

The Comptroller's Comments on The Fiscal Year 2004 Executive Budget



The City of New York
Office of the Comptroller
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Executive Summary

The City is in the midst of difficult economic times. The combination of recession and the impact of the destruction of the World Trade Center, exacerbated by the problems which have roiled the nation's financial markets, is clearly reflected in the City's financial condition. Over the past 15 months the City has implemented \$4.6 billion in FY 2004 gap-closing actions, including an 18.5 percent property tax increase, while borrowing \$2 billion to meet operating expenses. Yet, after these extraordinary actions, the Mayor's Executive Budget still contained a FY 2004 deficit of at least \$3.8 billion.

Required by law to present a balanced budget, the Mayor proposed a wide-ranging series of actions to close the FY 2004 gap. They included \$1.4 billion in new taxes, more than \$1.1 billion in State aid above current projections, \$620 million in agency gap-closing initiatives, \$200 million in additional Federal aid, \$200 million in back rent for the airports from the Port Authority, \$200 million from transportation initiatives and \$75 million from reorganization and consolidation of certain social services programs. The agency reduction program assumes that more than 4,000 employees will be terminated before the end of the current fiscal year.

New Taxes	\$1,400
State Aid	1,105
Agency PEGs	620
Federal Aid	200
Airport Rent	200
Transportation	200
Social Services	<u>75</u>
Total	\$3,800

The State Legislature has approved a State budget and associated initiatives which, if enacted into law, will assist the City in balancing its own budget. After reviewing the Mayor's submission, and accounting for the impact of the State budget enacted by the Legislature, we find that the FY 2004 Executive Budget contains \$618 million in risks. We also find that the City faces a \$2.9 billion deficit for FY 2005, the fiscal year beginning July 1, 2004, as shown on Table 2 on page 2.

Since the majority of the FY 2004 gap-closing program depends on initiatives outside of the City's control, the Mayor also proposed a series of contingency actions including a request of the City's unions for \$600 million in labor productivity savings. The contingency initiatives also include a further \$1 billion in City agency reductions which will require the layoff of an additional 10,491 City employees. Reductions of this magnitude would have a devastating impact on the City's ability to deliver core services.

The ongoing dispute between the Governor and the State Legislature over the State budget, combined with the risks contained in the Executive Budget could require the City to implement another round of cutbacks and layoffs. Therefore, it is not unreasonable to assume that the City will be forced to implement at least a portion of the proposed contingency cuts.

Table 1. Four-Year Financial Plan, Executive Budget FY 2004

(\$ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Revenues				
Taxes:				
General Property Tax	\$11,176	\$11,579	\$12,002	\$12,446
Other Taxes	14,644	15,615	16,535	17,519
Tax Audit Revenues	525	505	505	505
Miscellaneous Revenues	4,467	4,558	4,052	4,077
Unrestricted Intergovernmental Aid	555	555	555	555
Anticipated State & Federal Actions	600	1,050	1,250	1,250
Less: Intra-City Revenue	(1,075)	(1,072)	(1,070)	(1,070)
Disallowances Against Categorical Grants	(15)	(15)	(15)	(15)
Subtotal: City Funds	\$30,877	\$32,775	\$33,814	\$35,267
Other Categorical Grants	816	739	759	774
Inter-Fund Revenues	317	310	310	310
Total City & Inter-Fund Revenues	\$32,010	\$33,824	\$34,883	\$36,351
Federal Categorical Grants	4,464	4,363	4,347	4,357
State Categorical Grants	8,255	8,346	8,409	8,481
Total Revenues	\$44,729	\$46,533	\$47,639	\$49,189
Expenditures				
Personal Service				
Salaries and Wages	\$16,095	\$16,099	\$16,102	\$16,106
Pensions	2,719	3,443	4,398	4,986
Fringe Benefits	4,797	5,057	5,354	5,651
Subtotal-Personal Services	\$23,611	\$24,599	\$25,854	\$26,743
Other Than Personal Service				
Medical Assistance	4,238	4,387	4,531	4,535
Public Assistance	2,092	2,099	2,101	2,103
All Other	11,815	11,972	12,184	12,393
Subtotal-OTPS	\$18,145	\$18,458	\$18,816	\$19,031
Debt Service				
Principal	1,546	1,635	1,655	1,731
Interest & Offsets	1,713	1,879	2,000	2,137
Subtotal Debt Service	\$3,259	\$3,514	\$3,655	\$3,868
MAC Debt Service				
Principal	393	405	429	449
Interest & Offsets	138	85	63	45
Subtotal MAC Debt Service	\$531	\$490	\$492	\$494
NYCTFA				
Principal	185	361	375	391
Interest & Offsets	21	635	618	605
Subtotal Debt Service	\$206	\$996	\$993	\$996
General Reserve	300	300	300	300
Discretionary Transfers	(248)	0	0	0
	\$45,804	\$48,357	\$50,110	\$51,432
Less: Intra-City Expenses	(1,075)	(1,072)	(1,070)	(1,070)
Total Expenditures	\$44,729	\$47,285	\$49,040	\$50,362
Gap To Be Closed	\$0	(\$752)	(\$1,401)	(\$1,173)

NOTE: Other Taxes include NYCTFA revenues.

Discretionary transfers total \$1,023 million, including delayed receipt of revenues from the Transitional Finance Authority of \$624 million and TSASC of \$151 million, prepayments of subsidies of \$175 million, and lease debt service of \$73 million.

Table 2. *Executive Budget: Assessment of Risks and Offsets*

(\$ in millions)

	FY 2004	FY 2005
City Stated Gap	\$0	(\$752)
Baseline Assumptions		
Property Tax	\$16	(\$18)
Non-Property tax	(139)	(95)
Sale of Tax Benefits	(100)	0
Overtime	(172)	(170)
Disaster Relief Medicaid	(50)	(50)
Public Assistance	(20)	(20)
Surplus Roll	24	0
Subtotal	(\$441)	(\$353)
Actions Outside City's Control		
Airport Settlement	(\$200)	(\$583)
Regional Transportation Initiatives	(200)	(600)
State Legislative Budget	223	(611)
Subtotal	(\$177)	(\$1,794)
Total Risk	(\$618)	(\$2,147)
Remaining Gap	(\$618)	(\$2,899)

The Economy

The economic weakness seen in calendar 2002 persists into 2003. Although the war with Iraq has ended, issues of postwar reconstruction remain and contribute to economic uncertainty. Confidence in Wall Street has not been fully restored, there are world wide fears of terrorist activity and new threats have emerged, such as the spread of the SARS illness. Some corporate earnings reports are favorable, but the job market remains weak and the unemployment rate has risen.

The loss of wealth from the stock market decline and the waning of the positive effects of mortgage refinancing have kept consumer spending in check. On the corporate side, lack of pricing power, a squeezing of profit margins, a liquidity crunch and accounting concerns continue to depress private investment. Government expenditure, which at all levels of government is being financed heavily by debt, could compete with the private sector for scarce capital resources, especially when recovery gets under way. A bright spot could be a decline in the U.S. net export deficit because of a weaker dollar, but that depends on economic recovery elsewhere in the world.

THE NEW YORK CITY ECONOMY

New York City's troubles are more intractable than those of the nation. The bursting of the dot-com bubble in March 2000 was the first dramatic indicator of the coming recession. This was followed by a broad and deep decline in the equity markets. Both the City and national economies experienced recession in the first three quarters of 2001. The September 11 attacks on the World Trade Center deepened the local recession from which the City has still not recovered. While still reeling from the 9/11 attacks, NYC was affected further by the disclosures of corporate accounting fraud that have depressed stock prices and led to restated corporate earnings. The nation, however, appears (unofficially) to have begun its recovery in the fourth quarter of 2001.

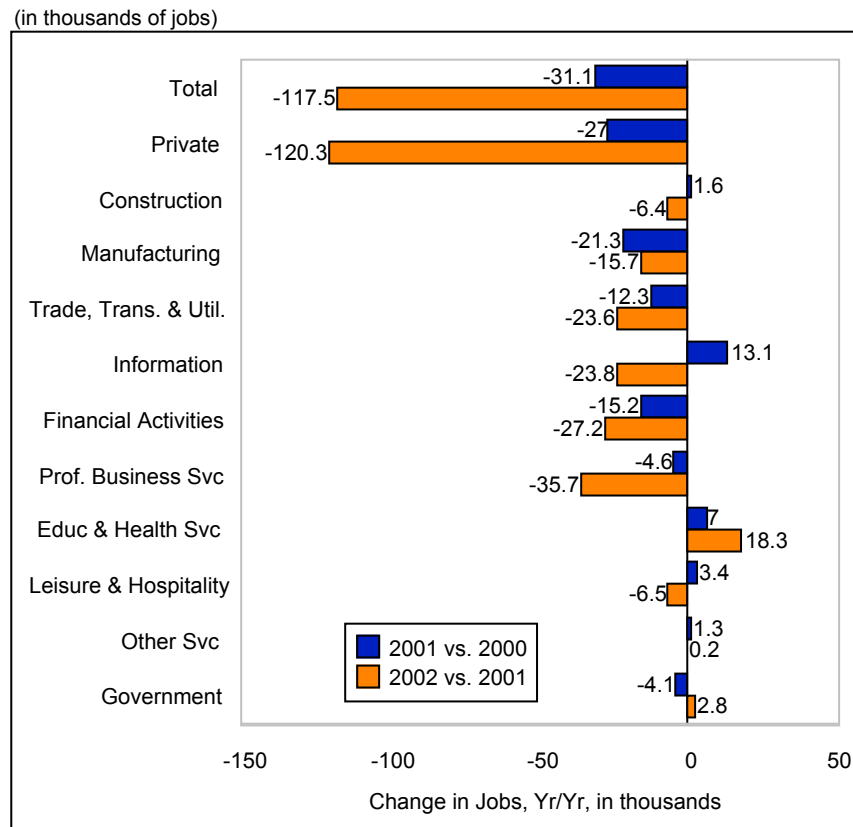
In 2002, NYC's real Gross City Product (GCP) fell 4.7 percent after falling 0.3 percent in 2001. The City's payroll jobs fell by 117,500; the worst drop since the 191,300 jobs decline in 1991. In 2002, every industrial sector lost jobs except for education, health services and government. Of all the industries that lost jobs, only manufacturing lost fewer jobs in 2002 than in 2001, as shown in Chart 1.

Household employment has also deteriorated. The number of unemployed New Yorkers rose by 75,000 in 2002, compared with 9,100 in 2001. As a result, the City's unemployment rate rose to 7.9 percent in 2002, up from 6.0 percent in 2001.

The lack of job growth reflects companies' attempts to cut costs. Further evidence that firms are reining in spending was provided by weakness in the commercial office space market. The Manhattan commercial vacancy rate rose to 12 percent in 2002, compared with nine percent in 2001.

Finally, the \$25 billion tourism industry, having suffered both from fears of terrorism and from economic weakness, still edged up slightly in 2002. However, threats of terrorism, concern about SARS and the general economic slowdown continue to haunt this industry. According to NYC & Company, the City's tourism agency, these factors could continue to negatively affect the City's tourism industry.

Chart 1. Year-over-Year Changes in Jobs by Industry Sector, NYC 2002 and 2001



SOURCE: NYS and U.S. Departments of Labor. Categories follow the new North America Industry Classification System (NAICS).

FORECASTS OF THE U.S. AND NYC ECONOMIES

The Comptroller's forecast for 2003-2004 assumes a slower economic recovery in both the City and the nation than the Mayor's forecast. The Comptroller's analysis gives more weight to certain factors that could delay improvement in the local economy despite an upturn in the national economy.

United States

The Comptroller projects that the U.S. GDP will grow two percent in 2003, less than the 2.4 percent growth in 2002. Overall, the Comptroller's forecast calls for small, but positive, GDP growth in 2003 and in 2004 as shown in Table 3.

Table 3. *Projected Real GDP, Percent Change, 2003-2004*

	2003	2004
Comptroller	2.0	3.2
Mayor	1.9	4.0

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office.
Mayor=Forecast by the NYC Office of Management and Budget.

However, national economic growth in 2003 is not likely to be accompanied by job growth. Payroll jobs, which declined 0.9 percent in 2002, are expected to fall 0.3 percent in 2003 because of cost cutting and a low level of corporate investment. The Comptroller's and the Mayor's projections are shown in Table 4.

Table 4. *Projected Forecasts of Payroll Jobs, Percent Change, 2003-2004*

	2003	2004
Comptroller	-0.3	0.5
Mayor	0.0	1.8

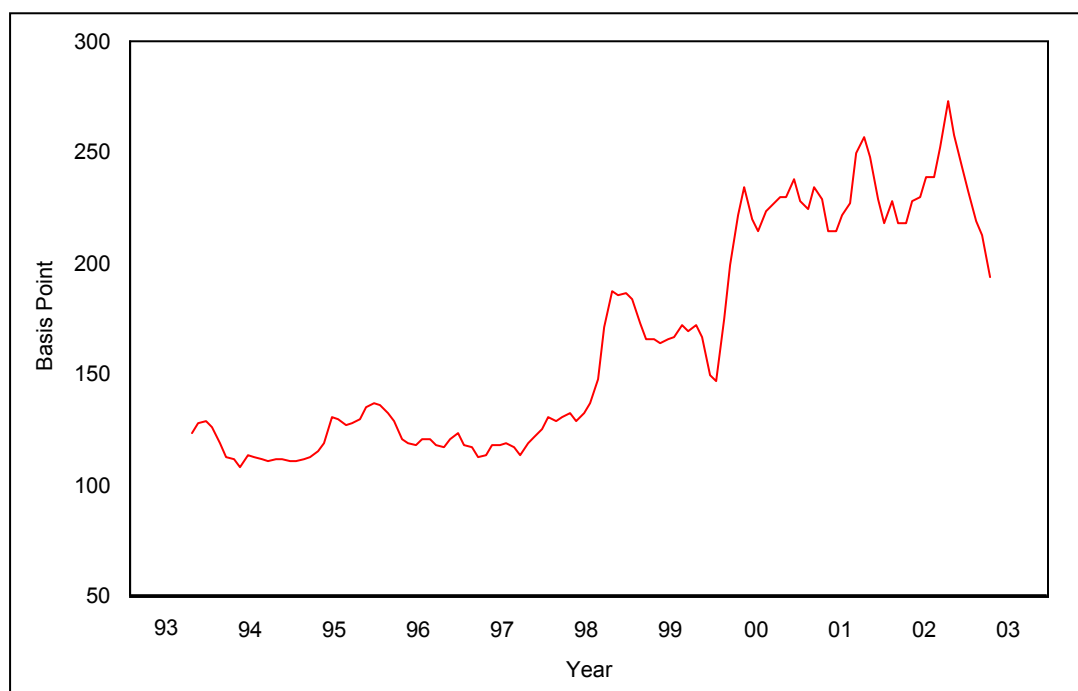
SOURCE: Comptroller=Forecast by the NYC Comptroller's Office for 2003-2004.
Mayor=Forecast by the NYC Office of Management and Budget for 2003-2004.

The Comptroller's forecast reflects continuing U.S. economic uncertainty. Despite GDP growth of 1.6 percent in the first quarter of 2003 the labor market remains weak. Initial unemployment claims were 428,000 during the week ending May 17, the latest data available. Claims remained above the 400,000 level for the 13th consecutive week, indicating continued workforce cutbacks. The help-wanted advertising index fell to 38 in March, the lowest since November 1963. A weak labor market is further signaled by the Institute of Supply Management Index, which fell for the third consecutive month, to 45.4 in April 2003.

The Conference Board's index of leading indicators grew slightly (0.1 percentage point) to 110.6 in April. However, between November 2002 and April 2003, the leading index increased by only 0.2 percentage points, another sign that recovery is likely to be slow and uneven.

Recent positive economic developments include a slight rebound in the equity markets. As of the end of April, the S&P 500 index has risen 4.2 percent since the beginning of 2003. Also, the bond markets are more favorable for financing. The quality yield spread, as measured by the difference between the yield on private debt (Baa corporate bonds) and government debt (20-year Treasury bonds), is tightening, as shown in Chart 2. A large spread makes private borrowing and investment less attractive, so the yield spread decline is a favorable development.

Chart 2. Yield Difference between Private and U.S. Debt, Basis Points, Monthly, October 1993 – April 2003



SOURCE: Federal Reserve Board of Governors.

NOTE: Yield difference=yield on 20-year US debt minus yield on private debt. Private debt=yield on Baa-corporate bonds. U.S. debt=yield on 20-year Treasury bonds.

New York City – Comptroller’s Forecast for 2003 and 2004

The Comptroller projects that the City’s economy will recover in 2004, as shown in Table 5. Unlike the nation, the City is expected to see a decline in both GCP and payroll jobs in 2003. Furthermore, the City’s economic recovery in 2004 is expected to be slower than the nation’s.

Table 5. Projected Change in NYC’s Real GCP and Payroll Jobs, 2003-2004

	2003	2004
Real GCP, %	-3.7	0.8
Payroll Jobs,'000	-63.5	5.1

SOURCE: NYC Comptroller’s Office.

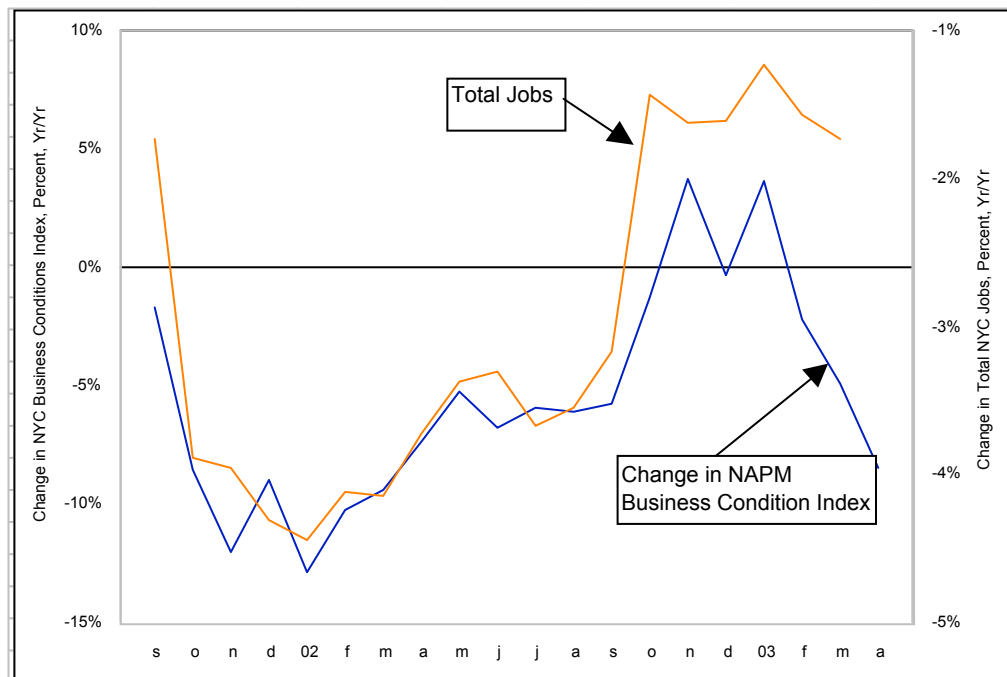
A U.S. economic revival in the second half of 2003 may not necessarily pull the City out of its recession until 2004. Several factors are responsible for the City’s continued economic difficulties, notably:

- Unresolved Wall Street issues of corporate governance and auditor independence, affecting stock market prices and Wall Street profits.

- Continuing concerns, among businesses and residents, of the possibility of another terrorist attack.
- A decline in tourism, reflecting fears of terrorism and more recently SARS.
- Continuing slow recovery of the dot-com and information sector.

As of March 2003, the City's leading economic indicators show a decline on a year-over-year basis. The number of building permits authorized did not change. Also, the help-wanted advertising index fell 13.6 percent during the first three months of 2003, after falling 32.7 percent in 2002. Finally, the New York City Business Conditions Index (NY-BCI) fell to 240.3 in March from 244.8 in February. Changes in the NYC jobs are highly correlated with changes in NY-BCI, as shown in Chart 3. A decline in NY-BCI therefore implies further job losses.

Chart 3. Changes in NYC Total Jobs vs. Changes in NYC Business Conditions Index, September 2001 – April 2003



SOURCE: National Association of Purchasing Management and NYC Department of Labor.

New York City – Comments on the Mayor's Forecast

The comparison between the Mayor's and the Comptroller's forecasts of real GCP growth and payroll-job growth is provided in Tables 6 and 7. Both the Mayor and the Comptroller project that the City's economy will continue to decline in 2003, and both project a City recovery in 2004. The difference between the two forecasts is the

magnitude of the changes. The Comptroller's forecast predicts a greater loss in GCP in 2003 and less of a gain in 2004 than the Mayor's. At the same time, the Comptroller expects somewhat fewer jobs to be lost in 2003 than the Mayor does, while projecting a smaller upturn in 2004. The reason for the difference is that the Comptroller anticipates a longer delay between the U.S. and the local recovery than the Mayor does.

Table 6. *Projected NYC GCP, Percent Change, 2003-2004*

	2003	2004
Comptroller	-3.7	0.8
Mayor	-3.3	2.9

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office.
Mayor=Forecast by the Mayor (Office of Management and Budget)
in the Executive Budget.

Table 7. *Projected Payroll Jobs, Change in Thousands, 2003-2004*

	2003	2004
Comptroller	-63.5	5.1
Mayor	-75.0	20.0

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office, 2003-2004.
Mayor=Forecast by the NYC Office of Management and Budget, 2003-2004.

The Projections

REVENUE ASSUMPTIONS

New York City's economy remains stalled in recession as the economic effects of earlier problems hinder recovery. The national economy, though stronger, is still fragile and is not expected to provide major stimulus to the City's economy in the near future.

Tax Revenues

Many economic forecasts for calendar 2003, made in the first half of 2002, anticipated economic recovery from the September 11 attacks in the current year.¹ Unfortunately, the local recession persists. The City has, therefore, reduced its economic and tax forecasts. The Comptroller believes that while the City is taking appropriate actions to account for the impact of these events, recovery will be slower than the City projects. Therefore, there are risks of about \$123 million to the City's FY 2004 tax-revenue projections.²

FY 2004 Tax-Revenue Risks and Offsets	
(\$ in millions)	
Tax	Risk/Offset
Property	\$16.0
Personal Income	(146.9)
Business	(1.1)
Sales	33.3
All Other	(23.8)
Total	(\$122.5)

The City's FY 2004 Executive Budget has reduced tax-revenue forecasts for FY 2004 by \$281 million, or 1.2 percent, compared with the Preliminary Budget.³ The drop in the forecast is due to a downward revision of \$290 million, or 2.3 percent, to the economically sensitive non-property taxes, as a result of the lowered expectations in the economic outlook.⁴

On a year-over-year basis, FY 2004 tax revenue estimates are higher by \$1.4 billion, or 6.2 percent compared with FY 2003. This is primarily the result of an increase in property taxes. Property tax collections are projected to grow \$1.2 billion, or 12.1 percent, mainly because of the full year effect of the 18.5 percent rate increase. Non-property taxes are projected to increase by only \$183 million, or 1.5 percent, as the City's

¹ In May 2002, the Comptroller forecasted that GCP would increase two percent in 2003 while the City assumed growth of 4.7 percent. See "The Comptroller's Comments on the Economic Assumptions underlying the Executive Budget for Fiscal Year 2003," May 2002.

² This analysis examines the City's baseline revenue assumptions. The impact of recent State actions is discussed in "Risks and Offsets" beginning on page 32.

³ The definition of tax revenues used throughout this section excludes the proposed tax program, audits and the school tax relief program (STAR) but includes the portion of personal income tax set aside for the New York City Transitional Finance Authority (NYCTFA).

⁴ Higher projections of property-tax revenue provide an offset of \$9 million.

output or Gross City Product (GCP) and payroll jobs are expected to decline for a third straight year in 2003.

The extent of the City's tax revenue difficulties is demonstrated by two comparisons. One compares actual collections with the FY 2003 Adopted Budget assumptions and the other illustrates how current-year collections compare to FY 2002, which was also a poor year for the economy.

Compared with the June 2002 Adopted Budget assumptions, collections for the first nine months of FY 2003 are \$583 million below what was projected for this period as illustrated in Table 8. The three major non-property taxes, personal income (PIT), business and sales, which drive tax-revenue growth when the economy is doing well, are also demonstrating their sensitivity to economic conditions. PIT collections are below the Adopted Budget assumption by \$365.8 million, the three business taxes are below by \$355.7 million and sales taxes are below by \$21.5 million. The resulting deficit is \$743 million. This shortfall is primarily offset by \$159.5 million in higher-than-expected collections from several real-estate-related taxes, which have shown strength in the current low-interest rate environment. As revenue collections fell below the Adopted Budget forecasts, expenditures have also been reduced over the course of the fiscal year.

Table 8. FY 2003 Non-Property Taxes, First Nine-Months' Collections vs. FY 2003 Adopted Budget Assumptions and FY 2002 Actuals, Same Period.

(\$ in millions)

Tax	Vs. FY2003 Adopted Budget Above(Below)	Vs. FY 2002 Actuals Above(Below)
Personal Income	(\$365.8)	(\$0.9)
General Corporation	(193.1)	(103.4)
Banking Corporation	(131.4)	(142.4)
Unincorporated Business	(31.2)	9.2
Sales	(21.5)	150.2
Commercial Rent	11.9	16.3
Mortgage Recording	80.3	30.1
Real Property Transfer	52.8	106.7
Utility	10.6	20.7
Other	3.8	115.6
Total Non-Property	(\$583.5)	\$202.3

On a year-over-year basis, non-property tax collections for the first nine months of FY 2003 are above the same period in FY 2002 by \$202 million as illustrated in the table above. In comparison, the first nine months of non-property tax collections in FY 2002 were \$1.3 billion below the same period in FY 2001.⁵ Thus, the City's FY 2003 collections to date remain \$1.1 billion below the FY 2001 level. In this context, it is of particular concern that the general corporation and business corporation tax collections are significantly below their FY 2002 collection levels.

⁵ FY 2002 first nine-months' non-property tax collections were \$8.9 billion compared with \$10.2 billion that was collected for the same period in FY 2001.

The City now expects PIT to decline \$85 million compared to FY 2002 in spite of the reinstatement of the 14 percent surcharge. This expected loss might be overstated since current PIT collections are within \$1 million of last year's levels on a year-to-year basis. Collections for April 2003 indicate that the major adjustments in settlement payments that were made last April did not recur this year. The City's cash plan projected PIT collections of \$430.6 million during April while preliminary numbers indicate that \$515 million was collected. This was an unexpected increase and hopefully signals a more favorable trend for PIT in FY 2004. The City currently expects \$150 million in PIT growth in the coming fiscal year.

Collections in FY 2003 for the three business taxes are expected to be \$307 million below FY 2002 levels. In contrast, the City expects these business taxes to gain \$178 million in FY 2004. PIT and business tax projections for FY 2004 may be somewhat optimistic as the economy is unlikely to meet the City's expectation.

Sales tax revenues continue to show more resilience than the income-based taxes. Collections are below the Adopted Budget assumptions by only \$21.5 million and are growing 6.1 percent on a year-over-year basis. However, the FY 2004 forecast for sales tax revenues is weak because of the economy and the effects of energy market deregulation.⁶

The growth of real-estate-related taxes is expected to slow as refinancing activities taper off. The mortgage recording tax revenues, though 8.7 percent above FY 2002 for the first nine months of FY 2003, have not shown growth for the past three months. The real property transfer tax continues to increase compared with FY 2002 but the growth is slowing. These taxes are forecast to decline in FY 2004, a reasonable assumption given trends and forecasts for interest rates and real estate markets.

As economic conditions deteriorated and collections fell below plan, the City lowered tax revenue projections in the November, January and April modifications to the FY 2003 Adopted Budget. Lowered economic assumptions for 2003 and 2004 have resulted in lowered non-property tax revenue forecasts for FY 2004 as illustrated in Table 9. Thus, while the City expected the economy to recover from September 11 attacks by 2003 and resume growth, these assumptions have been undermined by the economic factors out of the City's control. In June 2002 when the FY 2003 budget was adopted, the City expected GCP for 2003 to grow by 4.7 percent and jobs to increase by 35,300. By April 2003, the growth assumption for GCP in 2003 was revised to a decline of 3.3 percent with jobs to decline by 75,000. Fiscal year 2004 begins July 1, 2003, hence tax revenue assumptions for FY 2004 are affected by the poor growth scenario for calendar year 2003.

⁶ The phase-out of sales tax on the transmission and delivery component of the electricity and natural gas market will be completed by September 2003.

Table 9. *Changes to the City's Economic and Non-Property Tax-Revenue Assumptions*

	2003 Forecasts		2004 Forecasts	
	Jun 2002	Apr 2003	Jan 2003	Apr 2003
GCP Growth %	4.7	-3.3	3.7	2.9
Job Change ('000)	35.3	-75.0	49.1	20.0
Non-Property Tax Revenue Growth %	6.6	0.1	2.9	1.5

Economic growth assumptions for calendar 2004 have been lowered since the Preliminary Budget was released in January. GCP for 2004 is expected to increase only 2.9 percent compared with 3.7 percent that was forecast in January as shown in Table 9. Jobs are projected to increase only 20,000 compared with a forecast of 49,000 in January. Unfortunately, as discussed beginning on page 6, the Comptroller's forecasts are even less optimistic leading to our \$123 million revenue risk.

Miscellaneous Revenue

Miscellaneous revenues include a variety of non-tax revenues such as fees and fines, rental income, interest income, water and sewer revenues and asset sales. The Executive Budget anticipates collections of \$3.4 billion in miscellaneous revenues in FY 2004. This

FY 2004 Miscellaneous Revenue (\$ in millions)			
	Preliminary	Executive	Diff.
Licenses, Franchises, Etc.	\$352	\$352	\$0
Interest Income	\$67	\$56	(\$11)
Charges for Service	\$480	\$488	\$8
Water and Sewer Charges	\$866	\$910	\$44
Rental Income	\$789	\$288	(\$501)
Fines and Forfeitures	\$666	\$667	\$1
Miscellaneous	\$378	\$630	\$252
Total	\$3,597	\$3,391	(\$207)

represents a net decrease of \$207 million from the amount forecasted in the January modification exclusive of private grants and intra-city revenues. As the figure above shows, a reduction of \$501 million in the rental income estimate accounts for the bulk of the decrease. This reduction as well as lower projections for interest income are somewhat offset by higher expected income from the remaining miscellaneous revenue items with the Miscellaneous category accounting for most of the increase.

The bulk of the decrease in rental income for FY 2004 results from the City's lowered expectation of the amount it will be able to recover, in FY 2004, for retroactive rental payments from the Port Authority of New York and New Jersey. These rental payments relate to the operation of JFK and LaGuardia airports. When the Preliminary Budget was released, the City expected to recover \$690 million in airport rental payments in FY 2004. Recognizing the uncertainty of these negotiations and the potential for a substantial shortfall in the FY 2004 budget, the City has lowered its FY 2004 estimate to \$200 million for airport rent and arbitration settlement from the Port Authority in the coming fiscal year. Collection of the remaining \$490 million earmarked for FY 2004 has been postponed to FY 2005. The dispute over the retroactive rental payments has been under arbitration proceedings for several years.

Projected interest income for FY 2004 has also decreased by \$11 million or 16 percent compared to the January modification. Interest income is determined by the value of the City's cash balance, tax receipts, and interest rates. An increase in expected revenues stemming from the transfer of City assets and proceeds from the tobacco settlement somewhat offset the anticipated decrease in miscellaneous revenues for FY 2004 compared to the January modification.

The City is also seeking \$100 million in net proceeds from the sale of tax benefits of Water Tunnel No. 2 by allowing a private entity the benefit of the tax write-off. The proceeds are said to correspond to the present value of the federal tax benefits to the private entity over the asset's depreciable life. The choice of asset is due to the fact that the Water Tunnel does not have any outstanding tax-exempt debt. Another revenue source that has changed in value compared to the January modification is the tobacco settlement revenues. The City has deferred, until FY 2004, \$151 million in net proceeds earmarked for FY 2003.⁷

Intergovernmental Aid

The FY 2004 Executive Budget projects Federal and State grants to support about 29 percent of the City's overall expenditures. Federal and State categorical grants are estimated to provide about \$12.7 billion in FY 2004, representing a decline of almost 10 percent from the FY 2003 estimate of \$14.1 billion. In comparison, Federal and State grant assumptions comprised about 32 percent of the City's FY 2003 budget. Among the factors contributing to this decline are lower FEMA reimbursements and lower funding for emergency preparedness initiatives, as well as assumed decreases in certain health and welfare grants.

In total, including unrestricted aid assumptions, the City projects FEMA reimbursement to drop from the FY 2003 estimate of \$1.1 billion to \$24 million in FY 2004. The projected funding for FY 2003 includes \$650 million in additional FEMA funding that the City reflected in the January modification, based on recent legislative approval that would broaden the coverage of certain World Trade Center-related expenditures by FEMA appropriations. For FY 2004, the only meaningful FEMA funding that the City currently expects is \$22 million for crisis counseling services at the Department of Education.

In the FY 2004 Executive Budget, the City put forth a gap-closing program that contains about \$2.9 billion in expected assistance from the Federal and State governments. The bulk of this assumption, about \$2.7 billion, comes from expected assistance through State actions. The thrust of the proposed State actions remains basically the same as in the January modification, although the total expected value has

⁷ The City had postponed recognizing the receipt of tobacco settlement revenues after Phillip Morris warned that a recent class action suit, might prevent payments due to the states as part of the tobacco settlement. Recently, however, the remaining payments for FY 2003 were made to TSASC on behalf of the City.

increased in the Executive Budget. Almost half of the resources were expected to come from the personal income tax reform, which by far is the largest component in the City's request for additional State assistance. The Executive Budget assumed that the proposed change would generate an additional \$1.4 billion in tax revenues. The City also requested restoration of \$853 million of the Governor's proposed budget cuts, including \$478 million in school aid reduction and \$275 million in continued State funding for extended school days. In addition, the City maintains a projection of \$452 million in gap closing relief from various State actions. The proposed actions include \$200 million in savings from regional transportation initiatives and \$252 million in resources from other State actions, to be realized through proposals in the City's Federal and State Agenda.

Based on the State budget recently adopted by the Legislature, the City has achieved its assumption of additional support from the State in the FY 2004 Executive Budget. According to City estimates, the Legislature has provided the entire \$2.7 billion in expected gap closing relief, although the components are significantly different than those assumed in the Executive Budget. The City indicates that it will realize about \$2 billion chiefly through the personal income tax rate increases on the City's top income earners (\$645 million), MAC debt refinancing (\$530 million), reinstatement of sales tax on clothing and footwear (\$263 million), Battery Park City refinancing (\$150 million), and a sales tax increase of one-eighth of one percent (\$118 million). In addition, about \$348 million in education aid has been restored against the \$478 million in school aid reduction proposed by the Governor. Thus, the Department of Education may still need to absorb a State aid cut of \$130 million under the latest school aid appropriations. The Legislature's budget plan also provides \$387 million to the City through a combination of mandate relief savings and approved revenue measures, many of which are elements of the City's Federal and State Agenda. These actions include revenue sharing spin-up (\$73 million), sale of taxi medallions (\$65 million), extension of Municipal Bond Bank financing (\$62 million), and property tax surcharge for absentee landlords (\$45 million).

The City may actually receive about \$246 million less than the purported \$2.7 billion provided by the Legislature's plan. This is due mainly to the City's overly optimistic revenue assumptions regarding the PIT rate increases (\$100 million) and the uncertainty surrounding the savings from regional transportation initiatives (\$100 million).⁸ The City also included certain additional education grants in its estimates that are normally not available for gap closing relief.⁹ However, the approved PIT rate increases are retroactive to January 1, 2003, which could provide an additional \$269 million in revenues to more than offset the potential shortfall under the Legislature's budget plan.

⁸ The Executive Budget assumes \$200 million in savings from regional transportation initiatives. However, when the City incorporates the Legislature's actions into its budget, it will likely reflect only \$100 million for this proposal. The actions to achieve these savings are currently unspecified.

⁹ Our assessment also indicates that the City's \$263 million in revenue assumption for the reinstatement of sales tax on clothing and footwear may be overstated by \$17 million.

EXPENDITURE ASSUMPTIONS

Since the January modification the City has lowered its expenditure projections by \$171 million to \$44.7 billion as shown on Table A4 of the Appendix.¹⁰ The Table also illustrates that the City has been able to control expenditure growth in discretionary spending areas, while overall growth is being driven by pension contributions, health insurance costs, Medicaid spending, debt service and judgements and claims (J&C) costs. The combined spending in these five areas is projected to grow by \$2.7 billion or 23 percent while spending in all other areas, including wages and salaries, is expected to decline by almost \$3 billion or 8.7 percent as shown on Table 10. The drop in wages and salaries reflects the impact of layoffs contained in the FY 2004 Executive Budget gap-closing program.

Table 10. FY 2004 Expenditures Compared with FY 2003 Expenditures

(\$ in millions)

	FY 2003	FY 2004	\$ Change	% Change
Pension	\$1,639	\$2,599	\$960	\$58.6%
Health	2,240	2,400	160	7.1%
Medicaid	4,006	4,238	232	5.8%
J&C	613	658	45	7.3%
Debt Service	3,301	4,619	1,317	39.9%
Wages and Salaries	16,727	15,895	(832)	-5.0%
All Other	17,197	15,073	(2,124)	-12.4%
Total	45,723	45,482	(241)	-0.5%

NOTE: Adjusted for prepayments and net of intra-city sales

Headcount

The FY 2004 Executive Budget projects the City will have 216,179 city-funded employees by June 30, 2004.¹¹ After adjusting the projected workforce level for the reclassification of Department of Education (DOE) employees, this represents a decline of 5,321 positions from the March 31, 2003 level. More than three-quarters of the decrease in the workforce level is attributable to planned layoffs.

The level of workforce projected for June 30, 2004 is affected by actions being implemented to address the FY 2004 budget gap. When these actions are fully implemented, the City will realize savings and revenues of \$620 million while at the same time experience a reduction in its workforce level of 4,483 full and part-time employees. Combined with attrition and the elimination of vacant positions, this action will represent a net reduction of 4,793 full-time and full-time equivalent (FTE) positions. As shown in Table 11, no uniformed employees at the Police and Fire Department are expected to be laid off. In fact, the Fire Department is about to hire a new class of 300 recruits in May 2003. However, a total of 517 uniformed employees will be laid off from

¹⁰ Includes NYCTFA debt service of \$206 million.

¹¹ This includes 15,991 educational paraprofessionals and 1,156 food service workers who were previously reported as full-time equivalents and have been reclassified as full-time employees.

the Departments of Correction and Sanitation. It is anticipated that 3,504 civilian workers will be laid off, including 1,351 workers at the DOE.

The City has also included in the FY 2004 Executive Budget a contingency plan valued at \$1 billion that would further reduce FY 2004 workforce levels. This plan, if fully implemented, will result in a reduction of 10,231 full and full-time equivalent employees, or five percent of the projected workforce.

As shown in Table 11, the contingency plan could result in the layoffs of 8,345 civilian employees and 2,146 uniform personnel. Furthermore, the City would cancel the planned police class of 1,360 recruits scheduled to be hired in July 2003. Uniformed police peak-headcount is projected to be 37,210 each July after a new police class is hired in order for the City to continue to receive Federal assistance under the COPS program. Under the COPS program, the Federal government provides 75 percent of entry-level salaries of the officers hired for a three-year period. The City, however, has applied for a waiver to this requirement, which will enable a lower headcount level to be maintained while continuing to receive Federal funding.

Table 11. City-Funded Headcount Planned Reduction and Contingency Plan Reduction

Agency	\$620 Million Gap Closing Program			\$1 Billion Contingency Plan	
	# of Layoffs	Changes in FT/FTE	Planned June 30, 2004 Headcount	# of Layoffs	Changes in FT/FTE
Uniformed:					
Police*	0	0	34,774	0	(1,360)
Fire	0	267	10,844	0	0
Correction	(315)	(315)	8,771	(1,300)	(1,300)
Sanitation	(202)	(277)	6,744	(846)	(846)
Sub-total	(517)	(325)	61,133	(2,146)	(3,506)
Pedagogical:					
Dept. of Education	(462)	(869)	91,435	0	0
City University	0	0	2,302	0	0
Sub-total	(462)	(869)	93,737	0	0
Civilian:					
Police	0	0	8,832	(1,731)	(1,731)
Dept. of Education	(1,351)	(1,526)	6,576	(1,426)	(815)
Admin for Child Svcs.	(528)	(498)	5,936	0	0.
Dept. of Health	(324)	(351)	2,063	(802)	(784)
Social Services	0	222	8,457	(926)	(926)
All Other Civilians	(1,301)	(1,446)	29,445	(3,460)	(2,469)
Sub-total	(3,504)	(3,599)	61,309	(8,345)	(6,725)
Total	(4,483)	(4,793)	216,179	(10,491)	(10,231)

*Uniform Police headcount through attrition replacement will be 37,210 by July 2003.

SOURCE: Office of Management and Budget, FY 2004 Executive Budget.

The City now accounts for part-time employees as full time equivalents (FTEs). The City had 45,589 FTEs at the end of March 2003 and anticipates ending FY 2004 with 28,499 FTEs. The lower projection results mainly from the reclassification of 17,147 DOE employees as full-time beginning in FY 2004.

Overtime

The Executive Budget includes approximately \$510 million for overtime expenditures in FY 2004. However, the City has consistently under-budgeted overtime expenditure at the start of the fiscal year in an effort to curb spending, particularly in the uniformed agencies. Overtime appropriations are subsequently increased over the course of the fiscal year to account for actual overtime usage. In FY 2003, the Adopted Budget overtime appropriation was \$551 million. The City has spent approximately \$576 million for overtime expenditures in the first nine months of the fiscal year. In reaction, FY 2003 overtime appropriations have been increased by \$155 million, to \$706 million.

Similarly, the Comptroller's analysis indicates that FY 2004 overtime spending has been under-budgeted by \$172 million if overtime spending reflects historical trends as shown in Table 12. This projection is anticipated to be \$24 million lower than planned for FY 2003. This falloff is primarily due to the higher than normal overtime usage at the Fire Department in FY 2003 because of an increase in the attrition rate of firefighters to almost 15 percent from a historical average rate of five percent. The City expects to hire 300 recruits in May 2003 to meet the current shortfall in firefighters. Additionally, the FY 2003 overtime forecast includes \$23 million for snow removal compared with \$7 million in FY 2004.¹² However, increased security measures being implemented to fight terrorism combined with the planned reduction of a substantial number of City employees in response to the City's financial constraints will exert upward pressure on overtime spending.

Table 12. Projected Overtime Spending, FY 2004

(\$ in millions)

	Comptroller's Projection Overtime FY 2004	Planned Overtime FY 2004	FY 2004 Risk
Uniform			
Police	\$295.5	\$173.6	\$(121.9)
Fire	89.8	77.1	(12.7)
Corrections	47.2	42.2	(5.0)
Sanitation	54.4	52.4	(2.0)
Total Uniformed	\$486.9	\$345.3	\$(141.6)
Others			
Police-Civilian	\$28.6	\$15.6	\$(12.9)
Admin for Child Svcs.	12.2	16.8	4.6
Environmental Protection	21.6	19.7	(1.9)
Transportation	31.3	25.2	(6.1)
All Other Agencies	101.1	87.2	(13.9)
Total Civilians	194.9	164.5	(30.3)
Total City	\$681.7	\$509.8	(171.9)

¹² The snow budget is based on the average of the last five fiscal years as mandated by the City Charter.

The \$620 million FY 2004 agency gap-closing program in the Executive Budget assumes \$83 million in overtime savings. Approximately 72 percent, or \$60 million, will result from reduction of overtime spending in the Police Department. Although no details were provided indicating how the savings will be achieved, it is likely that programs such as Operation Condor and narcotics and quality of life initiatives that are funded primarily with overtime spending will be affected. The Fire Department anticipates overtime savings of \$19 million, mainly as a result of the hiring of a new class.

<u>\$620 Million Reduction</u>	
Uniformed Personnel Overtime	
(\$ millions)	
Police	\$60.0
Fire	18.9
Correction	0.0
Sanitation	3.6
Total	\$82.5

Furthermore, the FY 2004 Executive Budget includes a contingency plan with an additional \$1 billion in gap closing actions that may be implemented if the City does not realize revenues as anticipated in the budget. This plan includes additional cuts of \$78 million in overtime spending for uniformed personnel as shown in the figure to the right. The Fire and Police Departments will reduce their overtime spending by \$47 million and \$30 million, respectively, from initiatives that have not yet been identified.

<u>\$1 Billion Contingency Plan</u>	
Uniformed Personnel Overtime	
(\$ millions)	
Police	\$30.0
Fire	47.0
Correction	1.0
Sanitation	0.0
Total	\$78.0

Pensions

The FY 2004 Executive Budget projects that the City's contributions to the five actuarial pension systems during FY 2004 will total \$2.6 billion, an increase of \$947 million, or 56 percent over FY 2003. However, this projection could change significantly due to several factors.¹³

The FY 2004 City contributions will depend on the FY 2003 investment performance of the pension funds. However, this will not be known with certainty until close of business on June 30, 2003. The Preliminary Budget had created a contingency provision to accommodate expected FY 2003 investment losses. The Executive Budget has increased that provision by another \$50 million. As a result, the Executive Budget now contains provision for pension fund investment losses of about eight percent. For each one percentage point difference in investment return, compared to the eight percent loss, the City's projected FY 2004 contribution would change by \$6.3 million. Pension fund investments have lost 2.1 percent between July 1, 2002 and April 30, 2003.

The current recession has prompted the City to formulate contingency plans that include substantial layoffs. If the contingency plans have to be implemented prior to

¹³ A detailed discussion of the growth in pension contributions can be found in "Pension Contributions" in the Comptroller's Comments on the Preliminary Budget for FY 2004 and the Financial Plan for Fiscal Years 2004-2007 released March 3, 2003.

June 30, 2003, there will be a substantial reduction in payroll, which, in turn, will impact FY 2004 pension contributions.

The most significant impact, however, may result if the Chief Actuary of the Retirement Systems decides to revise actuarial assumptions and methods that are used to calculate the City's pension contributions. These actuarial assumptions and methods are currently being reviewed by Gabriel, Roeder, Smith and Company (GRS), an actuarial firm retained by the Comptroller to perform an independent actuarial audit of the City's pension contributions. GRS is expected to submit its findings and recommendations in July 2003. The Chief Actuary of the City's Retirement Systems will then review GRS's reports and formulate his own recommendations for changes in actuarial assumptions and methods to each Board of Trustees.

Due to the rapid progress of the independent actuarial audit, the Chief Actuary of the City's Retirement Systems is contemplating the possibility of implementing his revised assumptions and methods effective FY 2004. If changes are to be implemented in FY 2004, any necessary legislation would have to be enacted by June 30, 2004. At this point, it is too early to speculate on the possible changes that may be recommended by the Chief Actuary and their impact to the City's budget.

Health Insurance

The City's health insurance premium rates will increase by about 7.9 percent in FY 2004. As a result, the City's cost of providing health insurance to employees and retirees will rise 7.1 percent in FY 2004 to \$2.4 billion. In FY 2004, health insurance expenditures will constitute almost 5.4 percent of total City expenditures and consume about 9.4 percent of City tax revenues. Comparatively, in FY 1994, health insurance expenditures constituted just under four percent of total City expenditures and consumed about 6.9 percent of City tax revenues.

The City has asked the municipal unions to submit proposals to lower health insurance costs. Requiring employees to contribute to the increase in the cost of health insurance and/or instituting higher co-payments have been suggested.

Labor Issues

Among the gap-closing programs detailed in the FY 2004 Executive Budget are actions worth \$620 million, which are currently being implemented and a contingency plan valued at \$1 billion. Together these programs could result in the layoffs of almost 15,000 full-time and part-time employees. Approximately 4,483 employees are expected to lose their jobs by June 30, 2003 as part of the actions being implemented currently as discussed in "Headcount" beginning on page 15.

The FY 2004 Executive Budget proposes cost savings of \$600 million from labor productivity actions in addition to its \$1 billion in contingency actions. The City believes the municipal labor unions should make productivity commitments that will help to reduce the FY 2004 budget gap. Some of the concessions suggested include the

reduction of pension benefits for future employees, an increase in employees' co-payments for health insurance, a reduction in vacation days and holidays for employees, and the enhancement of flexibility in work assignments. In addition, several unions have suggested the use of one and two year voluntary furloughs.

As a result of the financial challenges being faced by the City, the FY 2004 Executive Budget does not make any provision for wage increases for City employees beyond the last round of collective bargaining. Additionally, the City continues to reiterate that any wage increases will have to be funded through productivity initiatives. Any such initiatives must be negotiated with the labor unions and will be in addition to the \$600 million in labor productivity savings that the City included as part of its gap-closing actions for FY 2004. It will cost the City almost \$220 million annually for every one-percentage point wage increase granted to employees. This cost would be lower if the City's workforce is reduced due to layoffs.

Public Assistance

The City's public assistance caseload rose to 423,969 recipients in April 2003, reflecting an increase of 2,540 for the month. According to data compiled by the Department of Social Services (DSS), thus far in FY 2003, the welfare rolls have fluctuated between 418,770 and 426,999. The April caseload represents a decline of about 1.5 percent compared with the June 2002 caseload of 430,419. After consecutive years of double-digit percentage declines, it does not appear that a significant drop-off in the City's public assistance caseload will occur in FY 2003.

The welfare caseload has experienced a precipitous drop of about 63 percent since March 1995, when it reached a historic peak of 1,160,593. Monthly grant expenditures have also fallen by about 60 percent over the same period. The composition of the City's welfare population has also changed markedly. Safety Net Assistance (SNA) recipients now constitute about 52 percent of the overall public assistance caseload mostly because of the transfer of former Family Assistance (FA) recipients who reached the program's five-year time limit. The April caseload data reported 129,644 SNA-time limit recipients on the City's welfare rolls, or about 31 percent of total number of recipients. Prior to the imposition of the time limit, SNA represented about 17 percent of overall caseload.

In the FY 2004 Executive Budget, the City has maintained the same caseload projections as in the January modification. The public assistance caseload is estimated to fall to 420,764 by June 2003 and then remain flat through FY 2004. More importantly, the City projects its share of public assistance grants expenditures at about \$440 million for FY 2003 and \$433 million for FY 2004. Over the past thirteen months, monthly grant expenditures have fluctuated in a narrow range of between \$95 million and \$100 million. The City's share of these expenditures range between \$36 million and \$38 million each month. Meanwhile, the welfare caseload has fallen by 15,141 recipients or about four percent. Thus, the welfare caseload decline has not caused a similar drop in monthly grant expenditures.

Based on the trend in monthly grant expenditures, it appears that the City has adequately budgeted for public assistance spending in FY 2003. However, in FY 2004, the City could face a risk of \$20 million from a more conservative assumption that monthly grant expenditures will hover on the high end of actual spending experienced in recent months.

Debt Service

New York City is projected to have \$50.1 billion in outstanding debt by the end of FY 2004. Debt service is projected to total \$4.73 billion in FY 2004, an increase of \$1.3 billion, or 38 percent, from FY 2003 and comprise 17.8 percent of local tax revenues and 10.6 percent of total revenues. The elements of the City's projected debt-service include principal and interest payments on debt issued through GO, NYCTFA, TSASC, MAC, lease-purchase debt and interest on short-term notes. The City's debt is generally structured to be amortized within a thirty year period, with interest being amortized more rapidly than principal. Debt service is a relatively fixed operating cost to the City. It can only be reduced through refundings, the issuance of variable rate debt, and the use of derivative products when market conditions warrant. Table 13 is a breakout by issuer of the City's projected debt-service costs.

Table 13. Annual Debt Service Costs

(\$ in millions)

	FY 2004	Percent of Total
City GO Bonds	\$3,055	64.6%
MAC	530	11.2%
NYCTFA	830	17.6%
TSASC	110	2.3%
DASNY and Other Conduit Issuers	203	4.3%
Total Debt Service	\$4,728	100.0%

Source: FY 2004 Executive Budget, Office of Management and Budget

GO debt service, as shown on Table 13, is the largest component of total debt service at \$3.06 billion, or 65 percent of total debt service in FY 2004. Approximately \$2.81 billion, or 92 percent of the estimated debt service due in FY 2004 are from bonds already issued.¹⁴ NYCTFA represents 17.6 percent of FY 2004 debt service, MAC represents 11.2 percent, DASNY and other conduit issuers 4.3 percent and TSASC 2.3 percent.

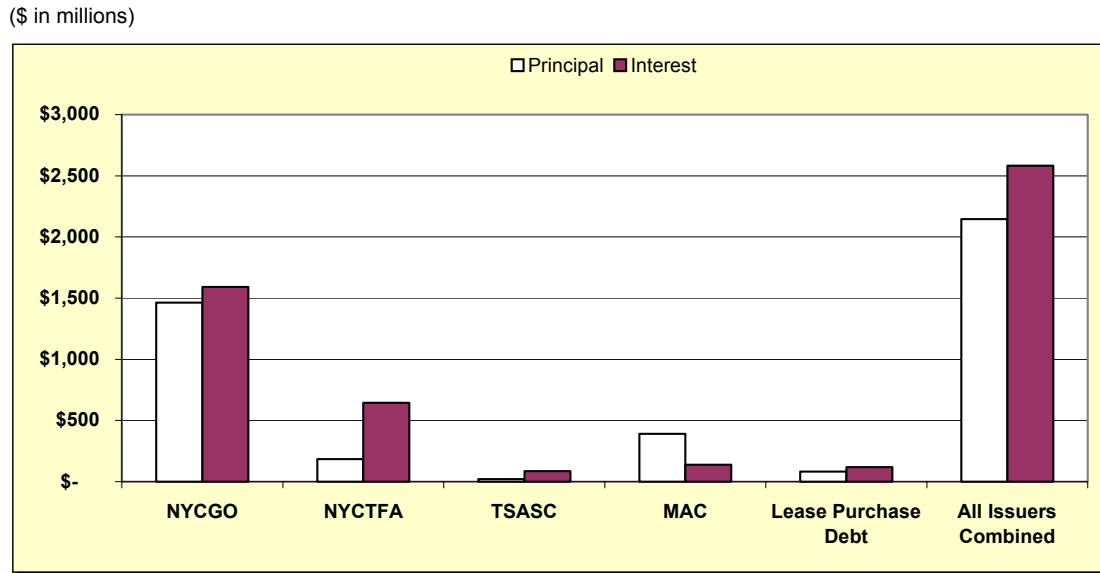
As depicted on Chart 4, the principal repayment component of debt service constitutes \$1.46 billion or 47.8 percent of GO debt service.¹⁵ Seventy-four percent, or

¹⁴ Based on actuals as of March 31, 2003.

¹⁵ For the City of New York, principal refers to the amount of money due on money borrowed from a multitude of bonds issued in past years.

\$393 million of MAC debt service, is principal and approximately, \$83 million or 41 percent of DASNY and conduit issuers debt service is principal. In contrast only 22 percent or \$185 million of NYCTFA and \$21 million of TSASC debt service is principal.¹⁶ Consistent with prudent debt management, 45 percent of total outstanding debt is scheduled to be amortized over the next ten years.

Chart 4. Bond Principal and Interest, FY 2004



Municipal Assistance Corporation

The Municipal Assistance Corporation (MAC) is an instrumentality of the State of New York formed during the 1970's. At this time, there are no plans for MAC to issue any further debt over its remaining life. The budget recently adopted by the State Legislature includes a proposal to refinance outstanding MAC debt. With just below \$2.2 billion of debt outstanding and total debt service costs through July 1, 2008 of \$2.5 billion, the State Legislature's action will allow the City to create a local development corporation (LDC) that will be authorized to issue debt to effectively retire the remaining MAC debt outstanding. The State's Local Government Assistance Corporation (LGAC) will provide \$170 million per year, subject to State appropriation, to the newly created LDC for the estimated cost of the new LDC's debt service. This transaction will provide the City with annual savings of \$530 million in FY 2004 and just below \$500 million per year through FY 2008. The net effect of the transaction, however, will extend debt-service related to previous MAC borrowing from FY 2008 to about FY 2034, but will no longer utilize City tax revenues.

New York City Transitional Finance Authority

¹⁶ This reflects the fact that NYCTFA and TSASC are relatively new issuing authorities.

The NYC Transitional Finance Authority (NYCTFA) was created by the State of New York in 1997. NYCTFA has a current statutory cap of \$11.5 billion for issuance of bonds and notes for capital purposes. Further, the NYCTFA has covenanted with its senior lien bondholders that it will not issue senior lien bonds in excess of \$12 billion. The NYCTFA currently has only \$145 million of senior lien issuance authority remaining. The City has proposed legislation that would eliminate the statutory cap and allow additional borrowing on a subordinated or junior lien basis. Junior lien bonds could enjoy similarly high ratings as senior NYCTFA debt if sufficiently high coverage ratios are maintained. Coverage ratios are critical to any further NYCTFA borrowing to protect all bondholders.

In September 2001 the State Legislature granted the NYCTFA an additional \$2.5 billion in issuance authority to help pay for recovery costs associated with the September 11, 2001 World Trade Center Attack. There are currently \$2 billion in junior lien bonds and notes outstanding for this purpose.

Tobacco Settlement Asset Securitization Corporation

TSASC, a local development corporation created in November 1999, issues bonds secured by tobacco settlement revenues. There are several major litigation actions pending against the tobacco manufacturers that could put the tobacco settlement payments at risk. However, NYC has already retained for debt service payments on TSASC debt for 2004 and 2005 and there is no risk to bondholders that debt service will not be paid.

Lease-Appropriation Debt Service

Over the years the City has diversified its financing sources by using conduit issuers such as the New York State Housing Finance Agency, the New York State Urban Development Corporation, and most recently the Dormitory Authority of the State of New York (DASNY) for courts and hospital purposes. In FY 2004, the City plans to issue \$143 million of bonds through DASNY for hospital related projects, \$194 million of bonds for the Jay Street Development Corp. to fund the on-going construction of the 330 Jay Street Courthouse, and \$228 million of bonds for the City's courts capital program through DASNY.

Department of Education

The FY 2004 Executive Budget contains funding of \$12.2 billion for the Department of Education (DOE), a decline of almost \$400 million, or three percent, from the projected FY 2003 spending of \$12.6 billion. Funding for DOE has not declined on a year-to-year basis since FY 1996. Since then, the Department's budget has grown by about 60 percent. The Department could face a further cut in State funding because the State Legislature has failed to fully restore the school aid reduction proposed by the Governor. However, this cut is substantially smaller than the \$753 million in education aid shortfall that the DOE would have suffered under the Governor's Executive Budget.

Compared with the January modification, overall DOE funding for FY 2004 has slipped by about \$20 million. This modest decline belies the fact that the DOE budget has absorbed an additional \$179 million cut in City funding in the FY 2004 Executive Budget, because a majority of this decrease is offset by an expectation of increased Federal aid. Since the November 2002 modification, the Department's FY 2004 budget has sustained a combined reduction of \$309 million in City funds.

The latest reduction brings City funding in the FY 2004 Executive Budget to about \$4.9 billion, the exact same funding level as the FY 2003 estimate. As stipulated in the Maintenance of Effort (MOE) funding requirement which became law in June 2002, replacing the Stavisky-Goodman Law, City funding (excluding pension and debt service) appropriated to the Department in the current year may not fall below the level appropriated at the preceding year's budget adoption. Thus, the FY 2004 Executive Budget has provided the minimum City funding allowable under the terms of the MOE.

The current round of cuts is projected to eliminate 2,395 full-time equivalent positions at the DOE, including the potential layoff of 1,813 personnel. The personnel titles that will be affected by the proposed cuts are primarily paraprofessionals and school aides. The Department estimates that five percent of paraprofessionals will be eliminated in elementary and middle schools and 74 percent in high schools, totaling 864 positions. In addition, the reduction plan is projected to cut 767 school aides, who generally perform hallway monitoring and related duties. Also, 300 school lunch workers and 327 family paraprofessionals will be eliminated as part of the FY 2004 Executive Budget.

In the Executive Budget, the DOE has diverted \$125 million from district and high school administration into instructional services. This transfer of funds is consistent with the Department's plan to transform 40 community and high school district offices into ten learning support centers. The learning support centers will be headed by regional superintendents that directly oversee 100 local instructional supervisors, who will each manage approximately twelve schools.

Under the Legislature's budget plan, school aid will be restored by \$348 million against the \$478 million reduction proposed by the Governor. Thus, the DOE may still need to absorb a State aid cut of \$130 million in the Executive Budget. The City has also indicated that although the Legislature's plan has not provided targeted funding to support teacher salaries for extended school days, the overall package of State assistance contains adequate resources that can be used to fund this initiative.

Health and Hospitals Corporation

The City projects a weaker fiscal outlook for the Health and Hospitals Corporation (HHC). HHC is now expected to begin FY 2004 with a cash balance of \$192 million, about \$29 million lower than the January modification estimate of \$221 million. Also, HHC expects its FY 2004 operating deficit to rise to \$295 million, an increase of \$102 million compared with its previous projection. The higher operating deficit, coupled with the likely State budget impact, is expected to reduce HHC's cash balance to \$109 million by the end of FY 2004, after adjusting for \$212 million in gap

closing actions. Thus, to reach its projected cash balance, the Corporation must rely on a significant gap closing program.

The increase in the FY 2004 operating deficit is partly due to a lower estimate of HHC's Medicaid fee-for-service (FFS) revenue. Medicaid FFS revenue has been revised downward by \$65 million on the basis of a greater shift towards managed care utilization. Though HHC has correspondingly raised its Medicaid managed care revenue by \$23 million, normal Medicaid collections are projected to fall by a net of \$42 million. The Corporation maintains a target of enrolling about ten percent of its uninsured patient population of 480,000 into its Family Health Plus program by the end of FY 2004. Meanwhile, the City projects HHC disbursements for FY 2004 will rise by \$56 million largely due to higher pension costs and anticipated collective bargaining payments retroactive to FY 2003. The culmination of these changes raises the operating deficit to \$295 million in the FY 2004 Executive Budget, from a projection of \$193 million in the January modification.

The Corporation plans to eliminate this deficit through a number of initiatives. Federal and State actions, however, are not major components of its approach in FY 2004 because of the pending negative impact of Medicaid cost containment measures proposed by the Governor. However, the State's budget has restored a significant portion of these cuts. Hence, the Corporation will likely regain certain flexibility in this area. As in the January modification, HHC still anticipates personnel and productivity savings, now estimated at \$50 million, mostly through the attrition of 1,000 full-time equivalent positions by the end of FY 2004. Revenue enhancements of about \$100 million are forecast to come from two potential sources: \$50 million from Medicaid and Medicare rate appeals and \$50 million from the reduction of capital purchases with operating funds. Furthermore, the HHC expects to achieve additional savings of \$60 million through programmatic reductions that have not yet been specified. Barring unforeseen difficulties, it appears that HHC will likely maintain at least a modest cash balance through the end of FY 2004. However, since about half of HHC revenues derive from normal Medicaid collections, the continued pressure to reduce Medicaid benefits at the State level could limit HHC's options to generate greater revenues and thereby reduce its operating deficit.

CASH FLOW ANALYSIS

The FY 2004 Executive Budget includes a projected seasonal borrowing need of \$2.4 billion.¹⁷ The City anticipates meeting this need by issuing Revenue Anticipation Notes (RANs) with a 3.23 percent coupon, maturing in June 2004 and having a projected net cost of \$71.11 million as shown in the figure to the right.¹⁸ The RANs are 5.3 percent

¹⁷ The cash is needed for operations during a Fiscal Year, because the timing of receipts and expenditures do not match.

of total projected expenditures in FY 2004 compared with a seasonal borrowing of \$1.5 billion in RANs that was 3.4 percent of forecast expenditures in FY 2003.¹⁹

Seasonal Borrowing Needs (\$ in millions)				
	FY 2003		FY 2004	
	Annual	Net Cost	Annual	Net Cost
FY 2003 Exec.	\$3,000	\$65	\$2,400	\$74
FY 2003 Nov. Plan	\$1,500 ^a	\$12	\$2,400	\$74
FY 2004 Exec.	\$1,500 ^a	\$12	\$2,400	\$71
^a Actual				

This anticipated FY 2004 seasonal borrowing need is \$900 million greater and has a projected \$59 million higher net cost than the actual FY 2003 short-term borrowing. The lower FY 2003 seasonal need reflected the receipt in the first quarter of FY 2003 of \$1.5 billion in NYCTFA Recovery Note and Bond proceeds for operating budget relief and the payment of some collective bargaining costs for new labor agreements from the last round of negotiations after the peak need for cash in the second quarter of FY 2003. These events lowered the amount the City needed to maintain adequate cash balances in FY 2003. The projected maturity of the FY 2004 RANs in June 2004, rather than as in April for FY 2003, reflects the uncertainties of next year's cash flow.

In FY 2003 the actual level of short-term needs was \$1.5 billion less than the forecast for seasonal cash needs in the FY 2003 Executive and Adopted Budgets. The reestimation of the cash flow need reduced the overall interest cost by \$53 million, to approximately \$12 million, compared to the higher projection at the start of the Fiscal Year. The forecast of a FY 2004 RAN sale of \$2.4 billion contained in the FY 2004 Executive Budget is the same level as last year's original projection, but at a \$3 million lower net cost.

The forecast for a FY 2004 seasonal borrowing of \$2.4 billion is a reasonable estimate based on the information presented in the FY 2004 Executive Budget. As seen in FY 2003, the actual short-term need for cash can vary significantly from an estimate made several months before the actual borrowing. A better determination of FY 2004 short-term cash needs and the timing and type of Notes to be issued will depend on the changes in the FY 2004 Adopted Budget and future financial plans, the amount and nature of any FY 2003 surplus roll, and the actual cash balance at the end of FY 2003.

BOROUGH PRESIDENTS' PROPOSED REALLOCATIONS

In accordance with section 245 of the New York City Charter, the Borough Presidents may propose modifications to the Preliminary Budget during the Executive

¹⁸ RANs are backed by City revenues other than taxes. Pledged revenue for the issuance of RANs in prior Fiscal Years have included State Education and Higher Education Aid, State Revenue Sharing and State and Federal Welfare Aid. The City has issued RANs due in April and backed by a pledge of March State Education Aid since FY 1999.

¹⁹ Projected expenditures include NYCTFA debt service, adjusted for the FY 2003 surplus roll.

Budget process. The net effects of any proposed modifications to the budget may not result in an increase in the total amount of appropriations proposed in the Preliminary Budget.

The Queens, Manhattan, and Brooklyn Borough Presidents have submitted reallocation proposals. The Staten Island Borough President's Office did not submit a reallocation proposal and as of this writing, the Bronx Borough President's proposal is not yet available.

The Queens Borough President proposed increasing allocations by \$760 million. Among the suggested increases are: 1) \$330 million to the Department of Education; 2) \$21.5 million to the Queens Public Library; 3) \$32.1 million to the Department of Cultural Affairs; 4) \$41 million to the Department of Sanitation for refuse collection; 5) \$25.2 million for the Fire Department to avert firehouse closings; and 6) \$200 million for transportation initiatives in lieu of tolling East River Bridges. The proposed funding allocations come from tobacco settlement revenues, procurement consolidations and efficiencies, energy conservation measures, expansion of the bottle bill, a temporary one percent personal income tax charge on incomes above \$250,000 and creation of a progressive personal income tax.

The Manhattan Borough President (MBP) submitted a reallocation proposal of \$600 million. Of this amount, the MBP proposes restorations of \$276 million with the remaining \$324 million available to cover any unforeseen needs in FY 2004. The source of this funding is the restructuring of the personal income tax. Highlights of the MBP's restoration proposals include: 1) \$95 million to the Police Department; 2) \$26 million to the Fire Department; 3) \$30 million to the Administration for Children's Services; 4) \$21 million to the Department of Education; 5) \$12 million to the Department of Employment; 6) \$10 million for the Department of Health and Mental Hygiene; and 7) \$9.7 million to the Department of Housing Preservation and Development.

The Brooklyn Borough President (BBP) submitted proposals increasing allocations by approximately \$770 million. The report called for the restoration of several reductions to a variety of programs including: 1) the continuation of Universal Pre-Kindergarten impacting over 14,000 children; 2) \$714 million to Education and Libraries; 3) \$15 million for the Summer Youth Employment Program; 4) \$11 million to avoid closure of firehouses; 5) maintenance of funding for Police Department and District Attorney funds; 6) the restoration of 2,000 childcare slots; 7) the restoration of the Citizenship New York City program; 8) \$4.6 million for the restoration of the Beacon Community Center cuts; 9) \$5.5 million for the restoration of the Vallone Scholarships program for CUNY students; and 10) \$19.6 million for the restoration of cuts to cultural institutions, libraries, and the Department of Parks. The BBP's office also strongly opposed the tolling of East River bridges, any further increase in real property taxes, and strongly advocated for the re-imposition of some form of commuter tax.

In addition, the BBP made revenue-enhancement and cost saving recommendations totaling \$1.4 billion that included such suggestions as: 1) the increase of real property taxes for absentee landlords; 2) streamlining the City's procurement

process; and 3) an amnesty program for scofflaws for parking violation and environmental control board fines and penalties.

Some of the proposals already incorporated in the Executive Budget include the restoration of cuts to education proposed in the Governor's Executive Budget, personal income tax reform, and more efficient billing and collection for EMS ambulance services. Subsequent to the publication of the City's Executive Budget, Borough President recommended items such as PIT reform, and increased property taxes for absentee landlords were included in the State Legislature's budget proposal.

The City's Gap-Closing Plan

Between the January modification and the Executive Budget, the City's projected FY 2004 budget gap grew from \$3.4 billion to \$3.8 billion. As Table 14 shows, while gap-closing actions taken by the City in the January modification narrowed the gap to \$2.9 billion, the City's budget deficit widened by \$852 million. Revisions to the City's revenue and expenditure assumptions since the January modification opened the gap by \$402 million, almost completely negating the budget relief from the \$443 million agency gap-closing program. The cuts proposed in the State Executive Budget further increased the FY 2004 deficit by \$853 million.

Table 14. *Changes to the City Projected FY 2004 Budget Gap Between the January Modification and the Executive Budget*

(\$ in millions)

Gap to be Closed in January Modification	(\$3,391)
Agency Gap-Closing Program	<u>\$443</u>
Residual Gap	(\$2,948)
Changes since January Modification	
Lowered Tax Forecast	(\$303)
Delay in Sales of Tax Benefits to 2004	100
Other Non-Tax Revenue	(7)
Expenditure Re-estimates	<u>(192)</u>
Subtotal	<u>(\$402)</u>
Impact of State Executive Budget	
Baseline Education Aid	(\$478)
Funding for Extended School Day	(275)
Other Budget Costs	<u>(100)</u>
Total Impact of State Executive Budget	<u>(\$853)</u>
Increase Surplus Roll from \$621 million to \$1,024 million	\$403
Total Changes to the Gap	(\$852)
Executive Budget Gap to be Closed	(\$3,800)

SOURCE: New York City Office of Management and Budget

After implementing more than \$4.6 billion in gap-closing initiatives between January 2002 and the Executive Budget, including an 18.5 percent property tax increase to generate \$1.7 billion in additional tax revenue and agency initiatives of \$2.8 billion, the Mayor's Executive Budget assumes State and Federal actions will provide fiscal relief of \$3.1 billion. City actions round out the remaining \$695 million of the gap-closing program including \$75 million from a restructuring in the area of social services and \$620 million from City agency initiatives. While the \$75 million savings from social services restructuring is not expected to impact City services, the \$620 million in agency initiatives will result in layoffs of 4,483 City employees and reduction in services ranging from shortening public library hours to eliminating non-mandated summer school programs.

As shown in Table 15, the City proposed State actions of \$2.7 billion in budgetary relief account for the bulk of the non-agency gap-closing program. A proposed PIT reform, whereby non-city residents who work in the City are required to pay the same tax as City residents, was expected to generate \$1.4 billion in additional revenue, accounting for more than half of the State gap-closing actions. Restoration of proposed cuts in the State Executive budget as well as the continuation of State funding for extended school days was expected to provide another \$853 million in budgetary relief.

Table 15. Summary of the FY 2004 Gap-Closing Program

(\$ in millions)

City Initiatives	
Additional Agency Programs	\$620
Restructuring Social Services	75
Total City Initiatives	\$695
State Actions	
Personal Income Tax Reform	\$1,400
Regional Transportation Initiatives	200
Restoration of Education Aid	478
Funding for Extended School Day	275
Restoration of Other State Executive Budget Cuts	100
Other Gap Closing Initiatives	252
Total State Actions	\$2,705
Federal and Other Actions	
Federal Program	\$200
Phased Payment of Airport Arbitration	200
Total Federal and Other Actions	\$400
Total Executive Budget Gap-Closing Program	\$3,800

SOURCE: New York City Office of Management and Budget

The State budget enacted by the State Legislature contains initiatives that are expected to provide the City with the \$2.7 billion in gap-closing actions it has sought. However, as shown in the figure to the right, the initiatives contained in the State Legislature's budget differ significantly from the City's proposal. Rather than approving the City's proposed PIT reform, the PIT initiative in the Legislative budget will place a surcharge on annual incomes above \$100,000 to provide \$814 million in additional revenue for FY 2004.²⁰ The State budget plan also did not include funding for the extended school day and approval of the

City's Proposed State Actions Compared with State Legislative Initiatives		
(\$ in millions)		
	City	State
PIT initiative	\$1,400	\$814
Regional Transport'n Initiative	200	0
Funding for Extended Sch. Day	275	0
Restoration of Educational Aid	478	348
Restoration of Other Cuts	100	105
Other State Initiatives	252	417
MAC Refinancing	0	530
Reinstatem't of Tax on Clothing	0	246
Battery Park Refinancing	0	150
Sales Tax Increase	0	118
Total	\$2,705	\$2,728

²⁰ This includes the expected revenue of \$269 million for the six-month period between January 1, 2003 and June 30, 2003 and FY 2004 revenue of \$545 million.

regional transportation initiatives; two actions the City was counting on to provide \$475 million towards balancing the budget. However, alternative initiatives including a proposal to refinance MAC debt provide adequate resources to offset shortfalls in the proposals.

The City has developed a \$1 billion contingency plan to compensate for any shortfall in the State gap-closing actions. Almost all the initiatives in the contingency plan rely on agency reductions. As Table A5 of the Appendix shows, the contingency plan will reduce agency expenditures by another \$964 million and generate additional revenue of \$66 million through the sale of in-rem properties to the Housing Development Corporation. As part of its contingency plan the City anticipates laying off 9,726 city-funded employees as well as 765 employees who are not on the City's payroll but are paid in part by City subsidies as discussed in "Headcount" beginning on page 15. Cuts of this magnitude would have a devastating impact on the City's ability to deliver core services.

While the Legislature's budget plan is expected to provide significant budgetary relief, the City may not be able to avoid implementing parts of the contingency program. As discussed in "Risks and Offsets" beginning on page 32, even with the fiscal relief provided by the State, the Executive Budget still contains risks of \$618 million, more than half the value of the contingency program. It is critical that the Federal government provide the City with the necessary support to avoid the draconian measures contained in the contingency plan which could result in adverse long-term consequences to the City's economy and its fiscal outlook. A major portion of the City's fiscal woes is a direct result of the terrorist attacks on New York City on September 11, 2001.²¹ Because the attack on New York City was an act of war against the nation, the City should not have to shoulder the cost of the devastation from the attacks on its own. The Federal government has an obligation to compensate the City for the losses resulting from the terrorist attacks.

The unions must also work with the City to avoid the implementation of the contingency program. Since November 2002, the City has proposed that the City's labor unions develop productivity initiatives to generate recurring savings of \$600 million. These initiatives, if developed and implemented, will offset the risk to the Executive budget and provide a headstart in addressing the FY 2005 budget gap.

²¹ For a detailed discussion of the fiscal impact of the terrorist attack on New York City see the Comptroller's report "One Year Later – The Fiscal Impact of 9/11 on New York City" available on the Comptroller's website www.comptroller.nyc.gov

Risks and Offsets

The City projected a budget gap of \$3.4 billion in its January modification. The Comptroller's Comments on the Preliminary Budget for FY 2004, issued March 3, 2003, reported that even after the implementation of City agency gap-closing initiatives the City would have to grapple with a \$3.9 billion gap as a result of risks to baseline revenue and expenditure projections as well as the impact of the Governor's proposed budget.²² Table 2 on page 2 shows the elements of the Comptroller's current risk analysis. Our review of the Executive Budget finds \$618 million in net risks in FY 2004 and a \$2.9 billion deficit in FY 2005. Table 16 illustrates the change to the Comptroller's risk analysis for FY 2004 between the Preliminary Budget released in January and the current assessment.

**Table 16. Risks and Offsets to the FY 2004 Executive Budget
Compared to the Preliminary Budget**

(\$ in millions, (risks)/offsets)

	FY 2004 Preliminary Budget	FY 2004 Executive Budget	Difference
Baseline Assessment			
Property Tax	\$0	\$16	\$16
Personal Income Tax	(195)	(147)	48
Business Tax	(50)	(1)	49
Sales Tax	37	33	(4)
All Other Tax Revenue	29	(24)	(53)
Sale of Tax Benefits	0	(100)	(100)
Overtime	(102)	(172)	(70)
Disaster Relief Medicaid	(50)	(50)	0
Public Assistance	(15)	(20)	(5)
Increased Surplus Roll	<u>0</u>	<u>24</u>	<u>24</u>
Total Baseline Assessment	(\$346)	(\$441)	(\$95)
State and Federal Actions			
Federal Program	(\$200)	\$0	\$200
Phased Payment of Airport Settlement	(690)	(200)	490
Personal Income Tax Initiative	(962)	(586)	376
Funding for Extended School Day	(275)	(275)	0
Regional Transportation Initiative	(200)	(200)	0
Restoration of Educational Aid	(478)	(130)	348
Executive Budget State Cuts	(316)	5	321
Sales Tax Increase	0	118	118
Other State Gap-Closing Initiatives	(252)	165	417
Battery Park Refinancing	150	150	0
Reinstatement of Sales Tax	225	246	21
Refinancing/State Takeover of MAC debt	0	530	530
Total State and Federal Actions	(\$2,998)	(\$177)	\$2,821
Labor Union Actions			
Productivity Initiatives	(\$600)	\$0	\$600
Total (Risks)/Offsets	(\$3,944)	(\$618)	\$3,326

²² This report, along with all other budget reports released by the Comptroller, may be found at www.comptroller.nyc.gov

As discussed in “The City’s Gap-Closing Plan” beginning on page 29, the State Legislature’s budget includes initiatives that are expected to provide the City with the \$2.7 billion in fiscal relief it sought from State actions. However, the specific gap-closing actions in the State Legislature’s budget differ substantially from those proposed by the Mayor. The State Legislature’s budget does not include the regional transportation initiative or funding for extended school days, two initiatives, which the City had anticipated to generate \$475 million in additional funds. In addition, projected revenue from the PIT initiative proposed in the State Legislature’s budget will fall short of the City’s expectation by \$586 million.

The shortfalls in the City’s proposal are offset by alternative initiatives, which together are expected to provide \$1 billion in funding and savings. Among these initiatives are the proposed State takeover of the City’s MAC debt to yield \$530 million in debt service savings, the one-year reinstatement of sales tax on clothing and footwear costing less than \$110 and a one eighth of a percentage point increase in the City sales tax to generate revenues of \$246 million and \$118 million respectively and the refinancing of certain Battery Park City obligations to produce savings of \$150 million.

Because of the lack of an agreement on a labor productivity program the City has excluded a labor productivity initiative of \$600 million from the Executive budget. As such we have eliminated the risk associated with this initiative. As a result, the \$618 million risk remaining in the City’s Executive budget stems mainly from the City’s optimistic baseline assumptions and an anticipated \$200 million in payment from retroactive airport rental payments. Given the uncertainty of the outcome of the arbitration settlement it is unlikely that the City will realize the \$200 million in revenue in FY 2004.

Appendix – Revenue and Expenditure Estimates

Table A1. FY 2004 Executive Budget Revenue Detail

(\$ in millions)

	FY2003	FY 2004	Change FYs 2003-04	
			Percent	Dollar
Taxes:				
Real Property	\$10,085	\$11,303	12.1%	\$1,218
Personal Income Tax	\$4,924	\$5,055	2.7%	\$131
General Corporation Tax	\$1,173	\$1,225	4.4%	\$52
Banking Corporation Tax	\$181	\$259	43.1%	\$78
Unincorporated Business Tax	\$779	\$827	6.2%	\$48
Sale and Use	\$3,509	\$3,554	1.3%	\$45
Commercial Rent	\$398	\$407	2.3%	\$9
Real Property Transfer	\$509	\$406	(20.2%)	(\$103)
Mortgage Recording Tax	\$482	\$393	(18.5%)	(\$89)
Utility	\$291	\$274	(5.8%)	(\$17)
All Other	\$707	\$717	1.4%	\$10
Tax Audit Revenue	\$502	\$525	4.6%	\$23
Tax Initiatives Program	\$0	\$1,400		\$1,400
Total Taxes	\$23,540	\$26,345	11.9%	\$2,805
Miscellaneous Revenue:				
Licenses, Franchises, Etc.	\$357	\$352	(1.4%)	(\$5)
Interest Income	\$36	\$56	55.6%	\$20
Charges for Services	\$479	\$488	1.9%	\$9
Water and Sewer Charges	\$860	\$910	5.8%	\$50
Rental Income	\$109	\$288	164.2%	\$179
Fines and Forfeitures	\$534	\$667	24.9%	\$133
Miscellaneous	\$485	\$631	30.1%	\$146
Intra-City Revenue	\$1,119	\$1,075	(3.9%)	(\$44)
Total Miscellaneous	\$3,979	\$4,467	12.3%	\$488
Unrestricted Intergovernmental Aid:				
N.Y. State Per Capital Aid	\$327	\$327	0.0%	\$0
Other Federal and State Aid	\$1,077	\$228	(78.8%)	(\$849)
Total Unrestricted Intergovernmental Aid	\$1,404	\$555	(60.5%)	(\$849)
Transitional Finance Authority 9/11	\$1,500		(100.0%)	\$1,500)
Anticipated State and Federal Aid:				
Anticipated State Aid	\$0	\$400	0.0%	\$400
Anticipated Federal Aid	\$0	\$200	0.0%	\$200
Total Anticipated Aid	\$0	\$600	0.0%	\$600
Other Categorical Grants	\$1,095	\$816	(25.5%)	(\$279)
Inter Fund Agreements	\$324	\$317	(2.2%)	(\$7)
Reserve for Disallowance of Categorical Grants	(\$15)	(\$15)	0.0%	\$0
Less: Intra-City Revenue	(\$1,119)	(\$1,075)	(3.9%)	\$44
TOTAL CITY FUNDS	\$30,708	\$32,010	4.2%	\$1,302

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

(\$ in millions)

	FY 2003	FY 2004	Change FYs 2003-04 Percent	Dollar
Federal Categorical Grants:				
Community Development	\$318	\$264	(17.0%)	(\$54)
Welfare	\$2,536	\$2,303	(9.2%)	(\$233)
Education	\$1,498	\$1,430	(4.5%)	(\$68)
Other	\$1,230	\$467	(62.0%)	(\$763)
Total Federal Grants	\$5,582	\$4,464	(20.0%)	(\$1,118)
State Categorical Grants				
Welfare	\$1,668	\$1,548	(7.2%)	(\$120)
Education	\$5,864	\$5,797	(1.1%)	(\$67)
Higher Education	\$168	\$164	(2.4%)	(\$4)
Department of Health and Mental Hygiene	\$464	\$467	0.6%	\$3
Other	\$345	\$279	(19.1%)	(\$66)
Total State Grants	\$8,509	\$8,255	(3.0%)	(\$254)
TOTAL REVENUE	\$44,799	\$44,729	(0.2%)	(\$70)

Table A2. FY 2004 Executive Budget Expenditure Detail

(\$ in thousands)

	FY 2003	FY 2004	Change FYs 2003-04	
			Percent	Dollar
Mayoralty	\$106,928	\$68,114	(36.3%)	(\$38,814)
Board of Elections	\$58,152	\$76,728	31.9%	\$18,576
Campaign Finance Board	\$9,697	\$31,577	225.6%	\$21,880
Office of the Actuary	\$3,579	\$3,613	0.9%	\$34
President, Borough of Manhattan	\$4,019	\$3,160	(21.4%)	(\$859)
President, Borough of the Bronx	\$5,546	\$4,663	(15.9%)	(\$883)
President, Borough of Brooklyn	\$5,360	\$4,288	(20.0%)	(\$1,072)
President, Borough of Queens	\$4,846	\$4,090	(15.6%)	(\$756)
President, Borough of S.I.	\$3,851	\$3,127	(18.8%)	(\$724)
Office of the Comptroller	\$55,099	\$47,399	(14.0%)	(\$7,700)
Dept. of Emergency Management	\$11,504	\$3,603	(68.7%)	(\$7,901)
Tax Commission	\$1,893	\$1,885	(0.4%)	(\$8)
Law Department	\$99,809	\$101,969	2.2%	\$2,160
Department of City Planning	\$22,824	\$17,187	(24.7%)	(\$5,637)
Department of Investigation	\$18,663	\$16,232	(13.0%)	(\$2,431)
NY Public Library-Research	\$24,411	\$7,780	(68.1%)	(\$16,631)
New York Public Library	\$128,564	\$40,824	(68.2%)	(\$87,740)
Brooklyn Public Library	\$94,832	\$30,092	(68.3%)	(\$64,740)
Queens Borough Public Library	\$90,160	\$28,688	(68.2%)	(\$61,472)
Department of Education	\$12,548,299	\$12,152,937	(3.2%)	(\$395,362)
City University	\$480,237	\$456,420	(5.0%)	(\$23,817)
Civilian Complaint Review Bd.	\$9,280	\$9,287	0.1%	\$7
Police Department	\$3,456,725	\$3,227,796	(6.6%)	(\$228,929)
Fire Department	\$1,228,548	\$1,108,041	(9.8%)	(\$120,507)
Admin. for Children Services	\$2,362,120	\$2,091,536	(11.5%)	(\$270,584)
Department of Social Services	\$6,041,294	\$6,118,364	1.3%	\$77,070
Dept. of Homeless Services	\$640,040	\$606,264	(5.3%)	(\$33,776)
Department of Correction	\$875,429	\$830,045	(5.2%)	(\$45,384)
Board of Correction	\$839	\$791	(5.7%)	(\$48)
Department of Employment	\$166,019	\$0	(100.0%)	(\$166,019)
Citywide Pension Contributions	\$1,638,924	\$2,599,315	58.6%	\$960,391
Miscellaneous	\$4,343,941	\$4,333,424	(0.2%)	(\$10,517)
Debt Service	\$1,957,210	\$3,185,652	62.8%	\$1,228,442
M.A.C. Debt Service	\$214,000	\$530,500	147.9%	\$316,500
NYCTFA Debt Service	\$1,164,113	\$205,628	(82.3%)	(\$958,485)
Public Advocate	\$1,873	\$1,561	(16.7%)	(\$312)
City Council	\$47,287	\$45,831	(3.1%)	(\$1,456)
City Clerk	\$2,701	\$2,980	10.3%	\$279
Department for the Aging	\$238,524	\$169,415	(29.0%)	(\$69,109)
Department of Cultural Affairs	\$121,256	\$94,443	(22.1%)	(\$26,813)
Financial Info. Serv. Agency	\$33,591	\$35,411	5.4%	\$1,820
Department of Juvenile Justice	\$107,389	\$98,994	(7.8%)	(\$8,395)
Office of Payroll Admin.	\$7,683	\$9,786	27.4%	\$2,103
Independent Budget Office	\$2,711	\$2,732	0.8%	\$21
Equal Employment Practices Com	\$481	\$503	4.6%	\$22
Civil Service Commission	\$457	\$540	18.2%	\$83
Landmarks Preservation Comm.	\$3,573	\$3,195	(10.6%)	(\$378)

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

(\$ in thousands)

	FY 2003	FY 2004	Change FYs 2003-04 Percent	Dollar
Districting Commission	\$2,039	\$902	(55.8%)	(\$1,137)
Taxi & Limousine Commission	\$22,297	\$24,068	7.9%	\$1,771
Commission on Human Rights	\$7,772	\$6,858	(11.8%)	(\$914)
Youth & Community Development	\$152,003	\$183,457	20.7%	\$31,454
Conflicts of Interest Board	\$1,603	\$1,357	(15.3%)	(\$246)
Office of Collective Barg.	\$1,557	\$1,553	(0.3%)	(\$4)
Community Boards (All)	\$11,996	\$12,039	0.4%	\$43
Department of Probation	\$79,455	\$71,416	(10.1%)	(\$8,039)
Dept. of Small Business Services	\$53,252	\$26,807	(49.7%)	(\$26,445)
Housing Preservation & Dev.	\$436,523	\$392,443	(10.1%)	(\$44,080)
Department of Buildings	\$58,646	\$53,892	(8.1%)	(\$4,754)
Department of Public Health & Mental Hygiene	\$1,462,711	\$1,286,980	(12.0%)	(\$175,731)
Health and Hospitals Corp.	\$843,412	\$842,789	(0.1%)	(\$623)
Dept. of Environmental Prot.	\$776,335	\$724,960	(6.6%)	(\$51,375)
Department of Sanitation	\$1,004,376	\$959,953	(4.4%)	(\$44,423)
Business Integrity Commission	\$4,985	\$5,227	4.9%	\$242
Department of Finance	\$184,432	\$186,738	1.3%	\$2,306
Department of Transportation	\$478,288	\$418,192	(12.6%)	(\$60,096)
Dept. of Parks and Recreation	\$187,772	\$166,720	(11.2%)	(\$21,052)
Dept. of Design & Construction	\$148,025	\$86,143	(41.8%)	(\$61,882)
Dept. of Citywide Admin. Services	\$246,337	\$237,113	(3.7%)	(\$9,224)
D.O.I.T.T.	\$82,796	\$88,336	6.7%	\$5,540
Dept. of Records & Info. Serv.	\$3,668	\$3,435	(6.4%)	(\$233)
Department of Consumer Affairs	\$12,869	\$12,673	(1.5%)	(\$196)
District Attorney - N.Y.	\$77,723	\$62,922	(19.0%)	(\$14,801)
District Attorney - Bronx	\$42,246	\$37,226	(11.9%)	(\$5,020)
District Attorney - Kings	\$68,938	\$63,961	(7.2%)	(\$4,977)
District Attorney - Queens	\$39,238	\$33,068	(15.7%)	(\$6,170)
District Attorney - Richmond	\$6,295	\$5,380	(14.5%)	(\$915)
Off. Of Prosec. & Spec. Narc.	\$15,013	\$13,430	(10.5%)	(\$1,583)
Public Administrator - N.Y.	\$1,023	\$988	(3.4%)	(\$35)
Public Administrator - Bronx	\$346	\$329	(4.9%)	(\$17)
Public Administrator - Brooklyn	\$449	\$454	1.1%	\$5
Public Administrator - Queens	\$364	\$353	(3.0%)	(\$11)
Public Administrator - Richmond	\$237	\$252	6.3%	\$15
Prior Payable Adjustment	(\$200,000)	\$0	(100.0%)	\$200,000
General Reserve	\$40,000	\$300,000	650.0%	\$260,000
Energy Adjustment	\$0	\$0	0.0%	\$0
Lease Adjustment	\$0	\$0	0.0%	\$0
OTPS Inflation Adjustment	\$0	\$0	0.0%	\$0
City-Wide Totals	\$44,799,302	\$44,728,824	(0.2%)	(\$70,478)

Table A3. Year to Year Changes, Executive Budget, FY 2004

(\$ in millions)

	FY 2003	FY 2004	Changes Dollar	Percent
Revenues				
Taxes:				
General Property Tax	\$9,966	\$11,176	\$1,210	12.1%
Other Taxes	\$13,696	\$12,620	(\$1,076)	(7.9%)
Tax Audit Revenues	\$502	\$525	\$23	4.6%
Tax Program		\$1,400	\$1,400	
Miscellaneous Revenues	\$4,130	\$4,316	\$186	4.5%
Transitional Finance Authority-9/11	\$1,500		(\$1,500)	(100.0%)
Unrestricted Intergovernmental Aid	\$1,404	\$555	(\$849)	(60.5%)
Anticipated State & Federal Actions		\$600	\$600	
Less: Intra-City Revenue	(\$1,119)	(\$1,075)	\$44	(3.9%)
Disallowances Against	(\$15)	(\$15)	\$0	0.0%
Categorical Grants				
Discretionary Transfers	(\$775)	\$775	\$1,550	(200.0%)
Sub-Total: City Funds	\$29,289	\$30,877	\$1,588	5.4%
Other Categorical Grants	\$1,095	\$816	(\$279)	(25.5%)
Inter-Fund Revenues	\$324	\$317	(\$7)	(2.2%)
Total City & Inter-Fund Revenues	\$30,708	\$32,010	\$1,302	4.2%
Federal Categorical Grants	\$5,582	\$4,464	(\$1,118)	(20.0%)
State Categorical Grants	\$8,509	\$8,255	(\$254)	(3.0%)
Total Revenues	\$44,799	\$44,729	(\$70)	(0.2%)
Expenditures				
Personal Service	\$23,368	\$23,611	\$243	1.0%
Other Than Personal Service	\$19,000	\$18,145	(\$855)	(4.5%)
Debt Service				
Principal	\$1,142	\$1,546	\$404	35.4%
Interest & Offsets	\$742	\$1,713	\$971	130.9%
Total	\$1,884	\$3,259	\$1,375	73.0%
MAC Debt Service	\$214	\$531	\$317	148.1%
NYCTFA				
Principal	\$102	\$185	\$83	81.4%
Interest & Offsets	\$1,062	\$21	(\$1,041)	(98.0%)
Total	\$1,164	\$206	(\$958)	(82.3%)
General Reserve	\$40	\$300	\$260	650.0%
Discretionary Transfers	\$248	(\$248)	(\$496)	(200.0%)
	\$45,918	\$45,804	(\$114)	(0.2%)
Less: Intra-City Expenses	(\$1,119)	(\$1,075)	\$44	(3.9%)
Total Expenditures	\$44,799	\$44,729	(\$70)	(0.2%)
Gap To Be Closed	\$0	\$0	\$0	0.0%

Note: Other Taxes includes NYCTFA revenues

Table A4. Plan-to-Plan Changes to the FY 2004 Estimates

(\$ in millions)

	January	Executive	Changes Dollar	Percent
Revenues				
Taxes:				
General Property Tax	\$11,167	\$11,176	\$9	0.1%
Other Taxes	\$13,544	\$12,620	(\$924)	(6.8%)
Tax Audit Revenues	\$522	\$525	\$3	0.6%
Tax Program	\$962	\$1,400	\$438	45.5%
Miscellaneous Revenues	\$4,637	\$4,316	(\$321)	(6.9%)
Unrestricted Intergovernmental Aid	\$555	\$555	\$0	0.0%
Anticipated State & Federal Aid	\$0	\$600	\$600	
Less: Intra-City Revenue	(\$1,039)	(\$1,075)	(\$36)	3.5%
Disallowances Against	(\$15)	(\$15)	\$0	0.0%
Categorical Grants				
Discretionary Transfers		\$775	\$775	
Sub-Total: City Funds	\$30,333	\$30,877	\$544	1.8%
Other Categorical Grants	\$785	\$816	\$31	3.9%
Inter-Fund Revenues	\$322	\$317	(\$5)	(1.6%)
Total City & Inter-Fund Revenues	\$31,440	\$32,010	\$570	1.8%
Federal Categorical Grants	\$4,886	\$4,464	(\$422)	(8.6%)
State Categorical Grants	\$8,574	\$8,255	(\$319)	(3.7%)
Total Revenues	\$44,900	\$44,729	(\$171)	(0.4%)
Expenditures				
Personal Service	\$23,210	\$23,611	\$401	1.7%
Other Than Personal Service	\$18,552	\$18,145	(\$407)	(2.2%)
Debt Service				
Principal	\$1,546	\$1,546	\$0	0.0%
Interest & Offsets	\$1,499	\$1,713	\$214	14.3%
Total	\$3,045	\$3,259	\$214	7.0%
MAC Debt Service	\$23	\$531	\$508	2,208.7%
NYCTFA				
Principal	\$185	\$185	(\$0)	(0.0%)
Interest & Offsets	\$624	\$21	(\$603)	(96.6%)
Total	\$809	\$206	(\$603)	(74.5%)
General Reserve	\$300	\$300	\$0	0.0%
Discretionary Transfers		(\$248)	(\$248)	0.0%
	\$45,939	\$45,804	(\$135)	(0.3%)
Less: Intra-City Expenses	(\$1,039)	(\$1,075)	(\$36)	3.5%
Total Expenditures	\$44,900	\$44,729	(\$171)	(0.4%)
Gap To Be Closed	\$0	\$0	\$0	0.0%

Note: Other Taxes includes NYCTFA revenues

Table A5. Summary of the FY 2004 \$1 Billion Contingency Program

(\$ in millions)

	Expense Reductions	Revenue Increases	Total
Uniformed Forces			
Police Department	\$155.3	\$0.0	\$155.3
Fire Department	47.1	0.0	47.1
Department of Correction	39.4	0.0	39.4
Department of Sanitation	<u>46.2</u>	<u>0.0</u>	<u>46.2</u>
Subtotal	\$288.0	\$0.0	\$288.0
Health and Welfare			
Administration for Children Services	\$107.0	\$0.0	\$107.0
Department of Social Services	53.5	0.0	53.5
Department of Homeless Services	21.0	0.0	21.0
Department of Health and Mental Hygiene	<u>49.0</u>	<u>0.0</u>	<u>49.0</u>
Subtotal	\$230.5	\$0.0	\$230.5
Other Mayoral			
N.Y.P.L. – The Research Library	\$0.8	\$0.0	\$0.8
New York Public Library	4.2	0.0	4.2
Brooklyn Public Library	3.1	0.0	3.1
Queens Borough Public Library	3.0	0.0	3.0
Department of the Aging	13.1	0.0	13.1
Department of Cultural Affairs	18.4	0.0	18.4
Housing Preservation and Development	0.0	66.5	66.5
Department of Transportation	64.5	0.0	64.5
Department of Parks and Recreation	27.8	0.0	27.8
All Other Mayoral	<u>117.2</u>	<u>0.0</u>	<u>117.2</u>
Subtotal	\$252.1	\$66.5	\$318.6
Major Organizations			
Department of Education	\$120.0	\$0.0	\$120.0
Health and Hospitals Corporation	<u>19.1</u>	<u>0.0</u>	<u>19.1</u>
Subtotal	\$139.1	\$0.0	\$139.1
Elected Officials			
Mayor's Office	\$5.0	\$0.0	\$5.0
All Other Elected	<u>49.8</u>	<u>0.0</u>	<u>49.8</u>
Subtotal	\$54.8	\$0.0	\$54.8
Citywide Total	\$964.3	\$66.5	\$1,031.0

SOURCE: New York City Office of Management and Budget

GLOSSARY OF ACRONYMS

BBP	Brooklyn Borough President
BLS	Bureau of Labor Statistics
COPS	Community Oriented Policing Services
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DSS	Department of Social Services
DOE	Department of Education
FEMA	Federal Emergency Management Agency
FFS	Fee-for-Services
FTE	Full-Time Equivalents
FY	Fiscal Year
GCP	Gross City Product
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
GRS	Gabriel, Roeder, Smith & Company
HHC	Health and Hospitals Corporation
JFK	John F. Kennedy Airport
J&C	Judgments and Claims

LDC	Local Development Corporation
LGAC	Local Government Assistance Corporation
MAC	Municipal Assistance Corporation
MOE	Maintenance of Effort
MBP	Manhattan Borough President
NYC	New York City
NYS	New York State
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
PEG	Program to Eliminate the Gap (an action that is part of a gap-closing program)
PIT	Personal Income Tax
RAN	Revenue Anticipation Notes
SNA	Safety Net Assistance
STAR	School Tax Relief Program
TSASC	Tobacco Settlement Asset Securitization Corporation
U.S.	United States