The Comptroller's Comments on the Preliminary Budget for FY 2009 and the Financial Plan for FYs 2008–2012

The City of New York
Office of the Comptroller
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I. Executive Summary

On January 24, 2008, Mayor Michael Bloomberg presented his FY 2009 Preliminary Budget and Financial Plan for FYs 2008-2012, which closes a $2.73 billion gap in FY 2009. This plan prepares for the impacts of an anticipated economic slowdown through a mix of actions to raise revenues and lower City-funded expenditures. The City is responding quickly to changing economic conditions, but managing the budget will be extremely challenging. Not only does the January Plan count on resources that may not materialize, but the State is also facing extreme budget pressures that will inevitably result in less aid to the City. Risks to the budget could easily mount given the potential for further weakening of the economy and resulting shortfalls in tax collections.

To keep FY 2008 in balance, the City is drawing on resources accumulated in prior years. In FY 2007, the City transferred $4.6 billion in accumulated surpluses into FY 2008 by prepaying FY 2008 expenses. This year, the City plans to prepay $4.119 billion of FY 2009 expenses. This is a reduction of $481 million in the City's accumulated surplus. Furthermore, the City will be able to achieve this level of prepayments only because unanticipated revenues, routine reserve adjustments, and a $543 million mid-year agency gap elimination program (PEG) are together expected to yield $1.864 billion in additional resources this year compared to projections in the October budget modification. The last time the City reduced its accumulated surplus from one year to the next was in FY 2002, when the local economy was mired in recession.

The City still plans to retain $350 million in the FY 2009 BSA for FY 2010 prepayments. In that year, the projected budget gap is $4.2 billion. As a percent of City-fund revenue, this gap is the second highest at this point in the budget cycle since the post-fiscal crisis control period ended in 1986. Beyond FY 2010, gaps reach $5.6 billion in FY 2011 and $5.3 billion in FY 2012.

The Comptroller's Office has identified net risks to the budget of $82 million in FY 2008 and $569 million in FY 2009. These risks derive primarily from assumptions underlying gap-closing initiatives and the fact that the Financial Plan does not reflect the negative impacts of proposed State budget actions. Beginning in FY 2009, the Plan assumes $200 million in annual savings from an unspecified restructuring of employee health costs and $100 million in unspecified additional Federal aid in each year of the Financial Plan. The State Executive Budget proposal would have a negative impact of at least $500 million on the combined FY 2008 and FY 2009 budgets. The Comptroller's Office assumes that the Executive Budget proposals will be modified during the State budget adoption process but that there will remain a risk of $164 million in State aid in FY 2008 and $200 million per year thereafter.

Overtime expenditures in the plan are optimistic and the Comptroller's Office expects these expenses to exceed the Mayor's forecast by $117 million in FY 2009, and by $100 million per year thereafter. These expenses should be partly offset by savings in judgments and claims. Cost containment achieved in this area in recent years has not been reflected in the City's financial plan forecasts.

The City's economy has thus far outperformed the nation's. However, it will not be able to resist the downward pull of a national slump and continuing turmoil on Wall Street. Included in the Comptroller's Office risk assessment is the expectation that while tax collections will exceed the Mayor's forecast in FY 2008, tax revenues will fall short of projections by $40 million in FY 2009 and by more than $100 million in each of FY 2010 and FY 2011.

The City has a number of additional resources at its disposal to address risks identified by the Comptroller's Office and to cushion the impacts of further economic softening. For example, the Mayor has indicated that the discretionary homeowner's property tax rebate and last year's 7 percent reduction in the property tax may be reconsidered if conditions warrant. In mid-FY 2009, the City will likely reduce prior year payables and the general reserve, actions that were worth $700 million in FY 2008. The City could opt not to reimburse the Retiree Health Benefits Trust Fund for its pay-as-you-go expenses, which are projected to reach $1.6 billion in FY 2009. This action, however, would provide only a one-time benefit and could result in adverse reactions from bond rating agencies. The City could pursue a more aggressive program to eliminate the gap through management initiatives and productivity increases. This category of initiatives often requires negotiations with the municipal unions and takes time to implement.

Even without the complicating matter of a slowing economy, the expense budget includes problematic elements. Employee health insurance costs, excluding impacts of the proposed restructuring, are slated to grow nearly 9 percent annually. The Mayor has expressed concern that this pace could accelerate if the proposed for-profit conversion of a merged GHI-HIP health insurance company is approved by the State Legislature. Ninety-three percent of City employees are covered by one of these two insurers.

Debt service is projected to grow 8 percent per year over the Plan period. While debt service has been characterized as an "uncontrollable" expense, its growth is linked to a rapidly expanding capital budget. Authorized City-funded capital commitments for FY 2008 to FY 2011 total $42.5 billion, or more than $31 billion when environmental protection projects that are funded separately through water rates are excluded. This lower figure implies capital commitments nearing $8 billion annually. Among the difficult choices the City must make in the coming period is whether the capital budget can be sustained at its current level.

The Mayor is to be commended for his prudent management of the budget. Since the local economy began to recover in FY 2003, unanticipated resources have been diligently applied to future years, often in creative ways. Faced with the current shortfalls, the proposed gap-elimination initiatives generally eschew large "one-shot" actions in favor of recurring actions, which make up 89 percent of the total gap-closing program in FY 2009. However, the high degree of risk in the plan must be addressed and additional actions directed at closing a worrisome FY 2010 gap should be developed as soon as possible.

Table 1. FY 2008 – FY 2012 Financial Plan

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Changes FYs 2008 – 2012 Dollar	Changes FYs 2008 – 2012 Percent
Revenues							
Taxes:							
General Property Tax	$13,141	$14,059	$15,089	$15,998	$16,800	$3,659	27.8%
Other Taxes	$22,735	$21,357	$22,453	$23,603	$24,858	$2,123	9.3%
Tax Audit Revenues	$1,059	$559	$560	$560	$560	($499)	(47.1%)
Miscellaneous Revenues	$6,230	$5,342	$5,210	$5,237	$5,235	($995)	(16.0%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$340	$0	0.0%
Anticipated State & Federal Actions	$0	$100	$100	$100	$100	$100	N/A
Less: Intra-City Revenues	($1,481)	($1,390)	($1,381)	($1,381)	($1,381)	$100	(6.8%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$42,009	$40,352	$42,356	$44,442	$46,497	$4,488	10.7%
Other Categorical Grants	$1,053	$991	$991	$992	$996	($57)	(5.4%)
Inter-Fund Revenues	$466	$434	$422	$417	$417	($49)	(10.5%)
Total City & Inter-Fund Revenues	$43,528	$41,777	$43,769	$45,851	$47,910	$4,382	10.1%
Federal Categorical Grants	$5,905	$5,380	$5,348	$5,331	$5,332	($573)	(9.7%)
State Categorical Grants	$11,080	$11,568	$12,430	$12,873	$12,875	$1,795	16.2%
Total Revenues	$60,513	$58,725	$61,547	$64,055	$66,117	$5,604	9.3%
Expenditures							
Personal Service							
Salaries and Wages	$21,003	$21,910	$23,748	$25,004	$25,308	$4,305	20.5%
Pensions	$5,749	$6,237	$6,536	$6,530	$6,545	$796	13.8%
Fringe Benefits	$6,360	$6,543	$7,043	$7,563	$8,032	$1,672	26.3%
Subtotal-PS	$33,112	$34,690	$37,327	$39,097	$39,885	$6,773	20.5%
Other Than Personal Service							
Medical Assistance	$5,797	$5,602	$5,756	$5,916	$6,089	$292	5.0%
Public Assistance	$1,219	$1,177	$1,176	$1,176	$1,176	($43)	(3.5%)
Pay-As-You-Go Capital	$0	$0	$0	$0	$0	$0	N/A
All Other	$17,748	$17,523	$18,008	$18,441	$18,675	$927	5.2%
Subtotal-OTPS	$24,764	$24,302	$24,940	$25,533	$25,940	$1,176	4.7%
Debt Service							
Principal	$1,765	$1,853	$1,900	$1,844	$1,898	$133	7.6%
Interest & Offsets	$2,049	$2,279	$2,580	$3,111	$3,641	$1,592	77.7%
Subtotal Debt Service	$3,814	$4,132	$4,480	$4,955	$5,539	$1,725	45.2%
BSA	$4,119	$350	$0	$0	$0	($4,119)	(100.0%)
Pre-payments	($4,054)	($3,607)	($381)	$0	$0	$4,054	(100.0%)
Debt Retirement							
Call 2009/2010 G.O. Debt	($27)	($278)	($277)	$0	$0	$27	(100.0%)
Defease NYCTFA Debt	($33)	($363)	($382)	$0	$0	$33	(100.0%)
Subtotal Debt Retirement	($60)	($641)	($659)	$0	$0	$60	(100.0%)
Transfer for NYCTFA Debt Service	($562)	($546)	$0	$0	$0	$562	(100.0%)
Defeasance of certain NYCTFA Debt	($350)	$0	$0	$0	$0	$350	(100.0%)
NYCTFA							
Principal	$463	$475	$497	$519	$604	$141	30.4%
Interest & Offsets	$638	$660	$648	$630	$554	($84)	(13.1%)
Subtotal NYCTFA	$1,101	$1,135	$1,145	$1,149	$1,158	$57	5.2%
MAC Administrative Expenses	$10	$0	$0	$0	$0	($10)	(100.0%)
General Reserve	$100	$300	$300	$300	$300	$200	200.0%
	$61,994	$60,115	$67,152	$71,034	$72,822	$10,828	17.5%
Less: Intra-City Expenses	($1,481)	($1,390)	($1,381)	($1,381)	($1,381)	$100	(6.8%)
Total Expenditures	$60,513	$58,725	$65,771	$69,653	$71,441	$10,928	18.1%
Gap To Be Closed	**$0**	**$0**	**($4,224)**	**($5,598)**	**($5,324)**	**($5,324)**	**N/A**

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

Table 2. Plan-to-Plan Changes
January Plan vs. October Plan

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Revenues				
Taxes:				
General Property Tax	($1)	($199)	($254)	($329)
Other Taxes	$42	($474)	($91)	$215
Tax Audit Revenues	$400	$0	$0	$0
Miscellaneous Revenues	$167	$258	$109	$103
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Anticipated State & Federal Actions	$0	$100	$100	$100
Less: Intra-City Revenues	($24)	($23)	($13)	($13)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$584	($338)	($149)	$76
Other Categorical Grants	($14)	($16)	($21)	($22)
Inter-Fund Revenues	$30	$23	$19	$19
Total City & Inter-Fund Revenues	$600	($331)	($151)	$73
Federal Categorical Grants	$299	$7	($10)	($13)
State Categorical Grants	$122	$144	$141	$140
Total Revenues	$1,021	($180)	($20)	$200
Expenditures				
Personal Service				
Salaries and Wages	($186)	($413)	($334)	($349)
Pensions	$21	($28)	$218	$126
Fringe Benefits	($46)	($272)	($239)	($232)
Subtotal-PS	($211)	($713)	($355)	($455)
Other Than Personal Service				
Medical Assistance	$0	$0	$0	$0
Public Assistance	$32	($10)	($11)	($11)
Pay-As-You-Go Capital	($100)	($200)	($200)	($200)
All Other	($296)	($24)	$37	$65
Subtotal-OTPS	($364)	($234)	($174)	($146)
Debt Service				
Principal	$0	($26)	$14	$14
Interest & Offsets	($40)	($50)	($89)	($61)
Subtotal Debt Service	($40)	($76)	($75)	($47)
BSA	$1,864	$0	$0	$0
Pre-payments	($2)	($1,318)	$0	$0
Debt Retirement				
Call 2009/2010 G.O. Debt	$0	$0	$0	$0
Defease NYCTFA Debt	$0	$0	$0	$0
Subtotal Debt Retirement	$0	$0	$0	$0
Transfer for NYCTFA Debt Service	$0	($546)	$0	$0
Defeasance of certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA	$0	$0	$0	$0
Principal	$0	$0	$0	$0
Interest & Offsets	($2)	$0	$0	$0
Subtotal NYCTFA	($2)	$0	$0	$0
MAC Debt Service/Administrative Expenses	$0	$0	$0	$0
General Reserve	($200)	$0	$0	$0
	$1,045	($2,887)	($604)	($648)
Less: Intra-City Expenses	($24)	($23)	($13)	($13)
Total Expenditures	$1,021	($2,910)	($617)	($661)
Gap To Be Closed	**$0**	**$2,730**	**$597**	**$861**

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.
As the October Plan did not contain a forecast for FY 2011 plan-to-to plan changes is unavailable for that fiscal year.

Table 3. FYs 2008 – 2012 Risks and Offsets

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
City Stated Gap	**$0**	**$0**	**$(4,224)**	**($5,598)**	**($5,324)**
Revenue Assumptions					
Property Tax	$0	($125)	($70)	$30	$245
Personal Income Tax	75	0	(20)	(80)	(10)
Business Taxes	0	0	(50)	(110)	(150)
Sales Tax	40	85	0	(50)	(100)
Real-Estate-Related Taxes	0	0	35	100	60
Subtotal Tax Revenues	$115	($40)	($105)	($110)	$45
Federal Aid	0	(100)	(100)	(100)	(100)
Subtotal Revenues	**$115**	**($140)**	**($205)**	**($210)**	**($55)**
Expenditure Projections					
Health Insurance Restructuring	$0	($200)	($200)	($200)	($200)
State Budget Impact	(164)	(200)	(200)	(200)	(200)
Overtime	(68)	(117)	(100)	(100)	(100)
Judgments and Claims	35	88	138	195	256
Subtotal	**($197)**	**($429)**	**($362)**	**($305)**	**($244)**
Total Risk/Offsets	**($82)**	**($569)**	**($567)**	**($515)**	**($299)**
Restated (Gap)/Surplus	**($82)**	**($569)**	**($4,791)**	**($6,113)**	**($5,623)**

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II. The State of the City's Economy

Despite soaring oil prices, a slumping housing market, a wave of defaults on subprime mortgages and deepening problems in the credit markets, both the city and the nation managed to post positive economic growth in 2007. However, the national and local economies are now poised at a critical point, at which the credit crisis of 2007 could resolve itself or balloon into a full-blown national recession. The economic indicators point to continued slowdown in 2008, but aggressive actions by Congress and the Federal Reserve may help to avert an economic contraction.

A. U.S. ECONOMIC OUTLOOK

The U.S. economy managed a 2.2 percent real gain (based on an advanced estimate of fourth quarter Gross Domestic Product (GDP)) in 2007, down from its 2.9 percent growth rate in 2006. The trend was more troubling than the annual data suggest, however, as GDP grew by only 0.6 percent in the fourth quarter and many other indicators showed deterioration as the year drew to a close.

Falling residential investment was the main cause of the slowing economy, as real residential construction expenditures declined 17 percent in 2007 after falling 4.6 percent in 2006. New housing units started fell by 25 percent for the year, following a 13 percent decrease in 2006. The two-year decline in housing starts was the steepest since 1979-1980 and during 2007 new housing starts were at their lowest level since 1993. The slumping housing market took its toll on national job creation; only 1.5 million new jobs were created in 2007, compared to 2.4 million in 2006. Construction employment nationally fell by 222,000 jobs from December 2006 to December 2007, while closely-related industries, such as wood products (-27,700), furniture (-21,900), and nondepository credit intermediation (-84,400) also experienced significant 12-month employment declines.

The national total of private payroll jobs increased 1.1 percent from 2006. Chart 1 on page 8 shows the distribution of job gains among different sectors in 2007. The national monthly-average unemployment rate was 4.6 percent in 2007, identical to the average for 2006. However, the labor-force-participation rate fell slightly to 66 percent in 2007, and the employment-population ratio also slipped.

During 2007 the national housing slump, which began during the previous year, took several unanticipated turns for the worse. Softening housing prices, which were to be expected after several years of unusually rapid increases, became intertwined with a deepening mortgage default crisis, generating a vicious cycle. Increased defaults on subprime mortgages led to a soaring number of foreclosed homes, which depressed many metropolitan housing markets and led to further price declines and even more defaults. It is now apparent that credit standards on home mortgage underwriting had deteriorated far more than was generally recognized, and that the national housing slump will be more severe than previously forecast as the market sorts out the mortgage chaos. The OFHEO house price index, which measures sales prices of homes in the Fannie Mae and Freddie

Mac mortgage portfolios, rose 0.1 percent in the fourth quarter of 2007 after a 0.2 percent decline in the third quarter, the first quarterly decline since 1994. About 34 percent of the 291 metro markets tracked by OFHEO experienced price declines during the quarter. The S&P/Case-Shiller home price index, which tracks a broader range of home sales, shows a 9.1 percent price decline from December 2006 to December 2007 in the 20 metropolitan markets it follows.

The problems in the housing and mortgage markets reverberated through the world's financial system during the second half of 2007. The market for securities backed by non-prime mortgages virtually evaporated, causing banks and other financial institutions to write off more than $100 billion in assets. Credit conditions tightened in nearly every corner of the financial market, making it more difficult for businesses to issue short-term and long-term debt, to finance mergers and acquisitions, and to fund capital investment projects. As investors became more concerned that the credit crunch would undermine economic growth, the stock market began to soften as well. The Standard and Poor's 500 Index, a broad measure of stock prices, fell from a high of 1,565 in October to 1,468 by December 31, posting a net gain of only 3.5 percent for the year.

Throughout the recent economic expansion, consumer spending has been one of the principal drivers of growth. The current housing slump and credit crisis have raised concerns that consumer spending may not continue to be counted upon to stabilize the economy's path. Tightened lending standards may make it more difficult and expensive for consumers to obtain auto loans, credit cards, and other types of household financing. More importantly, however, retreating house prices mean that there is less equity in residential real estate that can be readily tapped through home mortgage refinancing or home equity loans, to fund household purchases. Although the "stimulus package" recently passed by Congress will give consumer spending a short-term boost, a period of more moderate consumer demand is most likely ahead. In 2007, consumer spending grew 2.9 percent, its slowest rate of increase since 2003.

One of the few bright spots during the second half of the year was an improving trade picture for the U.S. Despite higher oil prices, which hit $94.62 per barrel in November (monthly spot average of benchmark West Texas Intermediate), the trade gap narrowed by $46.9 billion during 2007. Due to the smaller gap, the foreign trade sector is estimated to have contributed approximately one-half percentage point to GDP growth during the year. A weaker dollar accounted for much of the improvement in the trade balance; from December 2006 to December 2007 the dollar depreciated about 9 percent against the euro and about 6 percent against the renminbi. Although the weak dollar can have adverse consequences for the U.S. economy in the long run, in the short term it may help cushion the effects of slumping domestic demand.

There is a strong chance of a national recession occurring this year. At the time of this writing an economic contraction may have already begun. Whether or not the technical conditions of a recession are met, however, it is clear that the housing slump, subprime crisis, and credit crunch have sapped the economy of its forward momentum and will continue to have adverse consequences throughout 2008.

In January 2008 the Federal Reserve, in an unprecedented move, reduced its federal funds target rate twice in a single week, dropping it by 125 basis points while signaling that further cuts may be made. The Fed's aggressive actions were probably motivated primarily by a desire to avoid further impairment to the smooth functioning of the financial system, but the rate cuts will nevertheless help to relieve pressure on the housing market and may help to stimulate business spending. Combined with the $170 billion stimulus package signed by the President on February 13, the Fed's actions may be enough to restart growth in the national economy by late Spring. Whether the countercyclical measures taken by Congress and the Fed quickly dissipate or set the economy back on an expansionary course will depend on how rapidly the subprime crisis is resolved and confidence returns to credit markets.

Table 4 shows the Comptroller's and the Mayor's forecast of five economic indicators for 2007 and 2008.

Table 4. Selected U.S. Economic Indicators Annual Average Actual 2007 and Forecast 2008 – 2009

	2007	2008 Forecast		2009 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GDP Change (%)	2.2	1.0	1.8	2.1	2.7
Jobs Change (Millions)	1.5	0.6	1.1	1.5	1.6
Inflation Rate (%)	2.9	4.0	2.6	3.5	1.7
Federal Funds Rate (%)	5.0	2.3	3.6	2.7	3.9
10-Year T-Notes (%)	4.6	4.0	4.0	4.8	4.6

SOURCE: Actual=preliminary U.S. data from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office. na=not available.

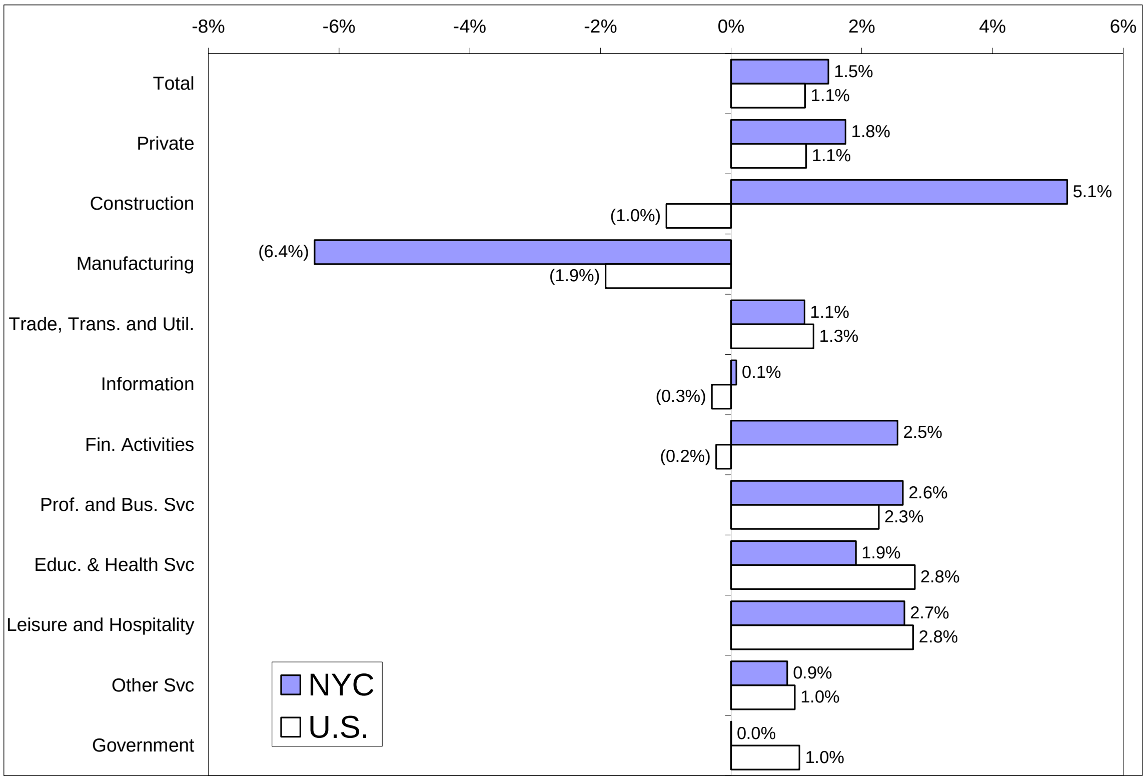
B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

The city's economy grew 3.0 percent in 2007 compared with 3.6 percent in 2006. The city's private-sector employers added 54,500 jobs, while there was no change in the number of government jobs. Chart 1 on page 8 shows the year-over-year change in jobs for the city and the nation in 2007.

Although the city's economy performed somewhat better than the nation's during the past two years, this trend is in jeopardy of ending during 2008. With approximately 35 percent of NYC's private-sector wage income originating in the financial sector, it is very difficult for the city's economy to prosper when the financial sector is contracting.

Overall, the financial sector added 11,700 jobs in 2007, including an increase of 9,300 jobs in the securities industry. However, fourth-quarter data indicate that the credit market turmoil is beginning to have an adverse effect on Wall Street employment. Since August, financial firms with large presence in New York have announced about 16,000 planned layoffs. For the most part, they have not disclosed where those layoffs will occur, but securities industry employment in the city fell in each of the last three months of the year, for a total decrease of 3,700 jobs. These figures are subject to revision when the Department of Labor benchmarks monthly survey data to a full canvass of employers.

Chart 1. NYC and U.S. Job Growth, Percent Change, 2007 vs. 2006



SOURCE: NYS Department of Labor.
NOTE: Jobs are based on annual averages of monthly data.

Wall Street profits (as measured by the pre-tax net income of NYSE member firms) more than doubled to $20.9 billion in 2006. For the first six months of 2007, they were running only 4 percent behind 2006 levels. In the third quarter, however, the NYSE firms suffered a collective $3.8 billion loss, the first quarterly loss since the third quarter of 1998. Given the continued wave of asset write-offs that were announced throughout the fourth quarter, it appears that Wall Street profits were down significantly for the full year.

On a positive note, City personal income tax withholding — the amount of taxes withheld from employee paychecks and an indicator of personal income trends — rose 12.3 percent in 2007. Because of the City's progressive income tax rates, this increase cannot be directly interpreted as a corresponding increase in the incomes of New York City households. Nevertheless, it indicates solid income growth was sustained through 2007.

When compared to many other regional markets, the city's housing market has held up fairly well. Bolstered by record Wall Street bonuses in 2006 and 2007 and increasing foreign demand for New York real estate, Manhattan's residential market has shown few signs of a price correction. Miller Samuel's fourth quarter 2007 market report found that the average sales price per square foot of residential co-ops and condominiums in Manhattan rose 18.2 percent and the number of sales rose 3.2 percent, on a year-over-year basis.

There are, however, indications that the housing market in the other boroughs is beginning to soften. The City's tentative assessment roll finds that market values of 1-family homes in the city fell 2.9 percent from January 2007 to January 2008, and 2-family homes dropped by 0.8 percent. Virtually all of those homes are located in boroughs other than Manhattan. Miller Samuel's fourth quarter market report for Queens shows a 0.9 percent increase in average sales price of homes but a 5.2 percent decrease in median selling price and a 22 percent decrease in the number of transactions, compared to the fourth quarter of 2006. Miller Samuel also found that average sales price in adjacent Nassau County was down 2.0 percent from a year earlier. The S&P/Case-Shiller home price index, which tracks repeat home sales in the metropolitan area, found New York metro prices to be down 5.6 percent from a year earlier, compared to a 13.7 percent decrease in Los Angeles and a 17.5 percent decrease in Miami.

Overall, available housing data suggest that the pattern of the 1990's home price deflation is repeating in this housing cycle, with declines in the New York metropolitan area less severe than in many other premium housing markets and, within the region, price declines steeper in markets further from Manhattan. The resilience of the city's housing market should help to cushion the local economy somewhat from the disruptions in the housing and mortgage markets affecting other cities. Through the end of 2007, residential construction in the city maintained its remarkable pace, with new residential building permits topping 30,000 units for the third straight year. That allowed construction employment in the city to increase 5 percent in 2007, even as construction employment nationally was declining.

New York's commercial real estate market has also remained strong. The Manhattan office vacancy rate was 5.6 percent in 2007, the lowest since 2000, according to Cushman & Wakefield. Although the commercial vacancy rate increased somewhat in the second half of 2007, to 5.7 percent from 5.5 percent in the first half, average asking rents continued to increase. The average asking rent in Manhattan office buildings was $65.08 per square foot (psf) in the fourth quarter of 2007, up more than 20 percent from the first quarter of 2007.

Several other important business sectors had good results in 2007, and should prove less vulnerable to the credit crunch than construction and finance. Leisure and hospitality, in particular, added 7,500 jobs in 2007, while, according to PKF Consulting, the occupancy rate of New York City hotels averaged 86.4 percent in 2007, the highest in more than 15 years. The leisure and hospitality sector should continue to do well in 2008, as any weakness in local demand is offset by rising domestic and foreign tourism encouraged by a weak dollar.

It will be difficult for New York City's economy to maintain its healthy growth rate through 2008 with the financial sector suffering and the national economy sputtering.

Consequently, the Comptroller anticipates that local job creation will be less than half of what was realized in 2007, that the unemployment rate will rise, and that the rate of income growth will slow. Nevertheless, the quick and aggressive actions taken by the Federal Reserve and Congress may help to avert the kind of severe regional economic recession experienced in 1990 — 1993 and 2000 — 2003.

Table 5. Selected NYC Economic Indicators Annual Averages
Actual 2007 and Forecast 2008 – 2009

	2007	2008 Forecast		2009 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GCP Change (%)	3.0	1.0	(4.2)	1.8	1.5
Jobs Change (thousands)	54.5	13.7	5.2	26.3	14.6
Unemployment Rate (%)	5.1	5.7	na	5.5	na
Wage Rate (%)	3.9	3.0	(2.5)	na	0.2
Inflation Rate (%)	2.8	3.6	2.9	3.7	1.9

SOURCE: Actual=preliminary NYC data from NYS Department of Labor, Bureau of Labor Statistics. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office. na=not available.

III. The FY 2008 Budget

Despite increased uncertainty surrounding the local economy since the October 2007 Modification, its impact on FY 2008 budget balance is negligible. As a result, additional resources stemming from spending reductions in the FY 2008 budget and upward revisions to the revenue estimate will increase the budget surplus that was projected in October 2007. The City now expects to end FY 2008 with a budget surplus of $4.12 billion, an increase of $1.86 billion from the October Modification, as shown in Table 6. The projected surplus will be used to provide budget relief of $3.77 billion in FY 2009 and $350 million in FY 2010.

Table 6. Changes to the FY 2008 City-Funds Estimates

($ in millions, positve numbers increase the surplus)

October Modification Surplus	**$2,255**
Reduction in General Reserve	$200
Eliminate Pay-As-You-Go Capital Funding	100
Prior-Year Payable Adjustment	500
Gap Closing Initiatives	543
Agency Spending Adjustments	6
Revenue Revisions	515
Total	$1,864
January Surplus	**$4,119**

SOURCE: NYC Office of Management and Budget

As is typical with past January modifications, the current modification reflects a reduction in the general reserve and an adjustment to prior-year payables. As Table 6 shows, the City has reduced the general reserve and prior-year payables by $200 million and $500 million, respectively, providing the City with $700 million in spending relief. Further budgetary relief is realized through the elimination of planned $100 million pay-as-you-go capital funding and agency gap-closing actions, otherwise referred to as programs to eliminate the gap (PEG), totaling $543 million. These gap-closing initiatives are expected to generate $85 million in additional revenues and $458 million in savings.

In addition to the additional revenues from PEGs, the City has increased its revenue estimates $515 million since the October Modification. This increase is due mainly to an upward revision of $400 million in tax audit revenue and $82 million in miscellaneous revenue estimates, and the removal of a planned contribution of $50 million to a proposed Sustainable Mobility and Regional Transportation (SMART) fund.

Budget Surplus and Operating Results

The January Modification shows that the City anticipates ending FY 2008 with a budget surplus of $4.12 billion. However, the budget surplus is not generated by excess revenues over expenditures in FY 2008. Rather, as shown in Table 7, the budget surplus is the result of the net accumulation of prior year surpluses.[1]

Table 7. Accumulation of Year-End Budget Surpluses

($ in millions)

	Roll-In of Budget Surplus	Addition to/(Use of) Budget Surplus	Reported Year-End Surplus	Budget Surplus Available for Pre-payments
FY 2001	$3,187	($238)	$5	$2,944
FY 2002	$2,944	($2,258)	$5	$681
FY 2003	$681	$741	$5	$1,417
FY 2004	$1,417	$511	$5	$1,923
FY 2005	$1,923	$1,611	$5	$3,529
FY 2006	$3,529	$227	$5	$3,751
FY 2007	$3,751	$919	$5	$4,665
FY 2008e	$4,600[a]	($481)	$0	$4,119

[a] Not all the $4.665 billion FY 2007 budget surplus went toward pre-paying FY 2008 expenditures. $65 million was used toward paying lease debt obligations of $34 million and $31 million that were due in FY 2009 and FY 2010, respectively.

NOTE: e = estimate.

After five consecutive years of increasing budget surpluses, which saw the budget surplus expand from $681 million in FY 2002 to $4.665 billion in FY 2007, the FY 2008 budget surplus is expected to contract to $4.119 billion. This means that of the $4.6 billion that was rolled into FY 2008 from the FY 2007 surplus, $481 million is expected to be used for budget balance, shrinking the budget surplus available to be rolled into the next fiscal year.[2] This budget surplus will be rolled into FY 2009 through the pre-payments of $3.07 billion of FY 2009 G.O. debt service and $500 million of FY 2009 subsidies to libraries, Transit Authority (TA), and Metropolitan Transportation Authority (MTA), and the transfer of $546 million to the New York City Transitional Finance Authority towards FY 2009 NYCTFA debt service.

In addition to the pre-payments, actions taken by the City in FYs 2006 and 2007 provided budget relief in FY 2008 totaling $854 million. Without these actions, the City would have needed to find additional resources to balance the FY 2009 Budget.

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[1] For a detailed discussion of the accumulation of prior year budget surpluses see "The FY 2007 Budget Surplus" beginning on page 12 of *The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2008 and the Financial Plan for FYs 2007 – 2011*, March 2007.

[2] Not all the $4.665 billion FY 2007 budget surplus went toward pre-paying FY 2008 expenditures. $65 million was used toward paying lease debt obligations of $34 million and $31 million that were due in FY 2009 and FY 2010, respectively.

The FYs 2006 and 2007 actions include:

- The delayed recognition of $233 million of FY 2006 and $121 million of FY 2007 tobacco settlement residual revenues until FY 2008.

- The FY 2006 defeasance of $350 million of NYCTFA bonds maturing in FY 2008.

- A $377 million increase in FY 2006 contribution to the Health and Hospitals Corporation (HHC) which allowed the City to reduce its FYs 2007 and 2008 contributions by $287 million and $90 million, respectively.

- An early debt retirement program in FY 2007 which reduces general obligation (G.O.) and New York City Transitional Finance Authority (NYCTFA) debt service by $27 million and $33 million, respectively, in FY 2008.

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IV. The FY 2009 Preliminary Budget

The City's $58.73 billion FY 2009 Preliminary Budget, shows a reduction in spending of $2.91 billion compared with the October Financial Plan. The City-funds portion of the budget, which excludes Federal and State categorical grants, is estimated to total $41.78 billion, $3.06 billion less than projected in the October Modification.

As Table 8 shows, the reduction in spending is due mainly to an increase in pre-payments and gap closing actions taken by the City to balance the FY 2009 budget. Since October, revisions to the City's revenue and agency spending projections have increased the projected FY 2009 gap by $519 million. However, as discussed in "The FY 2008 Budget" beginning on page 11, actions taken by the City in FY 2008 increased the projected year-end surplus by $1.86 billion. Gap closing actions, including agency PEGs, provide the remaining $1.39 billion needed to balance FY 2009.

Table 8. Changes to the FY 2009 City-Funds Estimates

($ in millions)

October Plan Gap	**($2,730)**
Changes to Projections	
Revenues	($408)
Agency Spending	(111)
Subtotal	**($519)**
Roll-in from FY 2008	$1,864
Eliminate Pay-As-You-Go Capital Funding	200
PEGs	885
Restructure Health Insurance	200
Federal Actions	100
Subtotal	**$3,249**
January Modification Gap	**$0**

SOURCE: NYC Office of Management and Budget

In addition to the pre-payments and gap-closing actions, the City, in FY 2007, called $516 million of G.O. bonds and defeased $718 million of NYCTFA bonds maturing in FYs 2009 and 2010. The early retirement of these debts reduced the associated debt service in FY 2009 by $641 million, lowering the size of gap-closing actions that would otherwise be needed to balance the budget.

Program to Eliminate the Gap

Recognizing the need to get a head start on addressing the FY 2009 gap, the City directed City agencies to develop PEGs for both FYs 2008 and 2009. The January Financial Plan contains PEGs totaling $543 million in FY 2008, $885 million in FY 2008, $746 million in FY 2010, $741 million in FY 2011, and $707 million in FY 2012. As Table 9 on page 16 shows, $390 million or 72 percent of the FY 2008 PEGs will have recurring benefits that extend in the outyears. As a result, the City is able to address the FY 2009 gap with only $286 million of additional gap closing initiatives, of which $192 million will have recurring benefits.

Table 9. The City's Agency Gap-Closing Program

($ in thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Recurring Actions					
FY 2008 PEGs					
Revenue	$57,517	$52,381	$50,056	$47,967	$48,041
Expenditure	332,297	546,806	473,555	465,122	455,005
Subtotal	$389,814	$599,187	$523,611	$513,089	$503,046
FY 2009 PEGs					
Revenue	0	19,303	15,803	15,803	15,303
Expenditure	0	172,516	178,253	178,933	178,933
Subtotal	0	191,819	194,056	194,736	194,236
FY 2010 PEGs					
Revenue	0	0	0	0	0
Expenditure	0	0	15,450	19,270	7,550
Subtotal	0	0	15,450	19,270	7,550
FY 2011 PEGs					
Revenue	0	0	0	2,695	2,695
Expenditure	0	0	0	0	0
Subtotal	$0	$0	$0	$2,695	$2,695
Total Recurring Actions	**$389,814**	**$791,006**	**$733,117**	**$729,790**	**$707,527**
Non-Recurring Actions					
Revenue	27,389	4,975	13,049	10,855	0
Expenditure	125,942	88,778	0	0	0
Total Non-Recurring Actions	**$153,331**	**$93,753**	**$13,049**	**$10,855**	**$0**
Total Gap-Closing Program	**$543,145**	**$884,759**	**$746,166**	**$740,645**	**$707,527**

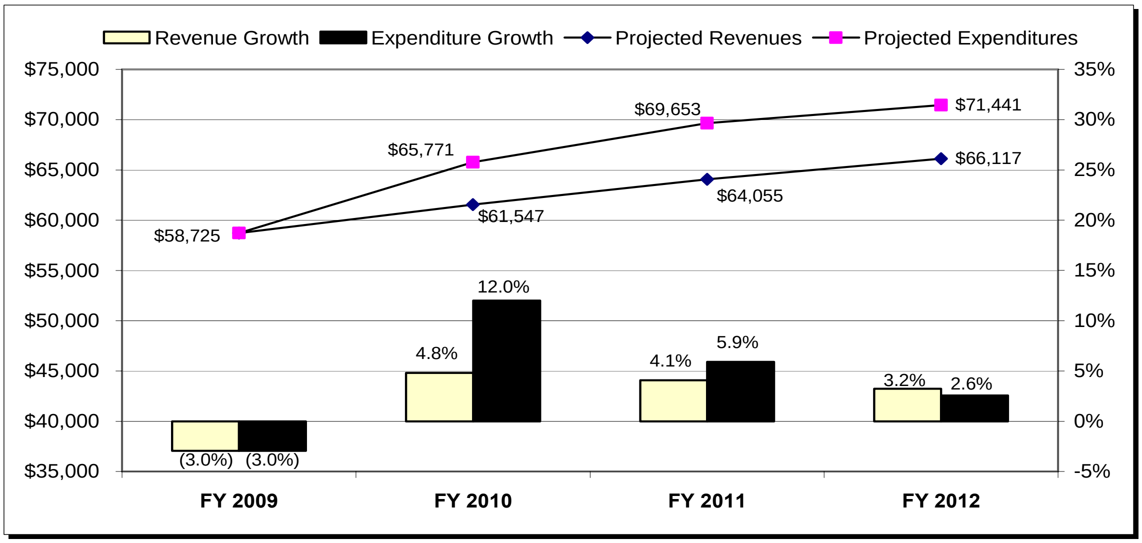
Approximately $400 million of the FY 2008 PEGs consist of initiatives that are valued at $5 million or more, commonly referred to as Core PEGs by the City's Office of Management and Budget and fiscal monitors. Of these core PEGs, $193 million of the benefits have either been realized or are very close to being realized. The remaining PEGs have not progressed sufficiently to determine if the full benefits will be achieved.

The Outyear Gaps

While the City has balanced the FY 2009 budget with a combination of pre-payments and PEGs, projected gaps of $4.2 billion to $5.6 billion loom in the outyears, as shown in Chart 2 on page 17. The projected FY 2010 gap represents 9.7 percent of projected City-funds revenues. As a percentage of City-funds revenues, this is the second largest projected next-year gap in the January financial plan since the City emerged from its State-imposed control period in 1986. The largest gap was the estimated FY 2007 gap of 10.5 percent of revenues at the time of the FY 2006 Preliminary Budget. However, the City was able to balance the FY 2007 budget with surpluses generated by better than expected tax revenues from a robust real-estate market and strong Wall Street performance. The challenge in balancing the FY 2010 budget is more daunting as economic uncertainties indicate that FY 2009 is shaping up to be a fiscally challenging year. In the absence of the revenue windfall it enjoyed in FYs 2006 and 2007, the City will need to increase its gap closing program to close the gap in FY 2010.

***Chart 2*. Projected Outyear Gaps**

($ in millions)



NOTE: Expenditure and revenue projections are not adjusted to remove the impact of budget relief provide d by pre-payments and other prior-fiscal year actions.

Expenditure growth is projected to outpace revenue growth over the Financial Plan period. The use of all but $350 million of the expected $4.12 billion FY 2008 surplus for budget balance in FY 2009 masks the discrepancy between revenue and expenditure growth for that fiscal year. As a result, sizeable budget gaps re-emerge in the outyears in the absence of significant budget surpluses for budget balance. As Chart 2 shows, even after accounting for budget relief provided by PEGs and actions taken by the City in prior fiscal years, expenditures are expected to grow faster than revenues in FYs 2010 and 2011. In FY 2012, revenue growth is projected to exceed expenditure growth by 0.6 percentage points resulting in a modest narrowing of the projected gap.

Risks and Offsets

As Table 3 on page 3 shows, the Comptroller's Office has identified risks ranging from $82 million to $569 million in FYs 2008 through 2012. These risks lie predominantly in the City's expenditure assumptions. The January Plan contains a proposal to restructure the City's health insurance that would reduce health insurance costs by $200 million. However, there are no details yet regarding the nature of the restructuring and how the savings would be achieved. As such, the health insurance restructuring proposal poses a risk to the budget. Additionally, the City will likely face risks in its budget assumptions from the outcome of the State budget process. The State's proposal to cut revenue sharing aid to the City will have a current year impact of $164 million. While negotiations in the coming months could soften the State budget impact, the City could still face potential shortfalls of $200 million annually given the fiscal challenges confronting the State. Finally, as discussed in "Overtime" beginning on page 31, actual overtime spending could exceed the City's estimates by $117 million in FY 2009 and $100 million in each of the outyears.

These risks are mitigated by the Comptroller's Office expectation of lower cost for judgments and claims (J&C). The City projects that J&C will grow from $635 million in FY 2008 to $856 million by FY 2012. Based on settlement trends over the past few years, the Comptroller's Office expects J&C cost to hover around $600 million over the Financial Plan period.[3] As such, the City could realize savings from lower J&C costs of $35 million in FY 2008, $88 million in FY 2009, $138 million in FY 2010, $195 million in FY 2011, and $256 million in FY 2012.

Based on year-to-date collections, the Comptroller's Office expects FY 2008 tax revenues to exceed the City's forecast by $115 million, offsetting some of the expenditure risks. From FYs 2009 to 2012 the Comptroller's Office expects tax revenues to fall short of the City's projections by $40 million in FY 2009, $105 million in FY 2010, and $110 million in FY 2011 and to exceed the City's projection by $45 million in FY 2012 as discussed in "Tax Revenues" beginning on page 19. Another source of risk to the City's revenue projections is the assumption of additional federal aid of $100 million annually beginning in FY 2009. Other than a menu of potential federal initiatives, the City has not provided any details on securing this anticipated aid

A. REVENUE OUTLOOK

The Preliminary Budget projects City-funds revenue to decrease by approximately 4.0 percent in FY 2009, from $42.01 billion in the current fiscal year to $40.35 billion. The City expects tax and miscellaneous revenues to decrease in FY 2009 by 2.6 percent and 14 percent respectively. The decline in the tax revenue forecast is the result of a more pessimistic view of non-property tax revenues, attributable to the worsening economic outlook and an expected decline in financial sector wages and employment. Miscellaneous revenues are also expected to fall as non-recurring revenues are forecast to drop significantly in FY 2009 and the outyears. Over the four years of the Financial Plan, total City-funds revenue is expected to grow 5.0 percent in FY 2010, 4.9 percent in FY 2011, and 4.6 percent in FY 2012. Total tax revenues are expected to grow at an average annual rate of 14 percent over the same period, reaching $42.21 billion in FY 2012.

[3] After reaching a peak of $627 million in FY 2003, J&C costs dropped to $517 million in FY 2006 before rising to $564 million in FY 2007.

Tax Revenues

The Preliminary Budget projects $36.0 billion in total tax revenues for FY 2009, a decline of 2.6 percent from the FY 2008 level.[4] The trend is attributable to the expected decline in financial sector wages and employment and weakness in national and local economies. In the outyears, total tax revenue is expected to grow 5.9 percent in FY 2010, 5.4 percent in FY 2011, and 5.1 percent in FY 2012.

Changes from October Modification

Tax revenue projections for FY 2009 have decreased $673 million, or 1.8 percent, since the October Modification. This downward revision is attributable to declines in both property tax revenue and non-property tax revenue forecasts. Property tax revenue is forecast to decline $199 million, or 1.4 percent, while non-property tax revenue is forecast to decline $474 million, or 2.1 percent.

Aggregate real property market value increased by only 2.8 percent, according to the FY 2009 tentative assessment roll from the Department of Finance. This increase is well below the 18.1 percent surge increase from FYs 2007 to 2008 and is the slowest rate of growth since the FY 1998 increase of 1.4 percent. A decrease in Class 1 market value contributed to the low growth rate. Billable assessed value rose 7.9 percent despite the sluggish growth of market value due to assessment increases of previous years that are being phased in. The City's real property tax revenue forecast is $199 million less than in the October Modification estimate, mainly due to a downward revision of $167 million in the tax levy forecast, rounded out by a decrease in STAR aid and the removal of certain proposed tax program items.

The City has increased its FY 2009 personal income tax (PIT) forecast $11 million, or 0.13 percent, over the forecast presented in the October Modification. This change reflects the removal of the proposed City contribution to the SMART Fund of $220 million and an increase in expected STAR aid of $14 million, offset by a decline in the baseline estimate of $223 million.

The largest decline in non-property tax revenue forecast in the January Financial Plan comes from business taxes. The business tax revenue projection has decreased $455 million, or 9.0 percent, compared with the October Modification. The decrease is attributable to a downward revision in all three business taxes. The general corporation tax (GCT) revenue forecast declined $272 million. The banking corporation tax (BCT) revenue and the unincorporated business tax (UBT) revenue forecasts declined $100 million and $83 million respectively compared to the previous plan.

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[4] PIT revenue includes School Tax Relief (STAR) reimbursement and the portion of PIT retained for New York City Financial Authority (NYCTFA) debt service. Property tax revenue includes STAR reimbursement.

The sales tax revenue forecast has increased $2 million, or 0.04 percent, from the October forecast. This increase results from the removal of the exemption for hybrid vehicles of $2 million. Compared with the October Modification, no change has been made in the baseline forecast for sales tax revenue in the January plan.

Projected real-estate-related tax revenues for FY 2009 were revised downward $33 million, or 1.6 percent, reflecting the anticipated decline in both sales volume and the median prices for residential and commercial markets. The January plan includes an anticipated $17 million decline in the real property transfer tax revenue projection, as well as $16 million less in anticipated revenues from the mortgage recording tax, reflecting an expected lower level of commercial real estate transaction activities. The City's tax revenue assumptions for FY 2008 are illustrated in Table 10.

Table 10. Changes to the City's FY 2009 Tax Revenue Assumptions

($ in millions)

	Oct. Mod.	Jan. Mod.	Change
Property	$14,258	$14,059	($199)
PIT	8,170	8,181	11
Business	5,085	4,630	(455)
Sales	4,640	4,642	2
Real-Estate-Related	2,100	2,067	(33)
All Other	2,395	2,396	1
Total	**$36,648**	**$35,975**	**($673)**

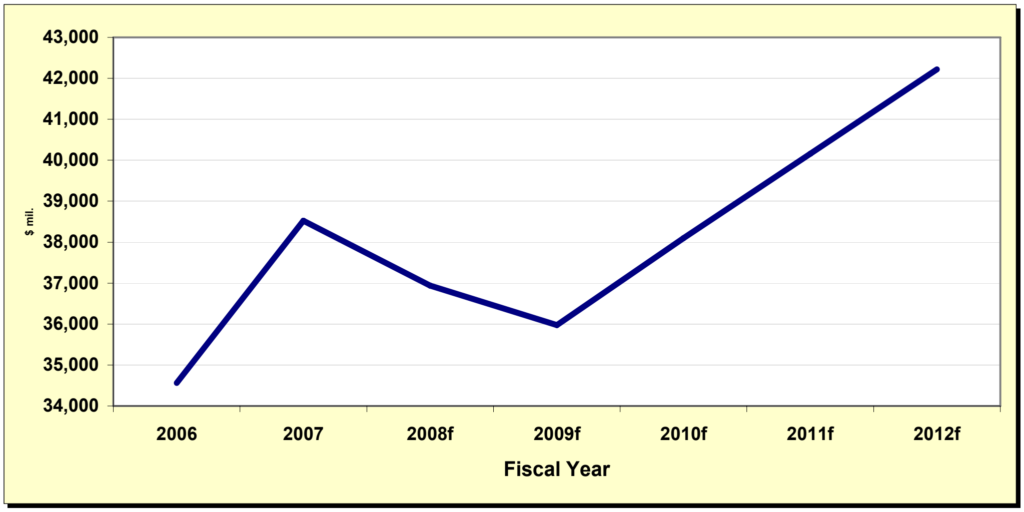
SOURCE: NYC Office of Management and Budget.

Tax Revenue Trends

Forecasts of total tax revenue in the January Financial Plan have been revised downward by $346 million in FY 2010 and $114 million in FY 2011. For FY 2012, the City increased its forecast by $261 million. Total tax revenue is projected to increase $5.3 billion from FYs 2008 to 2012, an annual rate of 3.4 percent, as shown in Chart 3 on page 21. Collections are expected to grow 5.9 percent in FY 2010, 5.4 percent in FY 2011, and 5.1 percent in FY 2012.

Property tax revenue should maintain growth through the financial plan period even as the real estate market cools. Average annual growth is estimated at 6.3 percent from FYs 2008 to 2012, with an increase of 7.0 percent in FY 2009, 7.3 percent in FY 2010, 6.0 percent in FY 2011, and 5.0 percent in FY 2012. Class 2 and 4 properties continue to comprise 83 percent of total billable assessed value and can mitigate declines or slower growth in Class 1 values. Although the market value growth of the two classes is expected to slow, the five-year phase-in process of their assessed value changes will produce steady increases in the outyears due to double-digit market value increases in FYs 2005, 2006 and 2007.

Chart 3. **NYC Total Tax Revenues, FY 2006 – 2012**



f = forecast

Non-property tax collections are expected to decline 7.9 percent in FY 2009 and increase 3.9 percent annually from FY 2010 to FY 2012, reflecting a contraction of the local economy in calendar year 2008 and a subsequent recovery from FYs 2010 to 2012. Personal income tax growth averages 2.5 percent from FYs 2008 to 2012, while business taxes are expected to grow 3.8 percent annually during the same period, as shown in Table 11. The real-estate-related taxes are forecast to drop 20.2 percent in FY 2008, 21.4 percent in FY 2009, 1.7 percent in FY 2010, 1.4 percent in FY 2011, and to revert to an annual positive growth of 4.2 percent in FY 2012. This pattern of decline in tax revenues in FYs 2008 and 2009 and stronger growth in FYs 2010 to 2012 stems from the City's forecast for a sharply slowing local economy in calendar years 2007 and 2008, and its more optimistic forecast for the outyears.

Table 11. Tax Revenue Forecast, Growth Rate, FYs 2008 – 2012

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FYs 2008-2012
Property	0.1%	7.0%	7.3%	6.0%	5.0%	6.3%
PIT	(0.1%)	(5.0%)	5.0%	5.8%	4.6%	2.5%
Business	(17.1%)	(7.1%)	8.6%	7.5%	7.1%	3.8%
Sales	1.8%	(1.3%)	5.5%	5.1%	5.9%	3.7%
Real-Estate Transaction	(20.2%)	(21.4%)	(1.7%)	(1.4%)	4.2%	(5.6%)
All Other	0.1%	(16.4%)	3.0%	2.4%	(19.7%)	(8.3%)
Total	**(4.1%)**	**(2.6%)**	**5.9%**	**5.4%**	**5.1%**	**3.4%**

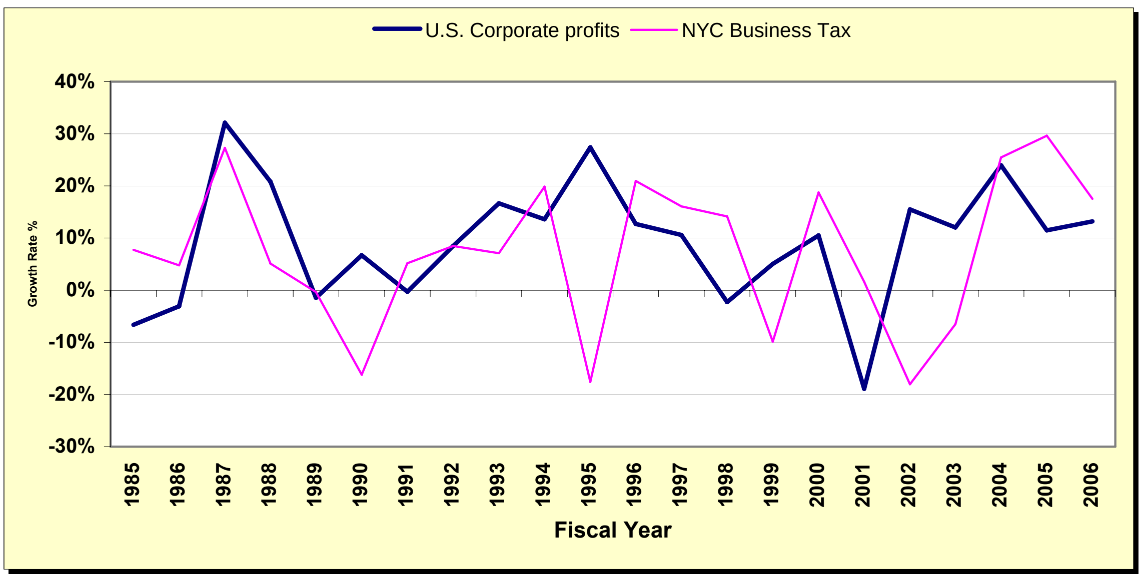
SOURCE: NYC Office of Management and Budget and NYC Comptroller's Office.

The City anticipates that business tax revenues will decline for two consecutive years, FYs 2008 and 2009, before approximating their FY 2007 level by FY 2012. Business taxes are very sensitive to national and local economic conditions. Business tax revenues have contracted substantially in previous economic recessions. Before and during the 1990 — 91 recession, common-rate-and-base business taxes declined in FY s1989 and 1990, including a 16.2 percent drop in FY 1990. During the 2001 — 03 recession, common-rate-and-base business taxes declined 18.1 percent in FY 2002 and

6.5 percent in FY 2003. The steepest declines for GCT were 14.3 percent in the FY 1990, and 23.3 percent in FY 2002. Bank tax revenues dropped 46.7 percent in FY 1990, and 33.4 percent in FY 2003. The Unincorporated Business Tax (UBT) fell 0.6 percent in FY 1990 and 3.5 percent in FY 2002.

NYC business tax revenues also move closely with the changes in national corporate profits. Chart 4 compares the changes in NYC business tax revenues with fluctuations in U.S. corporate profits. Both business tax revenues and U.S. corporate profits tend to decrease sharply during recessions. When U.S. corporate profits dropped in calendar year 2001, for example, the NYC business tax revenues fell by almost the same rate in FY 2002.

***Chart 4.* NYC Business Tax Revenues vs U.S. Corporate Profits, 1985 – 2006**



Source: NYC Comptroller's Office, and Bureau of Economic Analysis website, http://bea.gov/national/nipaweb/TableView.asp, Nation Income and Product Accounts Table 1.12 National Income by Type of Income.

Note: Business tax revenues are plotted in fiscal years, while the corporate profits are plotted in calendar years.

Since non-property taxes are sensitive to the business cycle, this component of total tax revenue fluctuates as the economy moves between expansion and recession. During business cycle contractions, the share of property tax revenue rises substantially as the growth of property taxes offset the decline in non-property taxes. The property tax share of total revenue is forecast to rise to 42.7 percent in FY 2011, up from 34.2 percent in FY 2007. As the economy recovers, the property tax share of projected revenues declines to 40.6 percent in FY 2012.

Risks and Offsets

The Comptroller's Office projections of risks and offsets to the City's tax revenue assumptions, based on current year collections and economic growth projections, are illustrated in Table 12. The Comptroller's Office economic growth forecasts are slightly more optimistic than the City's projections for FY 2008 but much less so for FYs 2010 through 2012.

For FY 2009, the Comptroller's Office expects tax revenues to be $40 million lower than the City's estimate because of a lower forecast for property tax revenues. The Comptroller's Office expects risks of $105 million in FY 2010, $110 million in FY 2011, and an offset of $45 million in FY 2012, mainly due to the less optimistic estimates for business tax revenues in FYs 2010 ─ 2011 and a lower forecast of property tax revenues in FY 2010. For FY 2012, the projected $45 million offset is due to a more optimistic forecast of property tax revenues. The Comptroller's estimates are based on projections of a large decline in the Wall Street bonus pool, lower corporate profits, slower growth in GCP in FYs 2008 and 2009, and a slower recovery in the outyears. The difference between the Comptroller's forecasts and the City's is mainly due to the difference in the forecast of the growth path of GCP from FYs 2008 to 2012.

Both the Mayor and the Comptroller expect a decline in property and real-estate-related taxes in FYs 2008 and 2009. However, the Comptroller's Office assumes a quicker recovery in the outyears.

Table 12. Risks and Offset to the City's Revenue Projections

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Property	0	(125)	(70)	30	245
PIT	75	0	(20)	(80)	(10)
Business	0	0	(50)	(110)	(150)
Sales	40	85	0	(50)	(100)
Real-Estate Transaction	0	0	35	100	60
Total	**$115**	**($40)**	**($105)**	**($110)**	**$45**

SOURCE: NYC Office of Management and Budget and NYC Comptroller's Office.

Miscellaneous Revenues

Miscellaneous revenues are locally raised non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, water and sewer revenues, interest income and nonrecurring revenues deriving from asset sales and other one-time resources. The FY 2009 Preliminary Budget projects miscellaneous revenues will decline 17 percent in FY 2009 to $3.9 billion (exclusive of private grants and intra-City revenues). This forecast represents an increase of $235 million over the amount projected in the October Plan.[5]

Excluding interest income, estimates for all categories of miscellaneous revenues were revised upwards. The largest forecast increase, $152 million, occurred in the other miscellaneous category and it was mostly due to an expected delay of $141 million resulting from a settlement the City reached with the Internal Revenue Service (IRS)

[5] Approximately $77 million of this increase is due to gap closing actions.

involving a refund of FICA (i.e. Social Security and Medicare) tax which was previously earmarked for FY 2008. As Table 13 shows, notwithstanding this transfer, the other miscellaneous revenue category is expected to drop by 42 percent in FY 2009. In FY 2008, this category benefits from over $500 million in non-recurring actions including the delayed recognition of tobacco settlement revenues from FYs 2006 and 2007 to FY 2008, totaling $354 million.

Table 13. City Forecast of Miscellaneous Revenue

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Licenses, Franchises, Permits	457	453	446	450	455
Interest Income	387	137	144	144	144
Charges for Services	587	570	568	566	567
Water and Sewer	1,213	1,197	1,208	1,234	1,252
Rental Income	212	201	201	201	200
Fines and Forfeitures	762	740	741	741	741
Other Miscellaneous	1,131	654	521	520	495
Total Miscellaneous Revenue	**4,749**	**3,952**	**3,829**	**3,856**	**3,854**

Note: Water & Sewer Revenues are not available for operating purposes because they are offset by expenditures related to providing water & sewer services.
Source: NYC Office of Management & Budget.

Another large non-recurring item in FY 2008 stems from additional affirmative litigation revenues worth $52 million, resulting from one-time settlement payments from a 2003 asbestos lawsuit ($47 million), and $5 million in payments to correct prior year overcharges by Con Edison. Other non-recurring resources include $65 million in enhanced early intervention prior year reimbursement and $30 million in sales of taxi medallions.

Another category expected to decline considerably in FY 2009 is interest income. The City expects that lower cash balances and lower short-term interest rates will depress interest income in FY 2009. Over the plan period, interest income is expected to stabilize slightly above the FY 2009 level. Overall, miscellaneous revenues are expected to decline slightly in FY 2010 and then remain flat at $3.8 billion in FYs 2011 ─ 2012.

Federal and State Aid

The City projects Federal and State categorical grants would range between $17 billion and $18.2 billion over the Plan period. The main area of growth is State education aid, rising by $2 billion in FYs 2008 ─ 2011 and remaining constant in FY 2012. This growth is tempered by the more conservative estimates of Federal grants in the outyears of the Plan. Over the course of the plan, Federal and State grants represent about 29 percent of the City’s total revenue budget. The bulk of intergovernmental assistance is for education and social services, constituting about 87 percent of the total Federal and State support reflected in the January Plan.

In addition to the baseline assumptions, the January Plan also assumes greater Federal assistance of $100 million each year beginning in FY 2009. The options to achieve this revenue target are laid out in the City’s Federal and State Agenda, which contains a menu of potential Federal actions of $2.2 billion to $3.2 billion and State actions of more than $400 million annually in FYs 2009 — 2012. The most prominent actions on the list include the resumption of Federal revenue sharing ($765 million for FY 2009), full Federal support of the No Child Left Behind Act ($589 million), full authorized Federal funding of handicapped education grant ($555 million), and increased State reimbursement for State inmates detained in City facilities ($126 million).

State Budget Impact

In January, the State released its Executive Budget for SFY 2008 — 09. Grappling with a projected State budget gap of $4.8 billion in FYs 2008 — 09, the Governor's proposed budget indicates that it would still bring a net increase of over $650 million in local aid to the City. However, against the City's expectation in the January Plan, the proposed State budget represents a significant shortfall that could have an adverse impact upwards of $500 million on the City's budget across FYs 2008 and 2009. The major components of this shortfall are school aid, revenue sharing, and social services.

The State Executive Budget provides an increase of $500 million in school aid to the City in FY 2009, scaling back by almost $200 million the amount promised under the Governor's original plan to increase school aid. Compared with the January Plan estimates, State education aid would fall short by more than $300 million mainly because the Department of Education budget has assumed greater levels of foundation aid and transportation reimbursement. Further, the State has also proposed a 50 percent, or $164 million, reduction in revenue sharing aid to the City in FY 2008. This same revenue source was cut from $328 million to $20 million in FY 2007. The elimination of the FY 2008 revenue was averted in the SFY 2007 — 08 Adopted Budget, but is once again in jeopardy under the Governor's proposal. The Executive Budget also reduces State support for social services by about $100 million, mainly by shifting additional costs to the City for youth detention and public assistance. Rounding out the overall impact, the State estimates that offsets of about $100 million will be available to the City through a mix of revenue actions, health cost savings, and transportation subsidies. The most prominent among these initiatives are increasing the recording fee for mortgage recording tax at county option and enforcing internet sales tax collection, combining for over $50 million in additional FY 2008 and FY 2009 revenue.

B. EXPENDITURE ANALYSIS

The City's projected FY 2009 spending totals $58.7 billion, $1.8 billion or 3 percent less than projected FY 2008 expenditures.[6] However, the City's FY 2009 expenditure estimates are lowered by pre-payments and transfers totaling $4.15 billion. After adjusting for net pre-payments, FY 2009 expenditure totals $63.17 billion.[7] This is

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[6] Expenditures include NYCTFA debt service.

[7] Net pre-payment for a given fiscal year is the pre-payment of that fiscal year's expenditures minus the pre-payment for the following year's expenditures.

an increase of 1.8 percent from the adjusted FY 2008 expenditure estimate of $62.07 billion. From FYs 2008 to 2012, expenditures, after adjusting for pre-payments, are projected to grow by 15.1 percent, or 3.6 percent annually, outpacing average annual growth of projected total revenue by 1.4 percentage points.

As Table 14 shows, The City's spending increases in FY 2008 and the outyears of the Financial Plan are dominated by growth in health insurance costs, debt service, and judgments and claims (J&C) settlements.[8] The combined spending in these areas, which accounts for approximately 14.4 percent of FY 2008 spending, is projected to grow 37.6 percent to 17.3 percent of spending by FY 2012.

Table 14. FYs 2008 – 2012 Expenditure Growth

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Growth FY 08–12	Annual Growth
Health Insurance	3,397	3,730	4,068	4,439	4,775	40.6%	8.9%
Debt Service	4,925	5,267	5,626	6,104	6,697	36.0%	8.0%
Judgments and Claims	635	688	738	795	856	34.9%	7.8%
Subtotal	**$8,957**	**$9,685**	**$10,432**	**$11,338**	**$12,328**	**37.6%**	**8.3%**
Salaries and Wages	$19,994	$20,155	$20,886	$21,657	$21,961	9.8%	2.4%
New Education Initiatives	0	0	326	767	767	N/A	N/A
Health Insurance Restructuring	0	(200)	(200)	(200)	(200)	N/A	N/A
Pensions	$5,625	$6,113	$6,412	$6,406	$6,421	14.1%	3.4%
Other Fringe Benefits	2,963	3,013	3,175	3,324	3,457	16.7%	3.9%
Public Assistance	1,219	1,177	1,176	1,176	1,176	(3.5%)	-0.9%
Medicaid[b]	5,797	5,602	5,756	5,916	6,089	5.1%	1.2%
Other OTPS	16,788	16,149	16,592	16,968	17,139	2.1%	0.5%
Subtotal	**$52,386**	**$52,009**	**$54,124**	**$56,014**	**$56,810**	**8.4%**	**2.0%**
CFE Supported Expenditures[a]	723	1,476	2,256	2,302	2,302	218.4%	33.6%
Total Expenditure	**$62,066**	**$63,170**	**$66,812**	**$69,654**	**$71,440**	**15.1%**	**3.6%**

SOURCE: NYC Office of the Comptroller
NOTE: Expenditures are Total-fund expenditures and include NYCTFA debt service.
[a] CFE supported expenditure growth is driven by the phase-in schedule of increased State education funding in response to the November 2006 CFE court ruling.
[b] Medicaid growth in the Table reflects a one-time transaction for HHC in FY 2008. After adjusting for non-City funds and the one-time transaction, Medicaid outlay shows annual growth of 3.0 percent in FYs 2008 through 2012, reflecting the State cap on local Medicaid growth.

All other expenditures, excluding Campaign for Fiscal Equity (CFE) supported expenditures, are projected to grow 8.4 percent over the plan period, averaging 2.4 percent growth annually.[9] Growth in pension contributions, which had averaged

[8] While the City's projections show J&C growing by 34.9 percent over the Financial Plan period, the Comptroller's Office expects growth over this period to be flat as discussed in "Risks and Offsets" beginning on page 17.

[9] CFE supported expenditure growth is driven by the phase-in schedule of increased State education funding in response to the November 2006 CFE court ruling

25.9 percent from FYs 2001 to 2007, is expected to slow to 3.4 percent annually over the plan period as actuarial investment losses in FYs 2001 through 2003 are fully phased into the actuarial asset values by FY 2009. In fact, from FYs 2009 to 2012 pension contributions are expected to grow only 5 percent, averaging 1.6 percent annually.

Pensions

The January Plan projects that pension expenditures will increase from $5.6 billion in FY 2008 to $6.4 billion in FY 2012. These projections include the impact of pension fund investment returns through June 30, 2007, additional costs resulting from recent collective bargaining settlements, and a reserve of $200 million annually beginning in FY 2010 to fund potential changes in actuarial assumptions and methodology.

As shown in Table 15, pension expenditures when compared to the October Plan increased $21 million in FY 2008, declined $28 million in FY 2009, and increased $218 million in FY 2010, $126 million in FY 2011, and $44 million in FY 2012.

Table 15. Projections of the City's Contributions to the Five Actuarial Pension Systems

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
FY 2008 October Plan Budget	$5,604	$6,141	$6,194	$6,280	$6,377
Teachers 20-Year Plan Settlement	13	14	13	13	12
Teachers Per Session Retroactive Settlement	13	14	14	13	13
Teachers 55/25 Improved Plan	0	101	94	74	58
Revised Pension Assumption	0	(200)	0	0	0
Investment Managers Fees	0	37	76	94	122
Net Actuarial and Pension Reserve Adjustments	(5)	0	18	(67)	(174)
Other Adjustments	0	6	3	(1)	13
Sub-total	21	(28)	218	126	44
FY 2009 January Plan	$5,625	$6,113	$6,412	$6,406	$6,421

NOTE: Pension expenditures do not include intra-City expenses of $124 million annually.

Changes since October include:

- Additional costs of approximately $13 million annually to settle a dispute for about 40,000 retirees and active teachers with respect to the calculation of interest earned on pension contributions by certain members in Tiers I and II who had more than twenty years of service.

- Approximately $13 million a year in teachers' pension benefits related to retroactive "per-session" compensation.

- Funding for pension cost related to reducing the service retirement requirements for certain members of the Teachers' Retirement System (TRS) and the Board of Education Retirement System (BERS). The City is supporting pending State legislation that would reduce the service retirement requirements for certain members of these two retirement systems from thirty years to twenty-five years, provided members increase their pension contribution rate by 1.85 percent. To cover the pension cost for the previous years of service by these members, the City is allocating $101 million in FY 2009, $94 million in FY 2010, $74 million in FY 2011, and $58 million in FY 2012. However, the City expects to realize some offsets from lower salaries of new teachers who will replace retiring teachers. For future members, years of service required for retirement will be reduced to twenty-seven years from thirty years. The minimum age of retirement will remain at fifty-five years. Future members will also be required to increase their pension contribution rate by 1.85 percent.

- Removal of the FY 2009 $200 million reserve for costs related to potential changes in actuarial assumptions and methodology. The Chief Actuary is currently reviewing recommendations in the biennial actuarial audit completed by the Segal Company in 2006. At this time, it is expected that any recommendations by the Chief Actuary will not have a cost impact on the City until FY 2010.

- Projected increase in investment managers cost by $37 million in FY 2009, $76 million in FY 2010, $94 million in FY 2011, and $122 million in FY 2012.

Health Insurance

The City's spending for employee and retiree health insurance is expected to increase at an average annual rate of about 7.7 percent from FYs 2008 to 2012, growing from $3.397 billion to $4.575 billion. These projections are based on premium rate increases of 9.43 percent in FY 2009 and 8 percent for the outyears.

When compared to the October Plan, the City's projections of health insurance expenditures were reduced in each year of the January Plan, as shown in Table 16 on page 29. The decreases in the outyears stem mainly from anticipated savings of $200 million from the City's plan to restructure its health insurance program. However, at this time, the City has not furnished any detail on how this will be accomplished (See "Risks and Offsets" beginning on page 17).

The other changes to the health insurance projections are as follows:

1. A 1.43 percent increase in the Health Insurance Plan of New York (HIP) premium rate increase for FY 2009 to 9.43 percent from the previously budgeted 8.0 percent.

2. Increase in retiree health cost related to the reduction in service retirement requirements as discussed in "Pensions" beginning on page 27.

3. Other changes, which resulted mainly from lower projections of headcount levels.

Table 16. Revisions in Health Insurance Expenditure Projections January 2008 Plan vs. October 2007 Plan

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
October Plan	$3,426	$3,752	$4,067	$4,429	$4,757
Health Insurance Restructuring	$0	($200)	($200)	($200)	($200)
Revision in the Anticipated HIP Rate Increase for FY 2009	2	39	43	46	50
Teachers 55/25 Health Costs	0	7	14	19	25
Headcount and Other Changes	(31)	(69)	(56)	(56)	(57)
Total	($29)	($223)	($199)	($191)	($182)
FY 2009 January Plan	$3,397	$3,529	$3,868	$4,238	$4,575

Labor

Since the October Financial Plan, the Organization of Staff Analysts (OSA) has established and ratified its contract agreement with the City for the current round of collective bargaining. The agreement, which covers the period from July 13, 2006 to August 24, 2008, provides for wage increases and benefits as follows:

- *Wage increases*
    - 2.0 percent, effective August 13, 2006
    - 5.0 percent, compounded, effective February 13, 2007
- *Welfare Fund* – Effective July 13, 2006, the annual contribution to the fund per member will increase by $100. Effective November 13, 2006, the City will make a one-time payment of $167 per member to the fund.
- *Longevity/Service Increments* – Effective August 24, 2008, 1.05 percent will be used to increase longevity payments to eligible titles.

The PBA contract continues to be in arbitration with the Public Employment Relations Board (PERB). The City and the PBA recently completed hearings before PERB and are in the process of submitting closing briefs. PERB set a March 3rd deadline for the responses from both parties to the closing briefs and will begin the deliberation process after all responses are received. PERB's decision will cover the 2-year period from August 1, 2004 to July 31, 2006. The City and the PBA will begin negotiations over the next contract after a PERB decision.

Headcount

After the October modification to the FY 2008 budget was released, the City set a goal for all agencies to identify ways to reduce City-funded spending 2.5 percent in FY 2008 and 5 percent in FY 2009. This is reflected in the headcount changes from the October 2007 modification to the current January 2008 modification. City-funded full-time headcount projections have been reduced by 3,363 positions (1.4 percent) for FY 2008, 4,487 positions (1.9 percent) for FY 2009, 3,504 positions (1.5 percent) for FY 2010, and 3,503 positions (1.5 percent) for FY 2011. As of December 2007, there were 236,151 City-funded full-time employees. Table 17 shows the City's headcount plan for FYs 2008 through 2012.

Table 17. City-Funded Full-Time Year-End Headcount Projections

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Pedagogical					
Dept. of Education	93,813	93,889	94,466	94,456	94,456
City University	2,687	2,674	2,674	2,674	2,674
Sub-total	96,500	96,563	97,140	97,130	97,130
Uniformed					
Police	34,624	34,624	35,624	35,624	35,624
Fire	11,264	11,264	11,264	11,264	11,264
Corrections	8,863	8,653	8,557	8,557	8,557
Sanitation	7,604	7,452	7,452	7,701	7,701
Sub-total	62,355	61,993	62,897	63,146	63,146
Civilian					
Dept. of Education	8,799	8,491	8,491	8,491	8,491
City University	1,659	1,518	1,518	1,518	1,518
Police	10,105	9,988	9,996	9,951	9,951
Fire	4,656	4,749	4,749	4,749	4,749
Corrections	1,449	1,422	1,518	1,518	1,518
Sanitation	1,961	1,898	1,899	1,953	1,953
Admin for Children's Services	7,216	7,142	7,142	7,142	7,142
Social Services	11,318	11,304	11,304	11,304	11,304
Homeless Services	2,063	2,125	2,125	2,125	2,125
Health and Mental Hygiene	4,112	4,023	4,006	4,004	4,004
Finance	2,181	2,110	2,110	2,110	2,110
Transportation	2,247	2,238	2,222	2,222	2,222
Parks and Recreation	3,321	3,252	3,271	3,288	3,288
All Other Civilians	16,207	15,972	15,967	15,958	15,958
Sub-total	77,294	76,232	76,318	76,333	76,333
Total	236,149	234,788	236,355	236,609	236,609

The downward revision of forecasts since the last plan is in large part the result of PEGs. For uniformed and pedagogical employees, the PEGs consist mainly of increased operational efficiencies with some reduction in services, while PEGS for civilian and non-pedagogical employees are dominated by hiring freezes and vacancy reductions. The Police Department (NYPD), the Department of Sanitation (DOS), the Department of Education (DOE), and the City University of New York (CUNY), all plan to achieve their full-time staff reductions by targeting a higher percentage of civilian and non-pedagogical jobs, presumably to minimize the impact on public safety and students.

The largest plan-to-plan reduction in uniformed jobs occurs at the NYPD, where previously unrecognized uniform savings from below-target hiring trends are now being accounted for in the January modification, with a downward adjustment of 1,000 uniformed headcount in FYs 2008 and 2009. DOS plans to eliminate 18 uniformed jobs in FY 2008 and 171 uniformed jobs in the outyears by increasing field-operation efficiencies for cleaning and collection, and reducing some services. The Department of Correction will civilianize 62 uniformed jobs, streamline operations to eliminate another 36 positions, and reduce uniformed headquarters staff by 25 full-time jobs in an effort to achieve savings. At DOE, the forecasts for teachers of English Language Learners will be reduced by 57 positions in FY 2008 and by 113 positions in FYs 2009 to 2012. Projections for CUNY pedagogical staff will be lowered by 19 positions in FY 2008 and by 26 positions in the outyears as a result of various initiatives.

Collectively, the agencies offering social services, namely the Department of Social Services (DSS), the Administration for Children's Services (ACS), and the Department of Homeless Services (DHS), have experienced the greatest reduction in plan forecasts for civilian jobs. DSS has lowered FY 2008 headcount projections by 612 full-time employees, and by 620 employees in each of the outyears. ACS will rely on Child Protective Services productivity enhancements and a hiring freeze to reduce their estimates of full-time headcount by 153 positions in FY 2008, and by 223 positions in FYs 2009 to 2012. Since the October modification, DHS has lowered its forecast of full-time headcount by 237 jobs in FY 2008 and 171 jobs in each of the outyears, due primarily to a headcount adjustment of 171 jobs that was made to accurately reflect the staffing level supported by expenditure estimates. The majority of the remaining reductions in full-time civilian and non-pedagogical personnel forecasts will be accomplished with hiring freezes and vacancy reductions.

City-funded full-time equivalent (FTE) headcount is expected to be approximately 31,100 positions throughout the financial plan, as shown in Table 18. This represents a marginal increase of just over 500 positions, predominantly at the NYPD, since the October 2007 modification.

Table 18. City-Funded FTE Year-End Headcount Projections

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Pedagogical					
Dept. of Education	1,053	1,053	1,053	1,053	1,053
City University	1,468	1,468	1,468	1,468	1,468
Sub-total	2,521	2,521	2,521	2,521	2,521
Civilian					
Dept. of Education	14,917	14,917	14,917	14,917	14,917
City University	800	800	800	800	800
Police	6,316	6,262	6,262	6,262	6,262
Health and Mental Hygiene	1,335	1,337	1,337	1,337	1,337
Parks and Recreation	3,573	3,470	3,441	3,458	3,458
All Other Civilians	1,838	1,819	1,820	1,820	1,820
Sub-total	28,779	28,605	28,577	28,594	28,594
Total	31,300	31,126	31,098	31,115	31,115

Overtime

The January Plan allocates approximately $830 million for FY 2008 overtime expenditures. FY 2009 overtime expenditures are expected to be almost $51 million lower than FY 2008 at $779 million. Recent overtime spending patterns indicate that the City's overtime projections for FYs 2008 and 2009 are under-budgeted. The Comptroller's Office estimates that overtime spending will be at least $898 million in FY 2008 and will remain relatively unchanged in FY 2009, as shown in Table 19.

Table 19. Projected Overtime Spending, FYs 2008 and 2009

($ in millions)

	FY 2008			FY 2009		
	City's Estimate	**Comptroller's Estimate**	**Risk**	**City's Estimate**	**Comptroller's Estimate**	**Risk**
Uniform						
Police	$289	$350	($61)	$273	$375	($102)
Fire	155	155	0	174	174	0
Correction	93	100	(7)	55	70	(15)
Sanitation	56	56	0	61	61	0
Total Uniformed	$593	$661	($68)	$563	$680	($117)
Others						
Police-Civilian	$40	$40	$0	$40	$40	$0
Admin for Child Svcs	18	18	0	12	12	0
Environmental Protection	22	22	0	21	21	0
Transportation	31	31	0	30	30	0
All Other Agencies	126	126	0	113	113	0
Total Civilians	$237	$237	$0	$216	$216	$0
Total City	**$830**	**$898**	**($68)**	**$779**	**$896**	**($117)**

The risk to the overtime budget stems mainly from expected overtime spending for uniformed police officers. The Comptroller's Office estimates that uniformed police overtime spending will total $375 million in FY 2009, $102 million more than the City's estimate. Police officers' overtime grew at an annual rate of 1.5 percent between FYs 2005 and 2007, averaging $353 million annually.[10] The current fiscal year-to-date police uniformed overtime spending of $174 million through December, is on track to mirror this rate of growth.

The Department of Correction (DOC) has incurred $50 million in uniformed overtime spending through December of FY 2008 and is on pace to moderately exceed the budgeted amount of $93 million. The City is projecting lower overtime costs of $55 million for FY 2009. The recent rise in DOC's uniformed overtime costs results mainly from the continued increase in the average daily inmate population to approximately 14,200 currently from 13,497 in FY 2006, coupled with the difficulty in recruiting new officers. New emphasis on recruitment initiatives and the recent labor contract, which increased starting salaries to $35,000 from $26,667, will likely result in

[10] Overtime numbers are adjusted for one-time occurrences such as the World Trade Center disaster in FY 2001, the electrical blackout in FY 2004, and the Republican National Convention in FY 2005.

FY 2009 uniformed overtime expenditures approximating the $70 million annual average of the last three fiscal years.

The City's PEG program includes savings of almost $10 million for uniformed overtime expenditures at the Department of Sanitation (DOS). Through aggressive hiring in recent fiscal years, the department continues to maintain headcount target, which results in fewer collection routes being performed on overtime. Thus, the $61 million FY 2009 overtime budget for uniformed sanitation workers, which is the same as the average spent annually between FYs 2005 and 2007, is reasonable.

Public Assistance

Through January, the City's public assistance caseload has fallen 3.6 percent, or approximately 13,000 recipients, from a reported caseload of 360,738 for June 2007. The FY 2008 year-to-date decline brings public assistance caseload to 347,681 in January 2008, returning to levels that have not been seen in over 40 years. Since FY 1995, public assistance caseload has declined 70 percent after reaching a peak of about 1.16 million. Similarly, welfare grant expenditures have also fallen more than 60 percent from their peak.

In the January Plan, the City has revised its caseload projections to reflect recent experience. The City now projects a FY 2008 year-end caseload of 342,509 recipients, a decrease of 26,383 recipients from the previous estimate of 368,892. This caseload assumption is held constant for the remainder of the Plan. City support for public assistance grants spending has been reduced by about $10 million due to both revision in caseload composition and higher Federal funding assumptions since the June Plan. On a total funds basis, the January Plan contains public assistance grants spending of $1.22 billion in FY 2008, reflecting an increase of $31 million and appears in line with average monthly spending of $96 million thus far in FY 2008. Over the outyears of the Plan, these expenditures are projected to decline to $1.14 billion annually.

Department of Education

In the January Plan, the City reflects a net decline of $234 million in the Department of Education (DOE) budget for FY 2009 compared to the funding level in the October Plan. As a result, projected FY 2009 funding for DOE falls to $17.81 billion from the previous estimate of $18.05 billion. Like the October Plan, the FY 2009 budget shows spending growth of nearly $1 billion on a year-to-year basis. However, the FY 2008 base is now $113 million less than previously projected. The projected drop in FY 2009 is mainly attributable to the $324 million target that the City has assigned to the Department in its $885 million gap closing program. Similarly, the DOE is slated to absorb $180 million in PEG reductions for FY 2008.

The DOE has not faced a PEG program of any significant magnitude since FY 2003, when annual PEG targets of $200 million were implemented. For FY 2009, the Department expects to attain more than half of the FY 2009 PEG value, or $181 million, by cutting school spending through deferred hiring and purchases. Added layers of efficiency initiatives and a hiring freeze are projected to generate $48 million in expense savings. A revision in State high cost aid supporting special education programs would shift $47 million of City funds spending to State funds. The remainder of the FY 2009 PEG actions includes reductions in technology spending ($16 million), lead teacher subsidy ($10 million), English Language Learners reserve allocation ($10 million) and transportation costs ($5 million).

The Department's budget could also come under additional pressure from the Governor's education aid proposals. For FY 2009, the January Plan contains an assumption of about $8.42 billion in education aid, including debt service for Building Aid Revenue Bonds, under the State's general support for public school (GSFPS) appropriations. In comparison, the State Executive Budget has proposed about $8.07 billion in GSFPS aids, scaling back the Governor's schedule from last year to phase in a dramatic boost in school aid over a four-year period. As a result, the City could face a shortfall of about $350 million in education aid for FY 2009 unless a significant increase in education aid above the Governor's proposal is enacted during the State budget process.[11] The potential education aid loss is seen chiefly in foundation aid, transportation aid, and building aid. In addition, the State has also proposed shifting the evaluation and administration costs of the pre-school special education program entirely to the City. The City, currently responsible for only about 40 percent of these expenses, would bear an additional cost of $21 million annually based on State estimates.

Beyond FY 2009, the DOE budget reflects similar funding levels as in the October Plan. The Department's budget is projected to grow $2.5 billion to $20.31 billion in FY 2011 and then rise marginally to $20.32 billion in FY 2012. Compared with the October Plan estimates, the funding level in FY 2010 would drop by only $38 million and actually show an increase of $104 million in FY 2011. The baseline value of the FY 2009 PEG actions would decline to slightly more than $270 million in FYs 2010 and 2011 and reach $259 million by FY 2012. Meanwhile, the January Plan reflects collective bargaining increases of $209 million to $367 million annually in FYs 2010 ─ 2012, offsetting the impact of the gap closing actions. The outyear projections for DOE contain about $1.3 billion in additional State GSFPS support between FYs 2009 ─ 11. Given that the State has significantly reduced the scheduled education aid increase for the FY 2009 base year, the City's education aid assumptions could also be at risk in the outyears unless favorable changes are made to the Governor's proposal.

Health and Hospitals Corporation

In the January Plan, the financial outlook for the Health and Hospitals Corporation (HHC) remains relatively unchanged in FYs 2008 and 2009. The City still projects the Corporation to end the current fiscal year with a strong cash balance in

[11] Under the Governor's proposal, the City would receive operating aid of $179 million (Academic Achievement Grant) for FY 2009, provided that reimbursement for transportation and building aid are capped at levels specified in the State Executive Budget. Thus, additional claims in these two categories could effectively reduce the level of unrestricted State support for City schools.

excess of $1 billion. For FY 2009, the Corporation expects to retain most of its cash position and achieve a year-end balance of more than $900 million. However, beyond FY 2009, HHC's financial outlook worsens significantly, as evidenced by the sequential decline and virtual depletion of its cash balance by the end of the plan. The January Plan shows that ending cash balances for HHC would fall to $571 million in FY 2010 and $288 million in FY 2011, before reaching $23 million in FY 2012.

The City projects that, on an accrual basis, HHC would face a budget gap of about $1.05 billion in FY 2009. In the latter years of the plan, the projected gaps would rise to a range of $1.21 billion to $1.25 billion in FYs 2010 – 2012. In comparison, a gap of $615 million is forecasted for FY 2008. Contributing to the larger deficits in the outyears is the Corporation's rising cost structure, which shows significant growth in spending for fringe benefits, affiliation contracts, and other post-employment benefits. Over the course of the plan, total expenses are estimated to increase by nearly 11 percent from $6.10 billion in FY 2008 to $6.74 billion in FY 2012. Meanwhile, revenues lag behind significantly at between $5.29 billion to $5.49 billion annually. As a result, the Corporation will need to implement a gap closing program of $850 million in FY 2009 that relies heavily on Federal and State actions. By FY 2012, HHC's gap closing actions are projected to reach almost $1 billion.

A key action in HHC's gap closing program in the January Plan is the continuation of supplemental Medicaid reimbursement by the Federal government. Last year, the Federal government enacted a moratorium on a Medicaid regulation change, allowing HHC to continue receiving this revenue during FY 2008. The moratorium is set to expire in May 2008. The extension of this moratorium, which would provide $432 million in revenue annually, would be critical in helping the Corporation mitigate its budget gaps and achieve the projected cash balances reflected in the January Plan. In addition, the City estimates that the Medicaid cost containment actions in the Governor's proposed budget could reduce HHC revenues by $40 million in FY 2009. The annual impact of this revenue loss could expand to $100 million by the end of the plan due to the four-year phase-in schedule for the proposed actions.

Debt Service

As shown in Table 20 on page 36, debt service, after adjusting for the impact of pre-payments, grows from $5.02 billion in FY 2008 to $6.79 billion in FY 2012, an increase of $1.77 billion, or 35.4 percent.[12] These represent decreases from the October 2007 Financial Plan of $40 million in FY 2008, $76 million in FY 2009, $75 million in FY 2010, and $47 million in FY 2011.

[12] Includes debt service on G.O., TFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

Table 20. January 2008 Financial Plan Debt Service Estimates

($ in millions)

Debt Service Category	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Change from 2008 to 2012
G.O.[a]	$3,578	$3,815	$4,168	$4,639	$5,229	$1,651
NYCTFA [b]	1,102	1,135	1,145	1,149	1,158	56
Lease-Purchase Debt	234	317	312	316	311	77
TSASC, Inc.	92	89	90	91	92	0
Municipal Assistance Corp.	10	0	0	0	0	(10)
Total	**$5,016**	**$5,356**	**$5,716**	**$6,195**	**$6,790**	**$1,774**
Change from October Plan	**($40)**	**($76)**	**($75)**	**($47)**	**N/A**	**N/A**

SOURCE: January 2008 Financial Plan, January 2008.
NOTE: Debt Service is adjusted for pre-payments.
[a] Includes long term G.O. debt service and interest on short term notes.
[b] Amounts *do not* include NYCTFA building aid bonds.

The decrease of $40 million in FY 2008 compared to the October projection is due primarily to $19.2 million of interest savings related to Hudson Yards Infrastructure Corporation debt combined with $17.4 million of debt service savings related to Housing Finance Agency/HHC lease-purchase debt. Savings from the October 2007 Plan projections of FYs 2009 ─ 2011 debt service are due primarily to reductions in projected interest rates of one percentage point in the second half of 2008, and a one-half percentage point decrease throughout FY 2009 and in the first half of FY 2010. The January Plan also reflects additional debt service costs related to a projected increase in G.O. borrowing of $832 million over FYs 2008 ─ 2011. These costs are offset by savings from refunding actions since October 2007 and savings from actual first-half FY 2008 borrowing.

Hudson Yards Infrastructure Corporation

The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation organized by The City of New York under the Not-for Profit Corporation Law of the State of New York. The HYIC is an instrumentality of, but separate and apart from the City. The purpose of the HYIC is to serve as a financing vehicle to encourage and facilitate the development of the Hudson Yards Financing District.[13] Its primary capital project is the extension of the #7 subway line from 41st Street and 7th Avenue to W. 34th Street and 11th Avenue in Manhattan. These major construction contracts are registered with the Metropolitan Transit Authority and are not included in the City's Capital Commitment Plan.

[13] The Hudson Yards Financing District refers to the 45 square block area generally bounded by 7th Avenue & 8th Avenue on the east, West 43rd Street on the north, 11th Avenue & 12th Avenue on the west, and 29th Street & 30th Street on the south.

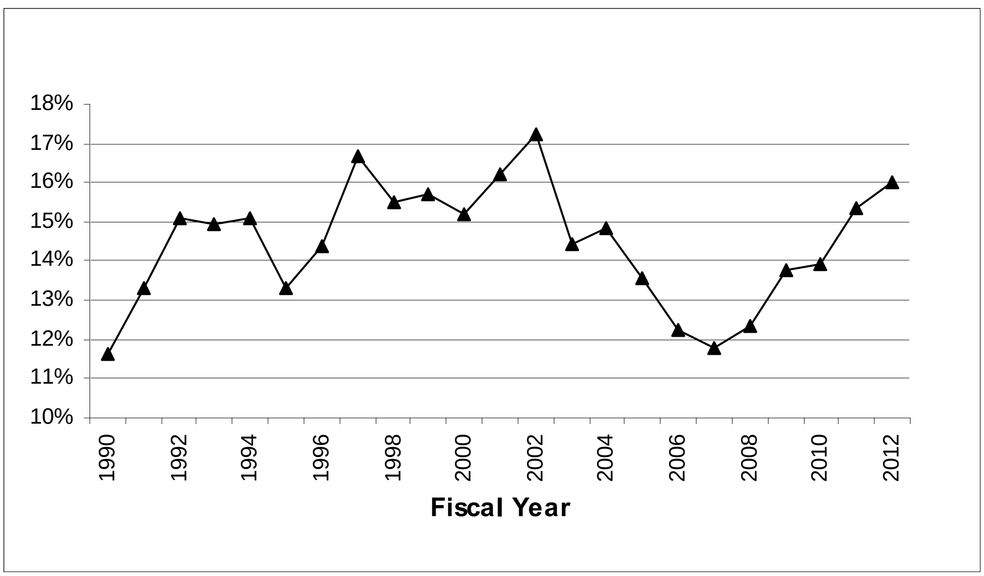
The HYIC issued $2 billion of bonds in December of 2006. The City has no obligation to pay principal but has agreed to pay interest until such time the HYIC generates sufficient revenues to cover its debt service costs. The January 2008 Financial Plan contains $10 million in FY 2008, $99.4 million in FY 2009, and $97.5 million in each of FYs 2010 — 2012 for HYIC costs in the lease-purchase unit of appropriation within the City's debt service budget.

Debt Affordability

Debt service as a percent of local tax revenues is an accepted measure of affordability used by rating agencies and government officials alike. In FY 2007, debt service as a percent of local tax revenues was 11.8 percent. In FY 2008, the January Plan projects debt service to consume 12.3 percent of local tax revenues and is estimated to increase to 13.8 percent in FY 2009, 13.9 percent in FY 2010, 15.3 percent in FY 2011, and to 16 percent by FY 2012. The average debt service growth of 7.9 percent per year between FYs 2008 and 2012 is significantly greater than estimated annual tax revenue growth of 3.4 percent over the same period.

***Chart 5*. Debt Service as a Percent of Tax Revenues, 1990 — 2012**

($ in millions)



SOURCE: Office of Management and Budget, City of New York, January 2008 Financial Plan.

Financing Program

The January 2008 Financial Plan contains $43.8 billion of planned borrowing in FYs 2008 — 2012 from combined City and State sources as shown in Table 21 on page 38. G.O. bonds top the list with $28.5 billion of expected borrowing over the period, or 65.1 percent of the total. Planned NYC Water Finance Authority borrowing of $10.76 billion also accounts for a significant share of capital resources.

Table 21. 2008 January Plan, FYs 200 – 2012

($ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2008-2012	Percent of Total
General Obligation Bonds	$28,547	65.1%
NYC Water Finance Authority	10,756	24.5%
NYC TFA – BARBs	3,486	8.0%
DASNY – EXCEL Bonds	1,045	2.4%
NYC TFA – General Purposes	0	0.0%
Pay-As-You-G.O. Capital	0	0.0%
Total	**$43,834**	**100.0%**

SOURCE: January 2008 Financial Plan, Office of Management and Budget.

Over the period FYs 2008 — 2011, total borrowing is estimated to increase by $1.03 billion from the estimates in the October 2007 Financial Plan due primarily to the elimination of $700 million in pay-as-you-go capital financing over FYs 2008 — 2011 that formerly reduced needed borrowing.[14] Notably, borrowing in FYs 2010 and 2011 is projected to reach an all time high of $9.17 billion and $9.0 billion, respectively, before declining to an estimated $7.98 billion in FY 2012.

The City has exhausted the $13.5 billion cap on NYCTFA borrowing for general purposes that is supported by PIT revenues. The Governor's Executive Budget, however, includes a proposal to increase the cap on NYCTFA borrowing for the City. The NYCTFA has traditionally been a less expensive cost of financing than G.O. bonds. Should the State authorize the increase in the cap on NYCTFA borrowing, the City has indicated that it would use the additional debt capacity to supplant G.O. borrowing.

Auction Rate Market

The City has approximately $7.2 billion in outstanding G.O. variable rate debt, of which approximately $2.06 billion uses the weekly and 28-day auction process to determine the bond's interest costs for the specified period (7 & 28 days). In recent weeks, turbulence in the auction rate marketplace due to difficulties with certain monoline insurers has increased and major broker-dealers have withdrawn liquidity support from the market. As a result, municipal issuers, including New York City and its affiliated credits, have experienced some failed auctions and increased weekly interest rates. Some insured variable rate demand bonds (VRDB) where there are investor concerns about the associated insurer, have also borne higher rates. At the same time, also as a result of this turbulence, uninsured VRDBs that have bank letters of credit or stand-by bond purchase agreements for liquidity have experienced very strong investor demand. These uninsured VRDB interest rates, while low, are quite volatile. At present,

[14] Comments limited to FY 2008-2011 period, because an official borrowing plan did not exist for FY 2012 in the October 2007 Plan.

the lower uninsured VRDB rates mitigate the budget impact of the higher rates on auction rate securities and insured VRBDs.

The Comptroller's Office and the Office of Management and Budget will continue to monitor the auction rate markets in the context of the City's total debt portfolio that still remains with the more stable monoline insurers to determine if additional actions are necessary.

Capital Plan

The FY 2008 Adopted Capital Plan for FYs 2008 — 2011 is the largest four-year plan on record with $52.48 billion in authorized all-fund commitments, averaging $13.12 billion per year as shown in Table 22.[15] This represents an increase of $1.43 billion over the four-year period from the October 2007 Commitment Plan. Capital commitments in DOE and CUNY, the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for 67 percent of all-fund commitments.

Table 22. FYs 2008 – 2011 Capital Commitments, All-Funds

($ in millions)

Project Category	January 2008 Commitment Plan	Percent of Total
Education & CUNY	$12,054	23.0%
Environmental Protection	11,526	22.0
Dept. of Transportation & Mass Transit	6,968	13.3
Housing and Economic Development	4,702	9.0
Administration of Justice	3,874	7.4
Technology and Citywide Equipment	3,296	6.2
Parks Department	2,885	5.5
Hospitals	906	1.7
Other City Operations and Facilities	6,271	11.9
Total	**$52,482**	**100.0%**
Reserve for Unattained Commitments	($4,180)	n/a
Adjusted Total	**$48,302**	**n/a**

SOURCE: Office of Management and Budget, FY 2008 January Capital Commitment Plan, January 2008

After adjusting for the reserve for unattained commitments, the Capital Plan over FYs 2008 — 2011 totals $48.3 billion in all-funds commitments, and $38.3 billion in City-funds commitments. The plan is front-loaded with all-fund commitments totaling $13.94 billion in FY 2008, increasing to $14.67 billion in FY 2009, then decreasing to $10.45 billion in FY 2010, and $9.24 billion in FY 2011.

[15] Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded in the Commitment Plan.

The City-funded portion of the Plan totals $42.48 billion over FYs 2008 ─ 2011, as shown in Table 23. Capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development constitute 60.5 percent of the City-funds plan. The significant difference between the DOE's 12.7 percent share of the City-funded capital plan and its 23 percent of all-funds capital plan reflects the State-supported commitments of $6.6 billion in FYs 2008 ─ 2011. This $6.6 billion in State support for the education portion of the commitment plan comprises 66.4 percent of the total State and Federal support to the entire commitment plan over FYs 2008 ─ 2011.

Table 23. FYs 2008 –2011 Capital Commitment, City-Funds

($ in millions)

Project Category	January 2008 Commitment Plan	Percent of Total
Environmental Protection	$11,315	26.6%
Education & CUNY	5,397	12.7
Dept. of Transportation & Mass Transit	5,089	12.0
Housing and Economic Development	3,896	9.2
Administration of Justice	3,871	9.1
Technology and Citywide Equipment	3,282	7.7
Parks Department	2,621	6.2
Hospitals	906	2.1
Other City Operations and Facilities	6,110	14.4
Total	**$42,487**	**100.0%**
Reserve for Unattained Commitments	($4,180)	n/a
Adjusted Total	**$38,307**	**n/a**

SOURCE: Office of Management and Budget, FY 2008 January Capital Commitment Plan, January 2008

Appendix – Revenue and Expenditure Details

Table A1. *January 2008 Financial Plan Revenue Detail*

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY 2008-12 Percent	Changes FY 2008-12 Dollar
Taxes:							
Real Property	$13,141	$14,059	$15,089	$15,998	$16,800	27.8%	$3,658
Personal Income Tax	$8,611	$8,181	$8,591	$9,089	$9,510	10.4%	$899
General Corporation Tax	$2,753	$2,667	$2,850	$3,056	$3,270	18.8%	$517
Banking Corporation Tax	$696	$497	$613	$679	$727	4.5%	$31
Unincorporated Business Tax	$1,536	$1,466	$1,564	$1,667	$1,790	16.5%	$254
Sale and Use	$4,704	$4,642	$4,895	$5,142	$5,443	15.7%	$739
Commercial Rent	$550	$566	$583	$601	$623	13.3%	$73
Real Property Transfer	$1,475	$1,118	$1,100	$1,084	$1,129	(23.5%)	($346)
Mortgage Recording Tax	$1,154	$949	$932	$920	$959	(16.9%)	($195)
Utility	$360	$375	$391	$407	$419	16.4%	$59
Cigarette	$121	$118	$115	$112	$109	(9.9%)	($12)
Hotel	$366	$387	$421	$447	$471	28.7%	$105
All Other	$410	$391	$398	$399	$408	(0.5%)	($2)
Tax Audit Revenue	$1,059	$559	$560	$560	$560	(47.1%)	($499)
Total Taxes	**$36,935**	**$35,975**	**$38,102**	**$40,161**	**$42,217**	**14.3%**	**$5,282**
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$457	$453	$446	$450	$455	(0.4%)	($2)
Interest Income	$387	$137	$144	$144	$144	(62.8%)	($243)
Charges for Services	$587	$570	$568	$566	$567	(3.4%)	($20)
Water and Sewer Charges	$1,213	$1,197	$1,208	$1,234	$1,252	3.2%	$39
Rental Income	$212	$201	$201	$201	$200	(5.7%)	($12)
Fines and Forfeitures	$762	$740	$741	$741	$741	(2.8%)	($21)
Miscellaneous	$1,131	$654	$521	$520	$495	(56.2%)	($636)
Intra-City Revenue	$1,481	$1,390	$1,381	$1,381	$1,381	(6.8%)	($100)
Total Miscellaneous	**$6,230**	**$5,342**	**$5,210**	**$5,237**	**$5,235**	**(16.0%)**	**($995)**
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	$327	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$13	$13	$13	$13	$13	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$340**	**$340**	**$340**	**$340**	**$340**	**0.0%**	**$0**
Anticipated State and Federal rate							
Anticipated State Aid	$0	$0	$0	$0	$0	N/A	$0
Anticipated Federal Aid	$0	$100	$100	$100	$100	N/A	$100
Total Anticipated Aid	**$0**	**$100**	**$100**	**$100**	**$100**	**N/A**	**$100**
Other Categorical Grants	**$1,053**	**$991**	**$991**	**$992**	**$996**	**(5.4%)**	**($57)**
Inter Fund Agreements	**$466**	**$434**	**$422**	**$417**	**$417**	**(10.5%)**	**($49)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**($15)**	**0.0%**	**$0**
Less: Intra-City Revenue	**($1,481)**	**($1,390)**	**($1,381)**	**($1,381)**	**($1,381)**	**(6.8%)**	**$100**
TOTAL CITY FUNDS	**$43,528**	**$41,777**	**$43,769**	**$45,851**	**$47,909**	**10.1%**	**$4,381**

Table A1 (Con't.). *January 2008 Financial Plan Revenue Detail*

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY2008-12 Percent	Changes FY2008-12 Dollar
Federal Categorical Grants:							
Community Development	$282	$278	$262	$259	$259	(8.2%)	($23)
Welfare	$2,478	$2,364	$2,357	$2,357	$2,357	(4.9%)	($121)
Education	$1,851	$1,898	$1,899	$1,900	$1,900	2.6%	$49
Other	$1,294	$840	$830	$815	$816	(36.9%)	($478)
Total Federal Grants	**$5,905**	**$5,380**	**$5,348**	**$5,331**	**$5,332**	**(9.7%)**	**($573)**
State Categorical Grants							
Social Services	$2,010	$1,861	$1,864	$1,864	$1,864	(7.3%)	($146)
Education	$7,893	$8,680	$9,546	$9,983	$9,983	26.5%	$2,090
Higher Education	$209	$209	$209	$209	$209	0.0%	$0
Department of Health and Mental Hygiene	$479	$443	$446	$452	$454	(5.2%)	($25)
Other	$489	$375	$365	$365	$365	(25.4%)	($124)
Total State Grants	**$11,080**	**$11,568**	**$12,430**	**$12,873**	**$12,875**	**16.2%**	**$1,795**
TOTAL REVENUES	**$60,513**	**$58,725**	**$61,547**	**$64,055**	**$66,116**	**9.3%**	**$5,603**

Table A2. *January 2008 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY 2008 - 12 Percent	Changes FY 2008 - 12 Dollar
Mayoralty	$91,649	$83,955	$82,472	$82,487	$82,487	(10.0%)	($9,162)
Board of Elections	$100,859	$78,678	$71,628	$71,628	$71,628	(29.0%)	($29,231)
Campaign Finance Board	$9,009	$8,668	$8,668	$8,668	$8,668	(3.8%)	($341)
Office of the Actuary	$5,937	$5,399	$5,340	$5,340	$5,340	(10.1%)	($597)
President, Borough of Manhattan	$5,708	$3,323	$3,323	$3,323	$3,323	(41.8%)	($2,385)
President, Borough of Bronx	$7,858	$4,732	$4,732	$4,732	$4,732	(39.8%)	($3,126)
President, Borough of Brooklyn	$8,343	$4,167	$4,167	$4,167	$4,167	(50.1%)	($4,176)
President, Borough of Queens	$6,807	$3,807	$3,807	$3,807	$3,807	(44.1%)	($3,000)
President, Borough of Staten Island	$4,933	$3,292	$3,292	$3,292	$3,292	(33.3%)	($1,641)
Office of the Comptroller	$76,272	$72,546	$71,221	$71,221	$71,221	(6.6%)	($5,051)
Dept. of Emergency Management	$40,752	$14,091	$8,713	$8,713	$8,713	(78.6%)	($32,039)
Tax Commission	$3,129	$3,507	$3,441	$3,441	$3,441	10.0%	$312
Law Dept.	$121,654	$118,716	$119,369	$119,544	$120,465	(1.0%)	($1,189)
Dept. of City Planning	$32,843	$23,404	$23,404	$23,404	$23,404	(28.7%)	($9,439)
Dept. of Investigation	$18,943	$18,092	$17,756	$17,612	$17,612	(7.0%)	($1,331)
NY Public Library - Research	$24,446	$24,098	$24,098	$24,098	$24,098	(1.4%)	($348)
New York Public Library	$116,922	$115,244	$115,244	$115,244	$115,244	(1.4%)	($1,678)
Brooklyn Public Library	$86,025	$84,786	$84,787	$84,787	$84,787	(1.4%)	($1,238)
Queens Borough Public Library	$84,567	$83,318	$83,319	$83,319	$83,319	(1.5%)	($1,248)
Dept. of Education	$16,864,871	$17,803,101	$19,236,524	$20,303,792	$20,315,689	20.5%	$3,450,818
City University	$635,646	$581,673	$584,394	$587,692	$587,737	(7.5%)	($47,909)
Civilian Complaint Review Board	$11,342	$11,423	$11,267	$11,267	$11,267	(0.7%)	($75)
Police Dept.	$3,873,785	$3,736,899	$3,858,170	$3,942,651	$3,945,326	1.8%	$71,541
Fire Dept.	$1,550,322	$1,515,649	$1,516,540	$1,525,462	$1,525,910	(1.6%)	($24,412)
Admin. for Children Services	$2,750,708	$2,675,412	$2,682,115	$2,682,206	$2,682,206	(2.5%)	($68,502)
Dept. of Social Services	$8,685,430	$8,425,998	$8,578,868	$8,738,537	$8,912,044	2.6%	$226,614
Dept. of Homeless Services	$740,595	$625,357	$628,499	$628,499	$628,499	(15.1%)	($112,096)
Dept. of Correction	$977,479	$968,703	$974,113	$980,356	$986,190	0.9%	$8,711
Board of Correction	$928	$928	$928	$928	$928	0.0%	$0
Citywide Pension Contribution	$5,624,907	$6,113,163	$6,411,803	$6,405,799	$6,420,604	14.1%	$795,697
Miscellaneous	$5,839,526	$7,120,663	$7,667,772	$8,522,287	$9,401,708	61.0%	$3,562,182
Debt Service	$3,814,106	$3,586,788	$4,479,992	$4,955,053	$5,539,330	45.2%	$1,725,224
M.A.C. Debt Service	$10,000	$0	$0	$0	$0	(100.0%)	($10,000)
N.Y.C.T.F.A. Debt Service[a]	$1,101,253	$1,135,029	$1,145,365	$1,149,032	$1,157,812	5.1%	$56,559
Pre-payments	($4,054,622)	($3,607,111)	($380,865)	$0	$0	(100.0%)	$4,054,622
BSA	$4,118,953	$350,000	$0	$0	$0	(100.0%)	($4,118,953)
Transfer for N.Y.C.T.F.A. Debt Service	($561,747)	($545,747)	$0	$0	$0	(100.0%)	$561,747
Defeasance of N.Y.C.T.F.A. Debt Service	($383,000)	($363,000)	($382,000)	$0	$0	(100.0%)	$383,000
Call 2009/2010 G.O. Debt	($26,935)	($278,334)	($276,634)	$0	$0	(100.0%)	$26,935
Public Advocate	$3,149	$2,081	$2,081	$2,081	$2,081	(33.9%)	($1,068)
City Council	$54,608	$54,608	$54,608	$54,608	$54,608	0.0%	$0
City Clerk	$3,929	$3,950	$3,950	$3,950	$3,950	0.5%	$21
Dept. for the Aging	$287,169	$243,198	$243,198	$242,198	$242,198	(15.7%)	($44,971)
Dept. of Cultural Affairs	$164,330	$146,449	$146,424	$146,424	$146,424	(10.9%)	($17,906)
Financial Info. Serv. Agency	$60,197	$52,347	$46,528	$46,528	$46,528	(22.7%)	($13,669)
Dept. of Juvenile Justice	$132,535	$133,350	$135,505	$137,254	$141,125	6.5%	$8,590
Offic of Payroll Admin.	$14,715	$12,849	$11,284	$11,284	$11,284	(23.3%)	($3,431)
Independent Budget Office	$3,176	$3,083	$3,019	$3,019	$3,019	(4.9%)	($157)
Equal Employment Practices Comm.	$873	$776	$776	$776	$776	(11.1%)	($97)

Table A2 (Con't). *FY 2008 Preliminary Budget Expenditure Detail*

($ in thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY 2008 – 12 Percent	Changes FY 2008 – 12 Dollar
Civil Service Commission	$604	$644	$644	$644	$644	6.6%	$40
Landmarks Preservation Comm.	$5,003	$4,335	$4,335	$4,335	$4,335	(13.4%)	($668)
Taxi & Limousine Commission	$31,979	$28,016	$27,856	$27,856	$27,856	(12.9%)	($4,123)
Commission on Human Rights	$7,286	$7,063	$7,063	$7,063	$7,063	(3.1%)	($223)
Youth & Community Development	$388,205	$266,870	$264,081	$264,081	$264,081	(32.0%)	($124,124)
Conflicts of Interest Board	$1,926	$1,988	$1,988	$1,988	$1,988	3.2%	$62
Office of Collective Bargain	$1,869	$1,869	$1,869	$1,869	$1,869	0.0%	$0
Community Boards (All)	$14,652	$13,757	$13,759	$13,761	$13,761	(6.1%)	($891)
Dept. of Probation	$80,318	$78,531	$78,041	$78,041	$78,041	(2.8%)	($2,277)
Dept. Small Business Services	$190,004	$109,821	$103,986	$95,897	$95,897	(49.5%)	($94,107)
Housing Preservat'n & Developm'nt	$613,222	$507,909	$486,981	$483,295	$483,295	(21.2%)	($129,927)
Dept. of Buildings	$100,579	$90,427	$90,323	$90,070	$90,070	(10.4%)	($10,509)
Dept. of Health & Mental Hygiene	$1,648,805	$1,556,159	$1,580,801	$1,590,789	$1,601,731	(2.9%)	($47,074)
Health and Hospitals Corp.	$131,432	$89,771	$92,382	$91,979	$91,979	(30.0%)	($39,453)
Dept. of Environmental Protection	$972,737	$951,960	$930,668	$927,706	$927,781	(4.6%)	($44,956)
Dept. of Sanitation	$1,265,647	$1,294,039	$1,365,544	$1,447,318	$1,454,580	14.9%	$188,933
Business Integrity Commission	$5,943	$5,882	$5,713	$5,713	$5,713	(3.9%)	($230)
Dept. of Finance	$215,398	$208,296	$205,316	$205,316	$205,316	(4.7%)	($10,082)
Dept. of Transportation	$757,534	$641,903	$635,961	$635,427	$635,383	(16.1%)	($122,151)
Dept. of Parks and Recreation	$333,616	$305,569	$304,764	$301,864	$301,864	(9.5%)	($31,752)
Dept. of Design & Construction	$107,535	$103,592	$103,592	$103,592	$103,592	(3.7%)	($3,943)
Dept. of Citywide Admin. Services	$346,120	$312,586	$311,839	$311,839	$311,839	(9.9%)	($34,281)
D.O.I.T.T.	$231,827	$237,669	$235,671	$235,797	$235,797	1.7%	$3,970
Dept. of Record & Info. Services	$7,046	$4,524	$4,562	$4,562	$4,562	(35.3%)	($2,484)
Dept. of Consumer Affairs	$18,499	$14,989	$14,632	$14,417	$14,417	(22.1%)	($4,082)
District Attorney – N.Y.	$88,700	$73,079	$73,079	$73,079	$73,079	(17.6%)	($15,621)
District Attorney – Bronx	$48,638	$43,502	$43,502	$43,502	$43,502	(10.6%)	($5,136)
District Attorney – Kings	$78,782	$72,068	$72,068	$72,068	$72,068	(8.5%)	($6,714)
District Attorney - Queens	$45,293	$40,223	$43,223	$43,223	$43,223	(4.6%)	($2,070)
District Attorney - Richmond	$8,202	$7,143	$7,143	$7,143	$7,143	(12.9%)	($1,059)
Office of Prosecut'n. & Spec. Narc.	$17,649	$15,390	$15,390	$15,390	$15,390	(12.8%)	($2,259)
Public Administrator – N.Y.	$1,242	$1,130	$1,130	$1,130	$1,130	(9.0%)	($112)
Public Administrator - Bronx	$504	$409	$409	$409	$409	(18.8%)	($95)
Public Administrator - Brooklyn	$582	$502	$502	$502	$502	(13.7%)	($80)
Public Administrator - Queens	$455	$382	$382	$382	$382	(16.0%)	($73)
Public Administrator - Richmond	$366	$297	$297	$297	$297	(18.9%)	($69)
Prior Payable Adjustment	($500,000)	$0	$0	$0	$0	(100.0%)	$500,000
General Reserve	$100,000	$300,000	$300,000	$300,000	$300,000	200.0%	$200,000
Energy Adjustment	$0	$50,101	$123,185	$157,787	$162,377	N/A	$162,377
Lease Adjustment	$0	$20,010	$40,620	$61,848	$84,035	N/A	$84,035
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	$166,557	N/A	$166,557
City-Wide Total	**$60,513,083**	**$58,725,513**	**$65,771,825**	**$69,653,527**	**$71,440,539**	**18.1%**	**$10,927,456**

Glossary of Acronyms

ACS	Administration for Children Services
BARB	Building Aid Revenue Bond
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
CFE	Campaign for Fiscal Equity
CUNY	City University of New York
DEP	Department of Environmental Protection
DOC	Department of Corrections
DOE	Department of Education
DOHMH	Department of Health and Mental Hygiene
DOS	Department of Sanitation
DOT	Department of Transportation
EAN	Entry Age Normal
EDC	Economic Development Corporation
EFC	Environmental Facilities Corporation
FIL	Frozen Initial Liability

FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HYIC	Hudson Yards Infrastructure Corporation
J&C	Judgments and Claims
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYS	New York State
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association

PERB	Public Employment Relations Board
PIT	Personal Income Tax
PTYCS	Preliminary Ten-Year Capital Strategy
PS	Personal Services
RHBT	Retiree Health Benefits Trust
STAR	School Tax Relief Program
TA	Transit Authority
TSASC	Tobacco Settlement Asset Securitization Corporation
TYCS	Ten-Year Capital Strategy
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers