

FY 2006 revenues projections have increased by $2.9 billion from the June 2004 Financial Plan to $49.7 billion in the FY 2006 Executive Budget. Revisions to City-fund revenues account for $1.8 billion of this increase. The increase in projected City-fund revenues is mainly due to stronger projections for tax revenues. The Administration has increased its FY 2006 tax revenue projections by $1.6 billion to $30.0 billion. Property, real estate transaction, personal income and business tax revenues were revised upwards by a total of $1.5 billion, accounting for more than 90 percent of the increase. Miscellaneous revenues were increased by $368 million, mainly as a result of higher projections of the miscellaneous revenue sub category, interest income, and water and sewer charges. The increases in tax and miscellaneous revenue projections are partly offset by a reduction of $350 million in anticipated State and Federal actions.

Tax Revenues

Tax collections for the first ten months of FY 2005 were $2.3 billion above June 2004 Financial Plan estimates. Based on collections information through March, the City projects that tax collections for FY 2005 will be $3.1 billion higher than the June 2004 Financial Plan estimate. The sources of the anticipated extra revenues include $1.17 billion from real-estate transaction taxes, $957 million from the personal income tax (PIT), and $560 million from business taxes.

The Executive Budget projects total tax revenues of $30 billion in FY 2006. The Mayor has raised tax-revenue projections for FY 2006 by $1.6 billion, 5.8 percent more than was expected in the June 2004 Financial Plan, as illustrated in Table 7.[3] Revisions to property tax, PIT, business tax, and real estate transaction tax (from the mortgage recording and real property transfer tax) revenues account for more than 90 percent of the increase.

The Mayor has raised his FY 2006 property tax revenue projection $315 million based on higher billable assessed values in the tentative roll. As a result of higher collections in FY 2005, the real-estate-transaction tax revenue projection has been raised $258 million above the June 2004 Financial Plan estimate. The Administration expects long-term interest rates to move higher in FY 2006, reducing the volume of home purchases and mortgage refinancings. It therefore forecasts a decline in real-estate-related tax collections from $2.16 billion in FY 2005 to $1.23 billion in FY 2006, a drop of $933 million.

[3] The definition of individual tax revenues used in this section includes STAR, NYCTFA, and net lien sales of property.

Table 7. Changes to the City's FY 2006 Tax-Revenue Estimates from the June 2004 Financial Plan

($ in millions)

Tax	June 2004	May 2005	Change
Property	$12,164	$12,479	$315
PIT	6,056	6,586	530
Business	3,093	3,482	389
Sales	4,029	4,115	86
Real-Estate Transaction	969	1,227	258
All Other	1,497	1,563	66
Revenues from Audit	508	512	4
Total	$28,316	$29,964	$1,648

SOURCE: NYC Office of Management and Budget.

Projections of business taxes for FY 2006 are $389 million above the June 2004 Financial Plan. Wall Street posted its second consecutive year of strong profits in calendar year 2004, because of higher revenues and decreased costs. Estimates of Wall Street profits in the fourth quarter of 2004 were $4.7 billion, exceeding expectations and boosting full-year 2004 profits to $13.7 billion. The Administration expects earnings to remain robust in FY 2006.

PIT revenues, including revenues earmarked for NYCTFA debt service, are forecast to decline 6.1 percent in FY 2006 from the previous fiscal year, reflecting primarily the expiration of the temporary tax surcharges. The Administration has raised the FY 2006 PIT forecast $530 million above the June 2004 Financial Plan, based on higher collections in FY 2005.

The City projects sales tax revenues of $4.12 billion in FY 2006. This projection includes the Mayor's sales tax reduction program, which assumed the reinstatement of the local sales tax exemption on clothing and footwear purchases under $110 on June 1, 2005.

The Comptroller's Office's forecasts of PIT, business taxes, and sales tax for FY 2006 reflect projections of the local economy that are slightly more optimistic than the Administration's. The Comptroller's Office projects that FY 2006 total tax collections will be higher than the Executive Budget target by $485 million, as shown in Table 8. About half of the higher tax revenue forecast stems from expected higher sales tax revenue which includes $230 million that the Mayor expects to forgo from a proposed acceleration of the reinstatement of the sales tax exemption on purchases of clothing and footwear under $110. Although acceleration of the exemption would be a boon to City residents, the Comptroller's Office believes that the reinstatement of the sales tax exemption will not take effect until April 2007, as enacted during adoption of the State budget.

Based on the forecast of billable assessed value and a considerable pipeline effect caused by the growth of real estate values in recent years, both the Mayor and the Comptroller expect 7.1 percent growth in real property tax revenues in FY 2006.

Table 8. Tax-Revenue Risks and Offsets, Comptroller's Estimates

($ in millions)

Tax	FY 2006
PIT	$80
Business	90
Sales	240
Real-Estate Related	50
All Other	25
Total	**$485**

SOURCE: NYC Comptroller's Office, based on data from NYC Office of Management and Budget.

For the outyears of the Financial Plan, the Comptroller's tax-revenue forecasts are $375 million above the Mayor's in FY 2007, and $10 million and $405 million below the Mayor's in FY 2008 and FY 2009, respectively. The downward adjustments in the outyears are a result primarily of lower forecasts for the economically sensitive tax revenues such as sales, personal income, and business tax revenues.

Miscellaneous Revenues

Miscellaneous revenues are locally raised non-tax funds, including fees charged for licenses, franchises and permits, charges for municipal services, fines, rental income, interest income, and water and sewer revenues. The FY 2006 Executive Budget anticipates collections of $3.5 billion in non-tax revenues exclusive of private grants and intra-City revenues. As Table 9 shows, this represents a net increase of $368 million (12 percent) from the June 2004 Financial Plan forecast. The overall change is mainly due to revisions to the miscellaneous revenue sub-category, interest income, and water and sewer charges.

The miscellaneous revenue sub-category, which includes a variety of revenues not otherwise classified, accounts for half of the increase. This increase mainly reflects the anticipated release of $120 million of tobacco settlement revenues (TSRs) currently retained in a trapping account. The TSRs are used to secure debt issued by TSASC Inc. After retention for TSASC debt service, excess TSRs flow to the City as residual TSRs. As a protection to bond holders, the TSASC agreement includes provisions to use a portion of excess tobacco settlement revenues to fund the trapping account up to 25 percent of the amount of outstanding TSASC bonds if a trapping event occurs.[4] In FY 2004 and FY 2005, a total of approximately $120 million was retained by this mechanism, resulting in a corresponding decrease in residual TSRs. The City expects that in FY 2006, TSASC will have an alternative mechanism in place that will allow the trapped TSRs to be released to the City. In addition, the City will recognize an additional $33 million of revenue in FY 2006 as a result of the sale of Escrow Securitization Corporation Bonds in FY 2005.

[4] There are five types of trapping events: tobacco consumption decline, downgrade of tobacco bonds to below investment grade, lump sum payment in lieu of future TSRs, a finding invalidating provisions in the model statute requiring non-participating manufacturers to make payments into an escrow account, and non-participating manufacturers' market shares exceeding 7.0 percent in a calendar year.

Table 9. Changes to the FY 2006 Miscellaneous Revenue Estimates June 2004 Plan vs FY 2006 Executive Budget

($ in millions)

	June 2004 Plan	FY 2006 Executive Budget	Change
Licenses, Franchises, Etc.	$354	$379	$25
Interest Income	56	142	86
Charges for Services	518	530	12
Water and Sewer Charges	930	998	68
Rental Income	173	176	3
Fines and Forfeitures	705	692	(13)
Miscellaneous	412	599	187
Total	**$3,148**	**$3,516**	**$368**

Interest income accounts for nearly 24 percent of the overall change in miscellaneous revenues since June 2004. The increase results from larger projected cash balances and higher interest rate assumptions. Cash balance projections used in the calculations of interest income for FY 2006 increased from $2 billion in the June 2004 Financial Plan to $3.1 billion in the FY 2006 Executive Budget.[5] Over the same period, interest rate assumptions rose from 2.2 percent to 3.8 percent. The anticipated increase in revenues from water and sewer charges accounts for about 18 percent of the overall change in miscellaneous revenues. However, water and sewer charges are used to defray the cost of providing water and waste water services, and are therefore not available for general operating purposes.

Federal and State Aid

For the first time in more than twenty years, the State adopted a budget prior to the start of its new fiscal year. The timely passage of the State budget removes a major source of risk and provides more certainty to the City's budget assumptions. The FY 2006 Executive Budget reflects additional assistance of $317 million resulting from the enacted State budget, falling short of the $500 million target previously set in the Preliminary Budget. This impact includes $230 million in revenue from the extension of sales tax on clothing and footwear up to $110. This sales tax will now be extended through March 31, 2007 and includes two annual one-week exemptions for items costing $110 or less. However, the Mayor has proposed to forego the extension of the sales tax on clothing and footwear in favor of restoring the exemption by June 2005, pending approval from Albany, and has therefore not included the related revenue in his baseline budget. The City has incorporated Medicaid savings of $76 million and various other State actions totaling $11 million into its FY 2006 budget.

The City has not fully reflected the impact from the State's new Flex Fund for Family Services (FFFS). The enacted State budget approved the creation of FFFS, a

[5] Projected cash balances are higher for FY 2006 than they were at the time of the June 2004 Financial Plan due in part to a change in methodology.

block grant that consolidates funding for certain welfare services and reduces overall State support. The City has diverted about $60 million through a mix of available Federal dollars and other revenue adjustments to mitigate the FFFS impact in FY 2006. Based on preliminary estimates, a risk of up to $35 million remains as the City searches for options to further reduce this cost over the course of FY 2006.

In addition, the State budget would provide the Department of Education (DOE) with a year-over-year increase in school aid of $325 million in FY 2006. Although the increase has no gap-closing implications, this new funding is a key factor driving the DOE budget to more than $14 billion in FY 2006.

Aside from the recognition of the State budget impact, the City has reduced significantly its expectation for additional Federal support. Anticipated assistance from Federal and State actions is no longer the core of the City's gap-closing program, as the Executive Budget carries only a modest $50 million in anticipated Federal gap-closing assistance. This represents a decline of $700 million from the Preliminary Budget assumption for Federal and State actions. The City has assembled a menu of potential actions totaling $356 million that the Federal government could use to meet this target. The budget resolution recently reached by Congress contains significant targets for entitlement spending reductions, posing a degree of uncertainty to the City's effort to obtain additional aid. Under the agreement, domestic discretionary spending would be reduced by over $20 billion in Federal FY 2006. Further, the Federal budget resolution established a target of $35 billion in entitlement cuts over the next five years, including $10 billion from Medicaid spending. At present time, it is unclear how these reductions will take shape or how the cuts will impact the City.

B. EXPENDITURE ASSUMPTIONS

Total-fund expenditure projections in the FY 2006 Executive Budget are $49.7 billion, of which $35.4 billion represents City-funds. Total-fund spending for FY 2006 is $736 million less than had been projected in the June 2004 Financial Plan, as a decline in City-fund spending is partly offset by a $1.2 billion increase in State and Federal categorical grants. However, compared to the June 2004 Financial Plan, $3.1 billion in additional surplus funds is being used in FY 2005 to prepay FY 2006 expenses. Also, the City has included $563 million in additional gap-closing actions. Without the increase in prepayments and gap-closing actions, projected FY 2006 City-fund expenditures would be $31.8 billion, an increase of $1.7 billion from the June 2004 Financial Plan projection.

Total-fund expenditure is projected by the FY 2006 Executive Budget to be $49.7 billion. This represents a decrease of $732 million from the June 2004 Financial Plan projection resulting from a drop of $1.9 billion in projected City-fund expenditure and increases of $1.2 billion in State and Federal categorical grants. The decline in the City-fund expenditure estimates reflects an increase of $3.1 billion in prepayments of FY 2006 and additional gap closing actions of $563 million, partially offset by spending increases of $1.7 billion. Upward revision to the City's pension contributions accounts for $649 million of this increase.

Overtime

The Executive Budget projects overtime expenditures of $614 million for FY 2006, a drop of 20 percent from the FY 2005 forecast. However, overtime has averaged 6.0 percent growth annually over the last ten years. As such, the City's projection appears overly optimistic. The Comptroller's Office estimates that FY 2006 overtime spending may exceed the City's projection by at least $175 million, as shown in Table 10.

The conclusion of labor settlements for uniformed employees could also result in additional spending since employees' overtime compensation rises with wage increases. Every percentage point increase in salary for uniformed employees could add approximately $5 million to projected FY 2006 overtime spending.

Table 10. Projected Overtime Spending, FY 2006

($ in millions)

	Comptroller's Projected Overtime FY 2006	Planned Overtime FY 2006	FY 2006 Risk
Uniform			
Police	$380	$245	($135)
Fire	96	90	(6)
Correction	55	40	(15)
Sanitation	65	65	0
Total Uniformed	$596	$440	($156)
Others			
Police-Civilian	$35	$16	($19)
Admin for Child Svcs	17	17	0
Environmental Protection	21	21	0
Transportation	29	29	0
All Other Agencies	91	91	0
Total Civilians	$193	$1740	($19)
Total City	**$789**	**$614**	**($175)**

Police Department uniformed overtime expenditure accounts for about 40 percent of annual overtime cost. This expenditure grew consistently at an annual rate of 12 percent from FY 1994 to FY 2004. Overtime cost for the first ten months of FY 2005 is $312 million and will likely be higher than the $345 million spent in FY 2004. The Comptroller's Office estimates that police uniformed overtime spending will be approximately $380 million in FY 2006, significantly higher than the City's estimate of $245 million.

FY 2006 gap-closing actions include overtime reductions of approximately $15 million in the Fire Department and about $10 million in the Department of Correction (DOC). The Fire Department projects savings of as much as $10 million through management initiatives. However, these programs are not fully developed and will pose a risk to the FY 2006 budget if not implemented. The Department of Correction estimates savings from a number of initiatives, including more efficient arrest processing and the consolidation and closure of housing areas in facilities. Initiatives to curtail the growth in uniformed overtime remain challenging and are unlikely to succeed without diligent monitoring.

Headcount

Full-time City-funded headcount is expected to be 224,797 by June 30, 2006, as shown in Table 11. This represents a net increase of 311 employees from the June 2004 Financial Plan. The projected FY 2006 year-end headcount is 494 lower than the projected FY 2005 year-end headcount of 225,291. This decrease results mainly from a lower headcount projection of pedagogical staff at the Department of Education. Headcount is thereafter expected to increase by 289 to 225,086 by June 30 2007. Most of this increase stems from the City's decision to achieve budgetary savings in FY 2006 by postponing filling 192 civilian positions in the Police Department until FY 2007. The City-funded headcount level is expected to remain relatively stable in FYs 2008 and 2009.

Full-time-equivalent (FTE) employees are expected to total 31,731 on June 30, 2006, an increase of 1,598 over the June 30, 2005 projection of 30,133. Most of the projected increase in FY 2006 is due to increases in the number of DOE non-pedagogical workers, which is projected to grow by 1,160 employees to 14,619 by June 30, 2006. FTEs are expected to increase to 32,137 by June 30, 2007 and 32,152 by June 30, 2009, mainly because of projected growth of 420 FTEs in the Police Department, where positions will increase from 6,144 as of June 30, 2006 to 6,564 by June 30, 2009.

Table 11. City-Fund Full-Time Year-End Headcount

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Agency					
Uniformed:					
Police	34,824	34,824	34,824	34,824	34,824
Fire	11,154	11,186	11,186	11,186	11,186
Correction	8,719	8,525	8,511	8,511	8,511
Sanitation	7,636	7,638	7,638	7,638	7,638
Sub-total	62,333	62,173	62,159	62,159	62,159
Pedagogical:					
Dept. of Education	90,143	89,039	89,022	89,022	89,022
City University	2,700	2,700	2,700	2,700	2,700
Sub-total	92,843	91,739	91,722	91,722	91,722
Civilian:					
Police	9,102	9,230	9,422	9,422	9,422
Admin for Child Svcs.	6315	6,314	6,314	6,314	6,314
Dept. of Health	2,732	3,070	3,077	3,114	3,119
Social Services	11,267	11,333	11,373	11,373	11,373
All Other Civilians	40,699	40,938	41,019	40,994	40,950
Sub-total	70,115	70,885	71,205	71,217	71,178
Total	**225,291**	**224,797**	**225,086**	**225,098**	**225,059**

SOURCE: Office of Management and Budget, FY 06 Executive Budget.

Health Insurance

City's Health Insurance Cost ($ in millions)	
FY 2006	$2,908
FY 2007	$3,160
FY 2008	$3,459
FY 2009	$3,744

As shown in the figure to the right, the City's FY 2006 Executive Budget and Financial Plan projects that health insurance expenditures will increase from $2.9 billion in FY 2006 to $3.7 billion in FY 2009. The projections are $5 million higher than the June 2004 Plan estimates, mainly due to revisions of projected headcount. The projections reflect rate increases in premiums of 10.43 percent in FY 2005, 8.75 percent in FY 2006, and provisional rate increases of 8.0 percent in each of FY 2007 through FY 2009.

The Executive Budget also reduced the City's health insurance expenditure appropriation for FY 2005 by $66 million to $2.597 billion, mainly to adjust for fewer employees.

Pensions

City pension contributions in the FY 2006 Executive Budget are projected to total $4.6 billion, an increase of $649 million from the June 2004 Financial Plan projection. This increase reflects three major revisions to the City's pension contribution estimates:

1. While the Chief Actuary has recommended a package of changes to the actuarial assumptions and methodologies used in computing pension contributions, the City's projection reflects changes only to the actuarial assumptions (See Category 1 in "The Chief Actuary's Recommendations" below). The City expects that these changes will result in additional contributions of $325 million in FY 2006.

2. The City's current projection includes estimated liabilities for approximately 1,000 retirees in the Teachers' Retirement System that were previously omitted due to a classification error. The City estimates that the additional liabilities will cost $119 million in FY 2006.

3. Re-computation of the cost allocation ratios, which apportions New York City Employees' Retirement System's (NYCERS) pension costs among the different employers in NYCERS, indicates that the City's share of the costs has risen. The City expects the revised allocation to cost an additional $103 million.

If the Chief Actuary's recommendations were adopted in their entirety in conjunction with the other adjustments, the City's FY 2006 pension contribution would be $764 million less than the Executive Budget projection.

The Chief Actuary's Recommendations

In April and May, the Chief Actuary of the City's pension systems issued recommendations for changes in actuarial assumptions and methods to each of the Boards of the five pension funds. The recommendations can be classified into four categories. [6]

1. Updating of actuarial assumptions, based mostly on the findings of the experience study conducted by the independent actuarial auditor, Gabriel, Roeder, Smith & Company.

2. Fully recognizing all actuarial liabilities created by the Cost of Living Allowances (COLA) benefits enacted by Chapter 125 of the Laws of 2000 that are being phased in over 10 years in accordance with Chapter 278 of the Laws of 2002.

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[6] For a detailed discussion of the Chief Actuary's recommendations, please see the Pension Section in *The Comptroller's Comments on The Preliminary Budget for Fiscal Year 2006 and The Financial Plan for FYs 2006-2009 published in March 2005*.

3. Introducing a one-year lag methodology for the computations of employer pension contributions.

4. Changing to a new asset valuation method that phases in “unexpected” investment returns over a six-year period.[7]

It is uncertain at this time if the Boards of Trustees of the pension systems will approve and adopt the Chief Actuary’s recommendations. Further, some of the changes, like the immediate recognition of the full liabilities of the COLA benefits and the introduction of a one-year lag methodology, will also require State enabling legislation.

The City’s FY 2005 Pension Contributions

The FY 2006 Executive Budget projects that the City’s pension contributions to the five actuarial pension funds for FY 2005 will total $3.161 billion.[8] If all of the Chief Actuary’s recommendations are adopted in time to be implemented for FY 2005, the City’s contribution will be about $158 million less than projected. If none of the recommendations is adopted for FY 2005, the City’s contributions will be approximately $15 million below projection.

Labor

The status of the City’s labor agreements creates a great deal of uncertainty for FY 2006 and beyond. The last round of bargaining is incomplete, as several of the largest and best-compensated unions have not yet settled with the City for what are now retroactive wage settlements. Thus, the question of whether the City will prevail in its stance of demanding that wage increases be funded, at least in part, by productivity improvements, remains unanswered.

To finance the next round of collective bargaining agreements, the City has included funding for wage increases at half the expected annual rate of inflation in the FY 2006 Executive Budget.[9] These increases are expected to cost the City $100 million in FY 2006 and rise to $900 million by FY 2009. While it is prudent for the City to include funding for the next round of collective bargaining in the current financial plan,

[7] The Chief Actuary defines Unexpected Investment Returns as investment returns above or below the long-term Actuarial Investment Return Assumption (AIRA), which is currently 8.0 percent. The City’s current actuarial asset valuation method recognizes Unexpected Investment Returns over a five-year period, cumulatively 10 percent in year one, 25 percent in year two, 45 percent in year three, 70 percent in year four and 100 percent in year five. If implemented, the new six-year actuarial asset valuation method, plus the one-year lag, would effectively recognize Unexpected Investment Returns over a seven-year period, cumulatively zero percent in year one, 15 percent in year two, 30 percent in year three, 45 percent in year four, 60 percent in year five, 80 percent in year six, and 100 percent in year seven.

[8] Net of intra-City expenditures.

[9] The Executive Budget projects inflation rates of 2.4 percent in FY 2006, 2.6 percent for FY 2007, 2.4 percent for FY 2008, and 2.5 percent for FY 2009.

actual contracts could differ significantly from the City's assumptions as negotiations for the next round have not yet begun. Every percentage point increase above the funded amount would cost the City $80 million in FY 2006.[10]

From the last round of collective bargaining agreements, the contracts for the police officers, firefighters, uniformed sanitation workers, and teachers remain unsettled. The New York State Public Employment Relations Board (PERB) is expected to issue a binding decision on the Patrolmen's Benevolent Association (PBA) contract in the near future. The United Federation of Teachers (UFT) filed for impasse proceedings with PERB and a fact finding process will begin in June. The PBA's decision may affect the UFT and uniformed employees contracts. Every percentage point increase over the DC 37 contract for UFT and uniformed employees will cost the City $145 million, as shown in Table 12. In addition, since these contracts expired in FY 2002 and FY 2003, the City cannot fund, retroactively, the second increase of 2 percent with productivity savings. It would cost the City $100 million in FY 2005 and $355 million in FY 2006 if it has to fund the second increase for these contracts. However, if there is no contract agreement before the end of FY 2005, the City would have to fund the FY 2005 cost in FY 2006, resulting in additional FY 2006 labor cost of $455 million.

Table 12. Cost of One-Percentage Point Increase Over DC 37 Agreement

($ in millions)

Teachers	$80
Correction Officers	9
Firefighters	13
Police Officers	37
Sanitation Workers	6
Total	**$145**

NOTE: Assumes that, as in the DC 37 agreement, the second increase of 2 percent will be funded with productivity gains.

Public Assistance

The City's public assistance caseload has dropped significantly over the course of FY 2005. Through April, the caseload reported by the Department of Social Services (DSS) shows 419,098 persons receiving public assistance, a decline of more than 4.0 percent from the June 2004 caseload of 437,453. After a period of growth in FY 2004, the caseload trend has taken a significant downturn in recent months and appears on the verge of moving below the recent low of 418,770 reported in February 2003. The April caseload hovers above this threshold by only about 300 recipients. In contrast, public assistance grants expenditures have not experienced the same decline; monthly grants have fluctuated between $102 million and $108 million in the past

[10] Every percentage point increase above the City's assumption in the outyears would result in additional cost of about $290 million in FY 2007 growing to $740 million by FY 2009.

12 months. The City's share of these costs averages approximately $41 million monthly. Thus, even as caseload assumptions are revised downward, the City has maintained a level of baseline grants allocation in its public assistance budget that is consistent with the recent trend in monthly grants.

The FY 2006 Executive Budget maintains the same caseload projections and baseline grants assumptions as in the Preliminary Budget. The City establishes a year-end caseload target of 438,295 for FY 2006 and City-funded baseline grants allocation of $512 million. While the FY 2006 caseload assumption is well above current caseload levels, the City appears to have provided adequate funding for baseline grants expenditures that could accommodate average monthly spending on the high end of the recent range.

In addition, the DSS has rolled out a new program (WeCARE) with the intent of re-evaluating welfare recipients who are not engaged in work participation and moving them into the workforce. The program would provide comprehensive assessment and treatment services to an estimated 46,000 recipients with medical conditions that previously prevented them from work participation. The City indicates in the Executive Budget that WeCARE could further reduce the welfare population; however, no budget assumptions have been incorporated under this program.

Medical Assistance

The enacted State budget is expected to provide the City with moderate savings in its Medicaid budget for FY 2006. In the final budget, the Legislature and the Governor came to agreement on more than $500 million in Medicaid savings actions statewide, about half of the level of reductions proposed in the State Executive Budget. In addition, the State will reduce the local Medicaid burden through the implementation of a 3.5 percent cap on the growth of costs borne by localities, beginning in January 2006.

The FY 2006 Executive Budget reflects savings of about $76 million entirely from cost containment actions. The major components of the cost containment package include $36 million for an approved freeze on managed care premiums, $20 million for making emergency services for aliens Federal funds-eligible, $25 million for audit-related savings, $20 million for drug cost initiatives, and $21 million for hospital and benefit reductions. These savings are offset partly by costs of $44 million, mostly attributable to a previous action related to home care savings targets. The City assumes no further Medicaid savings from the cap provision in FY 2006 since, based on its own analysis, the cost containment savings will reduce Medicaid spending growth to below the 3.5 percent threshold.

Since the June 2004 Plan, City-funded Medicaid expenditures for FY 2006 have risen $5 million, though the modest increase belies the significant changes that have occurred in the interim. This change captures the impact from both the FY 2005 and FY 2006 State budgets, including savings from the phased-in takeover of the Family

Health Plus (FHP) program, culminating in projected savings of about $286 million.[11] These savings are more than offset by combined new needs of about $299 million that the City has provided in the Preliminary and Executive Budgets. The FY 2006 Executive Budget establishes funding of $4.1 billion for City-funded Medicaid expenditures (excluding HHC), representing a growth of about 2.0 percent from the FY 2005 estimate.

Over the longer term, the impact of the Medicaid cost cap is expected to become more pronounced from the compounding effect and the gradually lower thresholds of the cap, set at 3.25 percent in 2007 and 3.0 percent in 2008. The cap, coupled with the FHP takeover, could trim more than $1 billion from the City's Medicaid budget by FY 2009. After the inclusion of these savings, projected City-funded Medicaid spending would grow by an average of 3.4 percent annually in the outyears. In comparison, City-funded Medicaid expenditures have grown at an average of about 9.0 percent annually since FY 2000, rising from $2.59 billion to an estimated $4.02 billion for FY 2005.

While the Medicaid cap would provide the City with much-needed relief from a costly mandate, the savings projected are based nevertheless on the understanding that the State will keep this provision in place in future years. Because of the substantial savings involved, any pullback in the State's commitment could have significant consequences on the City's Financial Plan.

Department of Education

The FY 2006 Executive Budget has reflected an increase of $325 million in the Department of Education (DOE) budget since the January Plan. This figure includes the recognition of $244 million in net State aid from the enacted school aid increase in the State budget. In essence, the additional State support will provide the necessary funding for many of the programmatic enhancements and core services that the City has proposed in the FY 2006 Executive Budget.

While many of the initiatives fall under the category of the Mayor's Children First Reforms, three key changes make up about half of the overall funding increase. An increase of $79 million has been earmarked for special education services, most notably for a methodology change that would allocate funding to schools based on the number of classes rather than the number of students. The Department indicates that funding for these services has been inadequate because current formulas do not account fully for the actual number of classes required. Class sizes less than those assumed in the per capita allocations may lead to a need for additional teachers, creating a funding need. In addition, the FY 2006 Executive Budget has allocated $50 million to fund new and restructured schools and $36 million to meet contractual obligations for school busing. The remainder of the Executive Budget changes cover a wide range of areas, including $14 million for hiring additional school safety agents, $25 million for early grade and middle school intervention, and $10 million for the continuation of early grade class size

[11] Due to the late adoption of the FY 2005 State budget, its impact was not reflected in the City's budget until the November 2005 Plan.

reduction. In FY 2006, the Department also expects to move ahead with plans to realign its budget to mirror the current organizational structure, pending approval from the City Council. The restructuring would reflect the changeover of DOE operations from a school district basis to a regional basis that began in FY 2003.

Since the June 2004 Plan, the FY 2006 DOE budget has risen $895 million or almost 7.0 percent to a current projection of $14.07 billion. Projected State support, capturing school aid increases in both State FY 2005 and State FY 2006, represents $636 million of this total. City and Federal funds have increased $170 million and $74 million respectively, with categorical funds comprising the remaining increase. By function, about $403 million of the additional funding has been allocated to instructional spending, reflecting a 7.0 percent jump. Meanwhile, funding for support services and central functions has spiked 13 percent, or $291 million, because of increases in spending for bus contracts and school facilities. Non-public school payments have also shown an increase of 7.0 percent due to the rising student population in these specialized programs.

In the latest development concerning the Campaign for Fiscal Equity (CFE) litigation, the State Appellate Division has ordered appellants to file all appeal papers in time for the October 2005 Terms. The case, which has slowly progress for the past twelve years, is now scheduled to be heard by the Court in October 2005. The new timeline puts the CFE court case ahead of the normal schedule for an appeal process. The CFE indicates that new legislation will be introduced shortly at the State level that will call for the inclusion of other school districts within the State. With regard to timing, even with the October hearing and the introduction of the new legislation, it is highly unlikely that the CFE ruling will have any impact on the City's budget in FY 2006. At the earliest, it could have an impact on FY 2007 and may require significant additional City funding of the costs associated with the final outcome.

Health and Hospitals Corporation

The Health and Hospitals Corporation (HHC) managed to avoid a significant negative impact from the enacted State budget because of restorations achieved in the final stages of the negotiations. The final budget agreement restored about half of the $1.1 billion in statewide cost containment actions sought by the Governor's proposed budget. Even more importantly, with respect to HHC, many of the proposed cuts affecting hospitals were either eliminated or reduced. As a result, the Corporation faces a negative impact of only $13 million from State budget actions in FY 2006, a dramatic turnaround from a potential cost of $275 million estimated for the Governor's budget proposals.

These developments notwithstanding, HHC's financial condition continues to be a concern, as the FY 2006 Executive Budget shows only marginal improvement in the Corporation's finances from the preliminary budget. The FY 2006 Executive Budget sets total receipts of $4.21 billion against total disbursements of $4.79 billion, resulting in a projected operating deficit of $578 million. Since the June 2004 Plan, the projected FY 2006 budget gap has actually increased $60 million, a function of HHC's rising cost structure and the continued lackluster outlook for its third party receipts. Yet, despite this level of deficit, the City projects that HHC could still manage to close FY 2006 with a significant cash balance of $216 million. The assumption is based mostly on a sizable opening cash balance of $343 million that has been bolstered by subsidy prepayments in FY 2005 and the implementation of a $451 million gap-closing program.

A major element of HHC's gap-closing program is the expectation of $266 million from Federal and State actions. The City indicates that HHC should be able to obtain significant revenues through rate appeals without any major difficulty, which would pare the residual target down to about $200 million. The Corporation is exploring a mix of options to achieve this target, including Federal disaster response funds and Medicare regulation changes. Other components of the gap-closing program include $100 million in productivity savings from attrition, the implementation of a hiring freeze, malpractice reform, and procurement efficiencies. In FY 2005, HHC is projecting a decline of $28 million in malpractice costs from better management of claims, thus raising the prospect for recurring savings in FY 2006. Rounding out the program, the Corporation anticipates achieving $85 million through various revenue enhancements, including improving collection procedures and reducing receivable cycles.

The realization of Federal and State actions will be critical to HHC's ability to maintain a healthy cash balance going forward. Thus, should these assumptions prove to be unrealistic, the City may need to take an active role in assuring that the Corporation's financial picture would not deteriorate further. In recent years, the City has taken the approach of prepaying its subsidy a year ahead of time as a stop-gap measure to keep HHC's year-end cash balance at an acceptable level. For FY 2006, this approach has left the Corporation with a projected City cash subsidy of $4 million. It is likely that, if needed, the City will repeat this action during FY 2006. However, a more viable way of addressing this problem is to recognize the need for an adequate level of support from the City from the outset. Given recent subsidy levels—$251 million for FY 2004 and a projected $258 million for FY 2005—an adequate level of support could necessitate an infusion of at least $200 million in FY 2006.

Debt Service

Debt service in the FY 2006 Executive Budget, including NYC Transitional Finance Authority (NYCTFA) and TSASC debt service, is projected to total $4.42 billion, a decrease of $97 million from the June 2004 estimate. As Table 13 shows, the lower estimate results from a reduction of $156 million and $8 million in projected General Obligation (GO) and NYCTFA debt service, offset by increases of $57 million and $10 million in lease-purchase and Municipal Assistance Corporation (MAC) costs.

The $156 million decrease in projected GO debt service is driven by three primary factors: 1) $100 million in refunding savings that was not anticipated at budget adoption; 2) $43 million in projected savings from reducing the short-term note issuance assumption from $2.4 billion to $1.5 billion; and 3) $21 million from lowered variable rate interest costs.

The NYCTFA debt service cost decreased by $8 million from the June 2004 Financial Plan estimate. A refunding transaction in FY 2005 accounts for virtually all of the decrease in projected NYCTFA debt service.

The $57 million increase in the lease-purchase debt-service budget, also referred to as the budget for conduit issuers, is due primarily to the acknowledgement of potential debt service costs related to the Hudson Yards Infrastructure Corporation. The $10 million increase in MAC costs is associated with estimated on-going costs of MAC and its continued funding of State oversight agencies. TSASC, Inc. remained virtually unchanged with rounding adjustments less than $0.5 million.

Table 13. Changes to FY 2006 Debt Service Estimates
Adopted FY 2005 vs. Executive FY 2006

($ in millions)

Debt Service Category	**FY 2005 Adopted**	**FY 2006 Executive**	**Increase/ (Decrease)**
GO[a]	$3,213	$3,057	($156)
NYCTFA	955	947	(8)
Lease-Purchase Debt	254	311	57
TSASC, Inc	92	92	0
Municipal Assistance Corp	0	10	10
Total	**$4,514**	**$4,417**	**($97)**

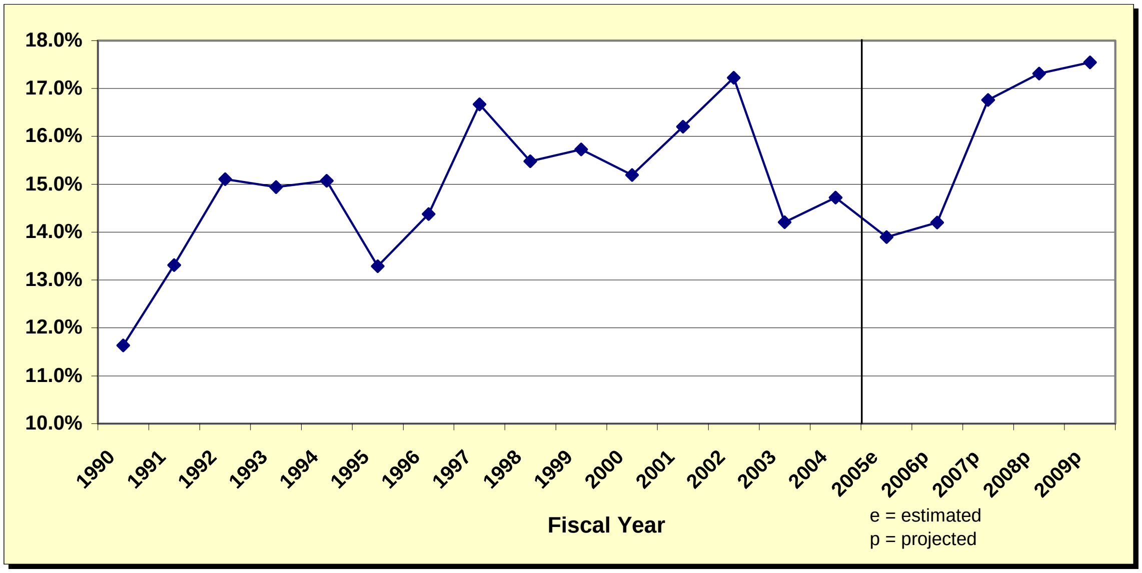
SOURCE: FY 2005 June 2004 Financial Plan, June 2004, FY 2006 Executive Budget, May 2005.
Note: Debt Service is adjusted for prepayments
[a] Includes long term GO debt service and interest on short term notes.

Debt Burden

The debt burden, measured by debt service as a percent of local tax revenues, is projected to be 13.9 percent in FY 2005 and 14.2 percent in FY 2006, increasing to 16.8 percent in FY 2007, 17.3 percent in FY 2008, and 17.5 percent in FY 2009, as shown in Chart 2.

In examining the Executive Budget and Financial Plan estimates from April 1998 through April 2001, the ratio of debt service to tax revenue (debt service ratio) as estimated for the outyears of each respective year's Financial Plan has been considerably higher than actual results. This is mainly the result of a combination of lower debt service costs and higher than anticipated local tax revenues during this period.

Chart 2. *Debt Service as Percent of Tax Revenues, FYs 1990-2009*



SOURCE: FY 2006 Executive Budget and Financial Plan, and the Office of Comptroller.

The improved actual debt service results are largely dependent on major factors like better than expected interest rates on new money borrowing, unplanned refunding savings, variable rate interest savings, and lease-purchase debt-service savings.

Table 14. Difference Between Projected and Actual Debt Service for the Third Year of Financial Plan at Time of Executive Budget

($ in millions)

Projections Made in:	Projections For:	Projected Debt Service	Actual Debt Service	Difference
April 1998	FY 2001	$3,964	$3,807	($157)
April 1999	FY 2002	$4,169	$3,810	($359)
April 2000	FY 2003	$4,466	$3,286	($1,180)
April 2001	FY 2004	$4,671	$4,061	($610)

NOTE: Adjusted for impact of prepayments.

For example, in April 2001 the estimate for debt service in FY 2004 was $4.67 billion compared with actual debt service of $4.06 billion, a difference of $610 million. The $610 million decrease from the April 2001 projection of FY 2004 is primarily attributable to six factors. These factors are: 1) approximately $150 million in lower than expected debt service on cumulative new money borrowing over FYs 2001-2004; 2) $155 million in lower than expected lease-purchase debt service; 3) $93 million in lower than anticipated NYCTFA debt service; 4) $86 million in refunding savings; 5) $67 million in lower than expected interest on short-term note borrowing; and 6) $59 million in lower than projected variable rate interest costs.

As mentioned earlier, the estimated debt ratios in FYs 2008 and 2009 are 17.3 percent and 17.5 percent, respectively. While there is historical evidence that the actual ratios might be lower than projected, the current financial plan is less likely to reach such historical underestimates as interest rates are projected to rise from the forty-year lows of the past three years. If interest rates do rise, refunding opportunities will be fewer, and variable rate savings will be less certain.

Capital Plans

The Executive Budget and Financial Plan included both an update to the Five-Year Capital Commitment Plan for FYs 2005-2009, and the Ten-Year Capital Strategy for FYs 2006-2015.

Capital Commitment Plan, FYs 2005-2009

The FY 2006 Executive Capital Commitment Plan for FYs 2005-2009 is to $43.3 billion in total funds, of which $33.8 billion is in City funds. This represents an increase of $2.6 billion in total funds over the Commitment plan released in January 2005. Over 95 percent of this change is due to increases in 1) the State funding assumption for education projects over FYs 2006-2009 ($1.3 billion); 2) computer technology and citywide equipment purchases ($804 million); 3) New York City Transit Capital Projects ($251 million); and 4) hospital projects ($193 million).

As shown in Table 15, capital projects for education and the City University of New York (CUNY), environmental protection, and transportation, including mass transit, account for 65 percent of the total commitment plan. Housing and economic development projects, technology and equipment purchases, administration of justice projects, and hospital projects round out the rest of the plan.

Table 15. FYs 2005-2009 Capital Commitments, Total Funds

($ in millions)

Project Category	Amount	Percent of Total	Change from January 2005 Plan
Education & CUNY	$13,646	29.6%	$1,406
Environmental Protection	10,141	22.0	(12)
Dept. of Transportation & Mass Transit	5,918	12.9	113
Housing and Economic Development	4,125	9.0	64
Technology and Citywide Equipment	3,032	6.6	804
Administration of Justice	2,467	5.4	(44)
Hospitals	1,364	3.0	193
Other City Operations and Facilities	5,347	11.5	159
Total	**$46,040**	**100.0%**	**$2,683**
Reserve for Unattained Commitments	($2,734)		($51)
Adjusted Total	**$43,306**		**$2,632**

SOURCE: Office of Management and Budget, Capital Commitment Plan FY 2006 Executive Budget

The Ten-Year Capital Strategy, Total Funds, FY s 2006-2015

The Ten-Year Capital Strategy (TYCS) released in May 2005 is to $62.4 billion in total funds, of which $53 billion is in City funds. This represents an increase of $1.65 billion from the Preliminary Ten Year Capital Strategy (PTYCS) published in January 2005, as shown in Table 16. Major increases from the January version include an increase of $1.07 billion for technology and equipment purchases, $502 million for the Department of Sanitation, and $206 million for mass transit.

Capital projects for education and CUNY account for the largest portion of the TYCS, followed by projects for environmental protection, bridges and highways, and housing and economic development. Together, capital commitments in these categories make up over 75 percent of the total TYCS.

Of the $62.4 billion capital commitments proposed over FYs 2006-2015, $27.9 billion is dedicated to state of good repair projects, $18.2 billion for program expansion projects, and $16.3 billion for programmatic replacement projects. Major projects included in the state of good repair category are the reconstruction and rehabilitation of schools ($12.4 billion), East River bridge and other bridge reconstruction ($4.9 billion), highway reconstruction and resurfacing ($3.1 billion), and the rehabilitation of public buildings and systems ($1.0 billion). Program expansion projects include such projects as new school construction ($5.1 billion), programs which assist owners of private housing ($2.0 billion), the construction of the Kensico reservoir to New York City water tunnel ($1.7 billion), and the Croton reservoir filtration project in the Bronx ($1.3 billion). Programmatic replacement projects totaling $16.3 billion include such projects as water pollution plant component stabilization citywide ($3.1 billion), citywide computer purchases ($2.3 billion), water quality mandates and preservation ($1.8 billion), and water main replacements and rehabilitating upstate dams ($1.2 billion).

Table 16. Ten-Year Capital Strategy, FYs 2006-2015, Total Funds

($ in millions)

Project Category	PTYCS Jan 2005	TYCS May 2005	Change from Jan 2005
Education & CUNY	$19,093	$17,923	($1,170)
Environmental Protection	15,795	15,843	48
Bridges & Highways	8,860	8,903	43
Housing & Economic Development	5,435	5,541	106
Administration of Justice	2,746	2,948	202
Technology & Equipment	1,486	2,556	1,070
Sanitation	2,019	2,521	502
Mass Transit	723	929	206
Other City Services	4,604	5,245	641
Grand Total	**$60,761**	**$62,409**	**$1,648**

Borough Presidents Recommendations

In accordance with Section 245 of the New York City Charter, the Borough Presidents may propose changes to the Preliminary Expense Budget during the Executive Budget process. The Queens Borough President's office was the only submission included in the FY 2006 Executive Budget.

The Queens Borough President recommended increasing allocations by $122 million. The suggested increases to expenditures include $38 million for youth programs, $24 million for the City University of New York, $12 million to the Queens Borough Public Library, $8.5 million for Parks, $7.2 million for health and mental health programs, $4.7 million for Housing programs, $4.2 million to the Department of Cultural Affairs, and $3.5 million for the Department of Sanitation.

The proposed funding sources come from eliminating the property tax exemption for Madison Square Garden, procurement efficiencies, converting the multiple dwelling registration flat fee to a per unit fee, energy conservation, eliminating jury duty for teachers, capturing property tax rebates from delinquent water and sewer payers, expanding the bottle bill, and implementing sales tax on fuel sold to airlines.

Appendix — Revenue and Expenditure Details

Table A1. *FY 2006 Executive Budget Revenue Detail*

($ in millions)

	FY 2006	FY 2007	FY2008	FY2009	Change FYs 2006-2009 Percent	Dollar
Taxes:						
Real Property	$12,479	$13,216	$14,176	$14,850	19.0%	$2,371
Personal Income Tax	6,586	6,455	6,655	7,121	8.1	535
General Corporation Tax	1,908	2,052	2,091	2,249	17.9	341
Banking Corporation Tax	497	496	456	452	(9.1)	(45)
Unincorporated Business Tax	1,077	1,123	1,156	1,212	12.5	135
Sale and Use	4,345	4,470	4,418	4,655	7.1	310
Commercial Rent	456	466	480	493	8.1	37
Real Property Transfer	593	608	595	609	2.7	16
Mortgage Recording Tax	634	584	554	554	(12.6)	(80)
Utility	306	309	312	314	2.6	8
Cigarette	120	118	114	112	(6.7)	(8)
Hotel	267	277	291	306	14.6	39
All Other	419	394	396	395	(5.7)	(24)
Tax Audit Revenue	512	509	509	509	(0.6)	(3)
Tax Reduction Program	(235)	(177)	(17)	(38)	(83.8)	197
Total Taxes	**$29,964**	**$30,900**	**$32,186**	**$33,793**	**12.8%**	**$3,830**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$379	$371	$373	$370	(2.4%)	($9)
Interest Income	142	115	123	134	(5.6)	(8)
Charges for Services	530	512	512	512	(3.4)	(18)
Water and Sewer Charges	998	1,001	1,017	1,037	3.9	39
Rental Income	176	180	178	170	(3.4)	(6)
Fines and Forfeitures	692	691	691	690	(0.3)	(2)
Miscellaneous	599	343	342	344	(42.6)	(255)
Intra-City Revenue	1,249	1,249	1,249	1,249	0.0	0
Total Miscellaneous	**$4,765**	**$4,462**	**$4,485**	**$4,506**	**(5.4%)**	**($259)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	235	235	235	235	0.0	0
Total Unrestricted Intergovernmental Aid	**$562**	**$562**	**$562**	**$562**	**0.0%**	**$0**
Anticipated State and Federal Aid:						
Anticipated State Aid	$0	$0	$0	$0	0.0%	$0
Anticipated Federal Aid	50	0	0	0	(100.0)	(50)
Total Anticipated Aid	**$50**	**$0**	**$0**	**$0**	**(100.0%)**	**($50)**
Other Categorical Grants	$923	$927	$932	$938	1.6%	$15
Inter Fund Agreements	$364	$355	$343	$343	(5.8%)	($21)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra-City Revenue	(1249)	(1,249)	(1249)	(1,249)	0.0	0
TOTAL CITY FUNDS	$35,364	$35,942	$37,244	$38,878	9.9%	$3,515

Table A1 (Con't). *FY2006 Executive Budget Revenue Detail*

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2006-2009 Percent	Dollar
Federal Categorical Grants:						
Community Development	$269	$247	$247	$247	(8.2%)	($22)
Welfare	2,101	2,030	2,029	2,029	(3.4)	(72)
Education	1,808	1,808	1,808	1,808	0.0	0
Other	903	773	764	763	(15.5)	(140)
Total Federal Grants	$5,081	$4,858	$4,848	$4,847	(4.6%)	($234)
State Categorical Grants						
Welfare	$1,816	$1,868	$1,868	$1,868	2.9%	$52
Education	6,516	6,549	6,607	6,643	1.9	127
Higher Education	188	188	188	188	0.0	0
Department of Health and Mental Hygiene	431	435	439	444	3.0	13
Other	328	321	319	321	(2.1)	(7)
Total State Grants	$9,279	$9,361	$9,421	$9,464	2.0%	$185
TOTAL REVENUE	$49,724	$50,161	$51,513	$53,189	7.0%	$3,466

Table A2. FY 2006 Executive Budget Expenditure Detail

($ in thosuands)

	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2006-2009 Percent	Dollar
Mayoralty	$71,213	$70,957	$70,478	$70,478	(1.0%)	($735)
Board of Elections	77,884	68,884	68,884	68,884	(11.6)	(9,000)
Campaign Finance Board	74,997	8,091	8,091	8,091	(89.2)	(66,906)
Office of the Actuary	4,731	4,731	4,731	4,731	0.0	0
President, Borough of Manhattan	3,343	3,121	3,121	3,121	(6.6)	(222)
President, Borough of the Bronx	4,757	4,491	4,491	4,491	(5.6)	(266)
President, Borough of Brooklyn	4,379	3,926	3,926	3,926	(10.3)	(453)
President, Borough of Queens	4,106	3,685	3,685	3,685	(10.3)	(421)
President, Borough of S.I.	3,265	3,127	3,127	3,127	(4.2)	(138)
Office of the Comptroller	60,737	60,826	60,526	60,734	(0.0)	(3)
Dept. of Emergency Management	4,798	5,294	5,294	5,294	10.3	496
Tax Commission	2,325	2,325	2,325	2,325	0.0	0
Law Department	113,877	106,708	106,708	106,708	(6.3)	(7,169)
Department of City Planning	19,817	19,612	19,612	19,612	(1.0)	(205)
Department of Investigation	16,715	16,715	16,715	16,715	0.0	0
NY Public Library-Research	4,989	15,891	15,892	15,892	218.5	10,903
New York Public Library	26,558	84,212	84,252	84,252	217.2	57,694
Brooklyn Public Library	20,183	62,928	62,962	62,962	212.0	42,779
Queens Borough Public Library	20,147	60,590	60,673	60,673	201.2	40,526
Department of Education	14,063,153	14,156,862	14,218,488	14,326,935	1.9	263,782
City University	525,930	523,119	522,904	522,921	(0.6)	(3,009)
Civilian Complaint Review Bd.	8,897	8,862	8,862	8,862	(0.4)	(35)
Police Department	3,358,915	3,381,378	3,384,428	3,384,511	0.8	25,596
Fire Department	1,178,042	1,184,553	1,184,317	1,183,714	0.5	5,672
Admin. for Children Services	2,127,654	2,077,636	2,077,273	2,077,273	(2.4)	(50,381)
Department of Social Services	7,204,833	7,353,177	7,503,349	7,648,916	6.2	444,083
Dept. of Homeless Services	$675,163	652,338	652,337	652,337	(3.4)	(22,826)
Department of Correction	799,154	791,235	791,271	791,378	(1.0)	(7,776)
Board of Correction	853	853	853	853	0.0	0
Department of Employment	0	0	0	0	0.0	0
Citywide Pension Contributions	4,625,612	4,881,897	4,774,792	4,646,976	0.5	21,364
Miscellaneous	5,272,872	5,919,052	6,502,646	7,099,721	34.6	1,826,849
Debt Service	1,575,886	4,160,841	4,517,284	4,880,150	209.7	3,304,264
M.A.C. Debt Service	10,000	10,000	10,000	0	(100.0)	(10,000)
NYCTFA Debt Service*	0	954,729	982,550	988,161	0.0	988,161
Public Advocate	1,897	1,897	1,897	1,897	0.0	0
City Council	47,411	46,518	46,518	46,518	(1.9)	(893)
City Clerk	3,040	3,040	3,040	3,040	0.0	0
Department for the Aging	218,290	210,200	210,200	210,200	(3.7)	(8,090)
Department of Cultural Affairs	105,170	104,845	104,845	104,845	(0.3)	(325)
Financial Info. Serv. Agency	48,971	44,875	42,356	42,356	(13.5)	(6,615)
Department of Juvenile Justice	99,345	98,395	98,395	98,395	(1.0)	(950)
Office of Payroll Admin.	11,660	10,578	10,578	10,578	(9.3)	(1,082)
Independent Budget Office	2,776	2,746	2,746	2,746	(1.1)	(30)
Equal Employment Practices Com	711	711	711	711	0.0	0

Table A2 (Con't). *FY2006 Executive Budget Expenditure Detail*

($ in thosuands)

	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2006-2009 Percent	Dollar
Civil Service Commission	$597	$597	$597	$597	0.0%	$0
Landmarks Preservation Comm.	3,571	3,571	3,571	3,571	0.0	0
Districting Commission	0	0	0	0	0.0	0
Taxi & Limousine Commission	25,989	25,338	25,338	25,338	(2.5)	(651)
Commission on Human Rights	6,804	6,804	6,804	6,804	0.0	0
Youth & Community Development	220,601	222,239	222,514	222,514	0.9	1,913
Conflicts of Interest Board	1,351	1,351	1,351	1,351	0.0	0
Office of Collective Barg.	1,626	1,626	1,626	1,626	0.0	0
Community Boards (All)	12,633	12,633	12,633	12,633	0.0	0
Department of Probation	75,756	75,209	75,209	75,209	(0.7)	(547)
Dept. of Small Business Services	92,165	87,888	87,888	87,888	(4.6)	(4,277)
Housing Preservation & Dev.	516,533	514,418	514,308	513,180	(0.6)	(3,353)
Department of Buildings	77,931	69,422	68,135	66,570	(14.6)	(11,361)
Department of Public Health & Mental Hygiene	1,523,438	1,490,576	1,506,801	1,522,665	(0.1)	(773)
Health and Hospitals Corp.	784,339	952,640	936,598	922,913	17.7	138,574
Dept. of Environmental Prot.	808,567	790,758	785,922	785,982	(2.8)	(22,585)
Department of Sanitation	1,070,288	1,107,265	1,107,026	1,107,471	3.5	37,183
Business Integrity Commission	5,561	5,561	5,561	5,561	0.0	0
Department of Finance	197,784	199,017	199,086	199,086	0.7	1,302
Department of Transportation	487,723	483,884	483,884	483,884	(0.8)	(3,839)
Dept. of Parks and Recreation	224,212	222,236	215,749	215,749	(3.8)	(8,463)
Dept. of Design & Construction	98,255	98,254	94,254	88,254	(10.2)	(10,001)
Dept. of Citywide Admin. Services	264,188	259,777	258,563	258,556	(2.1)	(5,632)
D.O.I.T.T.	168,681	189,238	186,534	186,469	10.5	17,788
Dept. of Records & Info. Serv.	3,801	3,801	3,801	3,801	0.0	0
Department of Consumer Affairs	13,136	13,249	13,249	13,249	0.9	113
District Attorney - N.Y.	67,686	63,527	63,527	63,527	(6.1)	(4,159)
District Attorney - Bronx	39,727	37,254	37,254	37,254	(6.2)	(2,473)
District Attorney - Kings	68,067	64,489	64,489	64,489	(5.3)	(3,578)
District Attorney - Queens	35,445	33,386	33,386	33,386	(5.8)	(2,059)
District Attorney - Richmond	6,054	5,682	5,682	5,682	(6.1)	(372)
Off. Of Prosec. & Spec. Narc.	13,862	13,571	13,571	13,571	(2.1)	(291)
Public Administrator - N.Y.	1,020	1,020	1,020	1,020	0.0	0
Public Administrator - Bronx	338	338	338	338	0.0	0
Public Administrator - Brooklyn	465	465	465	465	0.0	0
Public Administrator - Queens	363	363	363	363	0.0	0
Public Administrator - Richmond	282	282	282	282	0.0	0
Prior Payable Adjustment	0	0	0	0	0.0	0
General Reserve	300,000	300,000	300,000	300,000	0.0	0
Energy Adjustment	0	10,903	2,475	(3,160)	0.0	(3,160)
Lease Adjustment	0	25,669	43,331	61,476	0.0	61,476
OTPS Inflation Adjustment	0	52,842	107,007	162,526	0.0	162,526
City-Wide Totals	$49,723,895	$54,633,594	$55,748,325	$56,891,835	14.4%	$7,167,940

Glossary of Acronyms

AIRA	Actuarial Investment Return Assumption
CFE	Campaign for Fiscal Equity, Inc.
COLA	Cost of Living Allowances
CUNY	City University of New York
DC 37	District Council 37
DOC	Department of Correction
DOE	Department of Education
DSS	Department of Social Services
EIA	Energy Information Administration
FHP	Family Health Plus
FFFS	Flex Fund for Family Services
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GDP	Gross Domestic Product
GO Debt	General Obligation Debt

HHC	Health and Hospitals Corporation
MAC	Municipal Assistance Corporation
NYC	New York City
NYCERS	New York City Employees' Retirement System
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PERB	Public Employment Relations Board
PS	Personal Services
PIT	Personal Income Tax
PTYCS	Preliminary Ten-Year Capital Strategy
RDF	Rainy Day Fund
STAR	School Tax Relief Program
TRS	Teachers' Retirement System
TSR	Tobacco Settlement Revenues

TYCS	Ten-Year Capital Strategy
UFT	United Federation of Teachers
U.S.	United States