The State of the City's Economy and Finances, 2005

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

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I. Executive Summary

On November 22 2005, the City released the November Modification to the FY 2006-2009 Financial Plan. The Modification shows substantial increases in FY 2006 revenues and trims a large budget gap projected for FY 2007. Fiscal year 2006 will end comfortably balanced according to generally accepted accounting principles, but does so by consuming a significant portion of the surpluses accumulated from prior years. Nonetheless, the City has identified resources, including $1.7 billion in reserves available at the end of FY 2006, that will help reduce the FY 2007 budget gap from $4.5 billion projected at the time of budget adoption to $2.25 billion. These resources more than compensate for the FY 2007 impact of contract agreements reached by the City with some of its largest municipal unions that were in excess of amounts set aside in a labor reserve. However, they do not substantially benefit subsequent years of the Financial Plan period.

Changes in the November Modification

The most notable changes in the November Modification include a significant increase in the revenue forecast, the impacts of the collective bargaining agreements reached in October and November, and the recognition of a one-time benefit stemming from the implementation of a new State policy designed to limit growth in the local share of Medicaid expenses.

The November Modification raises projected tax revenues $1.97 billion in FY 2006 based on continuing strength in real estate market activity and a stronger job market increases in year-end bonuses. This is the largest upward revenue revision of any budget modification that did not reflect a tax rate increase, and appears to be a departure from the practice of recognizing prospects for additional revenue only incrementally. While this approach entails greater risk than an incremental approach, the revised figures provide a better reflection of current trends and a more realistic assessment of the fiscal outlook for next year.

The City has raised projected FY 2006 spending more than $800 million since the Adopted Budget. Higher spending is due mainly to the cost of recent collective bargaining agreements and higher energy costs, although these are partly offset by one-time savings in Medicaid expense.

Since the FY 2006 budget was adopted, the City has reached collective bargaining agreements with six unions, including the United Federation of Teachers (UFT) and uniformed employee unions. When fully implemented, the full-year cost of the recent agreements totals approximately $1.6 billion, before accounting for offsetting cost savings and productivity measures that were negotiated with the unions. The November Modification reflects additional labor expense to the City of $626 million in FY 2006, $781 million in FY 2007, and about $840 million in each of FY 2008 and FY 2009 once the State portion of the cost of the teachers' union contract is accounted for. The amounts in fiscal years 2007 to 2009 include funding for wage increases in the next round of collective bargaining that average 1.25 percent annually, or about half of expected inflation.

The Plan also includes additional spending of $101 million for higher energy costs in FY 2006, and has raised estimated energy spending in the outyears by similar amounts.

Growth in Medicaid expenses, which has helped drive increases in City spending for a number of years, will be more contained in the future because the State has created a spending growth cap for local governments. The November Modification reflects one-time savings of $450 million from the implementation of this program in FY 2006 because the cap will be based on Medicaid cash payments from localities during the 2005 calendar year.

Risks and Offsets

The Comptroller's Office is recognizing a number of risks and offsets to risks in the November Modification. These factors may result in net additional resources of $692 million in FY 2006, $759 million in FY 2007, $198 million in FY 2007, and $296 million in FY 2009.

Changes to actuarial methodology and assumptions for computing the City's pension costs were approved by the Boards of Trustees of all five pension systems prior to the November Modification. However, the budgetary impact of these changes is not reflected in the City's submission. These changes, along with updates to the Chief Actuary's projections, will provide budgetary relief totaling in excess of $1 billion in the first two years of the Financial Plan. However, they will result in higher pension contributions by the end of the Plan period. Pension contribution is expected to be $192 million higher than the City's projection in FY 2009.

The analysis of tax revenues by the Comptroller's Office suggests that the City's FY 2006 projections may be somewhat optimistic and that collections this year will fall short of the City's estimates by $64 million. Additional risks to the revenue forecast may emerge as the year progresses, since the forecast is heavily influenced by the real estate transaction taxes. The Comptroller's Office projects that tax revenues in the outyears will be bolstered by property tax collections, resulting in additional revenues totaling nearly $1.2 billion from FY 2007 through FY 2009.

The federal budget may provide an additional source of concern going forward. Federal budget priorities include reductions in discretionary domestic spending, with much of the emphasis placed on entitlement spending for welfare and low-income programs that could have a significant impact on the City's budget.

Budget Gaps and the Outyears

At the time of the Adopted Budget, budgeted FY 2006 spending exceeded FY 2006 revenues by about $3.5 billion, with the gap filled by anticipated FY 2005 surplus resources in the Budget Stabilization Account (BSA). However, with an anticipated $1.7 billion surplus in FY 2006 earmarked to prepay FY 2007 expenses, the City has effectively reduced its use of the FY 2005 surplus to $1.8 billion — the difference between the FY 2005 surplus funds used to prepay FY 2006 expenses and this year's surplus. This is an improvement from the Adopted Budget, when no FY 2006 resources were allocated to reduce the FY 2007 budget gap. Nonetheless, the draw down of the accumulated prior year surpluses, when the economy is growing, is a cause for concern.

The FY 2007 gap is estimated to decrease to $1.5 billion once the additional resources identified by the Comptroller's Office are taken into account and could be as small as $800 million if additional funds from this year are applied to FY 2007 expenses. However, although higher tax revenues have raised the base from which revenues will grow or decline in future fiscal years, the projected budget gaps that continue to dominate the outyears are diminished only marginally. The Comptroller's Office projects gaps of $3.9 billion in FY 2008 and $3.2 billion in FY 2009.

Through a mix of borrowing, tax increases, funding shifts, and spending reductions, the City managed to overcome enormous challenges in the aftermath of the attacks on the World Trade Center and the recession of 2001-2002. Since that time, some progress has been made in containing costs, notably with the State Medicaid cap and the negotiated cost offsets and productivity measures in the new union contracts. However, the persistence of outyear gaps combined with the current-year net reduction of the BSA demonstrates that the City is still struggling to gain control of its expenditures.

The reduction of the FY 2007 gap represented by this Plan creates a significant planning window within which the City can act to make progress on its longer-term fiscal imbalance. The Preliminary Budget will provide the next opportunity for the City to enact a cost-containment program that will result in progress toward a balanced budget.

Table 1. FYs 2006 – 2009 Financial Plan
November 2005 Modification

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09 Dollar	Changes FYs 2006-09 Percent
Revenues						
Taxes:						
General Property Tax	$12,599	$13,231	$14,147	$14,781	$2,182	17.3%
Other Taxes	$19,188	$18,565	$18,834	$19,889	$701	3.7%
Tax Audit Revenues	$512	$509	$509	$509	($3)	(0.6%)
Miscellaneous Revenues	$4,996	$4,474	$4,493	$4,515	($481)	(9.6%)
Unrestricted Intergovernmental Aid	$562	$562	$562	$562	$0	0.0%
Anticipated State & Federal Actions	$0	$0	$0	$0	$0	—
Less: Intra-City Revenues	($1,330)	($1,275)	($1,274)	($1,275)	$55	(4.1%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$36,512	$36,051	$37,256	$38,966	$2,454	6.7%
Other Categorical Grants	$965	$924	$930	$935	($30)	(3.1%)
Inter-Fund Revenues	$366	$356	$345	$345	($21)	(5.7%)
Total City & Inter-Fund Revenues	$37,843	$37,331	$38,531	$40,246	$2,403	6.3%
Federal Categorical Grants	$5,473	$4,855	$4,845	$4,845	($628)	(11.5%)
State Categorical Grants	$9,508	$9,739	$9,837	$9,880	$372	3.9%
Total Revenues	$52,824	$51,925	$53,213	$54,971	$2,147	4.1%
Expenditures						
Personal Service						
Salaries and Wages	$19,003	$19,336	$19,608	$19,824	$821	4.3%
Pensions	$4,735	$5,086	$4,979	$4,851	$116	2.4%
Fringe Benefits	$5,640	$5,898	$6,241	$6,560	$920	16.3%
Subtotal-PS	$29,378	$30,320	$30,828	$31,235	$1,857	6.3%
Other Than Personal Service						
Medical Assistance	$4,574	$5,172	$5,319	$5,458	$884	19.3%
Public Assistance	$2,553	$2,514	$2,514	$2,514	($39)	(1.5%)
Pay-As-You-Go Capital	$200	$200	$200	$200	$0	0.0%
All Other	$14,684	$13,890	$13,996	$14,178	($506)	(3.4%)
Subtotal-OTPS	$22,011	$21,776	$22,029	$22,350	$339	1.5%
Debt Service						
Principal	$1,436	$1,708	$1,770	$1,791	$355	24.7%
Interest & Offsets	$1,878	$2,381	$2,699	$3,050	$1,172	62.4%
Total	$3,314	$4,089	$4,469	$4,841	$1,527	46.1%
Prepayment	($3,529)	($1,743)	$0	$0	$3,529	(100.0%)
BSA	$1,743	$0	$0	$0	($1,743)	(100.0%)
NYCTFA						
Principal	$341	$284	$443	$439	$98	28.7%
Interest & Offsets	$606	$424	$538	$547	($59)	(9.7%)
Total	$947	$708	$981	$986	$39	4.1%
General Reserve	$290	$300	$300	$300	$10	3.4%
	$54,154	$55,450	$58,607	$59,712	$5,558	10.3%
Less: Intra-City Expenses	($1,330)	($1,275)	($1,274)	($1,275)	$55	(4.1%)
Total Expenditures	$52,824	$54,175	$57,333	$58,437	$5,613	10.6%
Gap To Be Closed	**$0**	**($2,250)**	**($4,120)**	**($3,466)**	**($3,466)**	

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

Table 2. Plan-to-Plan Changes
November Modification vs. Adopted Budget

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Revenues				
Taxes:				
General Property Tax	($10)	($64)	($82)	($103)
Other Taxes	$1,975	$1,446	$1,408	$1,558
Tax Audit Revenues	$0	$0	$0	$0
Miscellaneous Revenues	$170	($12)	($13)	($13)
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Anticipated State & Federal Actions	($50)	$0	$0	$0
Less: Intra-City Revenues	($41)	($4)	($4)	($4)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$2,044	$1,366	$1,309	$1,438
Other Categorical Grants	$38	$1	$2	$1
Inter-Fund Revenues	$2	$1	$1	$2
Total City & Inter-Fund Revenues	$2,084	$1,368	$1,312	$1,441
Federal Categorical Grants	$364	($5)	($5)	($5)
State Categorical Grants	$188	$367	$405	$405
Total Revenues	$2,636	$1,730	$1,712	$1,841
Expenditures				
Personal Service				
Salaries and Wages	$852	$1,076	$1,171	$1,173
Pensions	$0	$0	$0	$0
Fringe Benefits	$91	$94	$96	$93
Subtotal-PS	$943	$1,170	$1,267	$1,266
Other Than Personal Service				
Medical Assistance	($450)	$0	$0	$0
Public Assistance	$37	$10	$10	$10
Pay-As-You-Go Capital	$0	$0	$0	$0
All Other	$438	$121	$110	$112
Subtotal-OTPS	$25	$131	$120	$122
Debt Service				
Principal	$3	($18)	$40	$0
Interest & Offsets	($26)	($9)	($59)	$0
Total	($23)	($27)	($19)	$0
Prepayment	($1)	($1,550)	$0	$0
BSA	$1,743	$0	$0	$0
NYCTFA				
Principal	$0	($85)	$29	$7
Interest & Offsets	$0	($162)	($31)	($9)
Total	$0	($247)	($2)	($2)
General Reserve	($10)	$0	$0	$0
	$2,677	($523)	$1,366	$1,386
Less: Intra-City Expenses	($41)	($4)	($4)	($4)
Total Expenditures	$2,636	($527)	$1,362	$1,382
Gap To Be Closed	**$0**	**$2,257**	**$350**	**$459**

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

Table 3. FYs 2006-2009 Risks and Offsets

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
City Stated Gap	**$0**	**($2,250)**	**($4,120)**	**($3,466)**
Tax Revenue Assumptions				
Property Tax	$16	$95	$277	$507
Personal Income Tax	(80)	140	45	85
Business Taxes	0	30	30	(10)
Sales Tax	0	(30)	(110)	(15)
Real-Estate-Related Taxes	0	80	35	0
Subtotal	**($64)**	**$315**	**$277**	**$567**
Expenditure Projections				
Overtime	($97)	($75)	($75)	($75)
Pension[a]	878	544	21	(171)
Non-Public School Payment for Special Education	(25)	(25)	(25)	(25)
Subtotal	**$756**	**$444**	**($79)**	**($271)**
Total (Risks)/Offsets	**$692**	**$759**	**$198**	**$296**
Restated Gap	**$692**	**($1,491)**	**($3,922)**	**($3,170)**

[a] The latest pension projections of the Chief Actuary, which include adjustments for wage increases, are lower than the November Modification projections by $734 million in FY 2006 and $298 million in FY 2007 but higher by $475 million in FY 2008 and $827 million in FY 2009. However, the current labor reserve also contains funding for pension costs due to wage increases. The risks and offsets to risks in this table are adjusted to reflect the labor reserve funding for pension costs.

II. The City's Fiscal Outlook

Compared with the Adopted budget, the FY 2006 November Modification contains $2.6 billion in additional FY 2006 resources. Most of the additional resources identified in the current modification stem from stronger revenue forecasts. The City has increased its FY 2006 revenue forecast by $2.1 billion, with tax revenues accounting for $1.97 billion of this revision. In addition, the City expects to realize a one-time saving of $450 million in FY 2006 Medicaid spending from the implementation of a Medicaid cap as discussed in "Public Assistance and Medicaid" beginning on page 29. The absence of anticipated short-term borrowing together with lower-than-anticipated borrowing cost provides another $33 million in debt service savings.

As Table 4 shows, the additional resources will enable the City to fund increased spending of $824 million and establish a FY 2006 Budget Stabilization Account (BSA) of $1.7 billion. The increase in spending is due mainly to the cost of recent collective bargaining agreements and increased energy costs.[1]

Table 4. Changes to the FYs 2006 -- 2009 -Financial Estimates

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
June 2005 Gap	**$0**	**($4,507)**	**($4,470)**	**($3,925)**
Additional Resources				
Revenue Increases[a]	$2,084	$1,368	$1,311	$1,440
Prepayment	0	1,743	0	0
Medicaid Re-estimate	450	0	0	0
Debt Service Savings[b]	33	88	29	10
Total	**$2,567**	**$3,199**	**$1,340**	**$1,450**
Additional Obligations				
Collective Bargaining	($626)	($781)	($841)	($840)
Energy Cost	(101)	(102)	(88)	(83)
Agency spending[c]	(97)	(59)	(61)	(68)
Total	**(824)**	**($942)**	**($990)**	**($991)**
BSA	**($1,743)**	**($0)**	**($0)**	**($0)**
November Modification Gap	**$0**	**($2,250)**	**($4,120)**	**($3,466)**

[a] Includes PIT earmarked for TFA debt service, other categorical grants and inter-fund agreements.
[b] Includes NYCTFA debt service.
[c] Includes other categorical expenditure and inter-fund agreements.
SOURCE: NYC Office of Management and Budget.

While the November Modification projects a surplus of $1.7 billion in FY 2006 in the form of a BSA, the surplus was made possible with a prepayment of $3.5 billion of FY 2006 expenditure in FY 2005. After netting out both the prepayments in FY 2005 and

[1] The recent collective bargaining agreements are discussed in greater detail in "Labor" beginning on page 24.

the BSA of $1.7 billion, projected FY 2006 expenditures exceed projected revenues by $1.8 billion.

The intended use of the BSA to prepay $1.7 billion of FY 2007 debt service coupled with an additional $1.4 billion in projected revenues enabled the City to reduce the FY 2007 gap to $2.3 billion, approximately half the $4.3 billion projected when the budget was adopted. However, since a significant part of the reduction is achieved through the one-time prepayment from the FY 2006 BSA, the outyear gaps are expected to narrow only marginally. Even though revenue projections are expected to exceed the projections at budget adoption by more than $1 billion in each of the outyears, a considerable portion of the higher revenue is expected to be consumed by higher wages, energy costs and agency spending.

Risks and Offsets

As Table 3 on page 3 shows, the Comptroller's Office has identified additional resources of $692 million, $759 million, $198 million, and $296 million in FYs 2006 through 2009, respectively. As a result, the Comptroller's Office projects a surplus of $692 million in FY 2006, and smaller gaps of $1.5 billion in FY 2007, $3.9 billion in FY 2008, and $3.2 billion in FY 2009.

A significant portion of the additional FY 2006 and FY 2007 resources identified by the Comptroller's Office stems from the expected reduction in pension contributions from the implementation of the changes to actuarial assumptions and methodologies recommended by the Chief Actuary. While the Boards of Trustees of all five actuarial pension systems have recently voted to adopt the Chief Actuary-recommended changes to the actuarial assumptions and methodologies, the City's pension contribution projections in the November Modification do not reflect the budget impact of these changes. These changes together with updated pension projections will provide combined budgetary relief in excess of $1 billion in the first two years of the Financial Plan.[2] However, these changes will give rise to higher pension contributions in the remaining outyears resulting in risks of $21 million in FY 2008, and $171 million in FY 2009.

The Comptroller's Office expects tax revenues to be higher than projected by the City beginning in FY 2007. While FY 2006 tax revenues are expected to be $64 million below the City's estimate, the Comptroller's Office expects tax revenues to be higher by

[2] The impact of the Chief Actuary's recommended changes is adjusted for the labor reserve funding of pension costs due to wage increases. The latest pension projections of the Chief Actuary, which include adjustments for wage increases, are lower than the November Modification projections by $734 million in FY 2006 and $298 million in FY 2007 but higher by $475 million in FY 2008 and $827 million in FY 2009. Because the current labor reserve also contains funding for pension costs due to wage increases, the net effect of the recommended changes is offsets to risks of $878 million in FY 2006 and $544 million in FY 2007, but risks of $21 million in FY 2008, and $171 million in FY 2009.

$315 million in FY 2007, $277 million in FY 2008, and $567 million in FY 2009, driven primarily by expected strength in property tax revenues.[3]

Risks to the City's projections arise primarily from the under-budgeting of overtime spending. The Comptroller's Office estimates that overtime spending in FY 2006 could be $97 million higher than projected. Under-budgeting of overtime spending in the uniformed agencies accounts for most of the overtime risk, as discussed in "Overtime" beginning on page 28.

[3] Property tax revenue is discussed in greater details in "Tax Revenues" beginning on page 13.

III. The State of the City's Economy

Despite the constraints of a rising fed funds rate, higher energy prices, and higher trade and budget deficits, the City's economy performed better than expected through the first ten months of 2005, with real gross product, payroll jobs, and unemployment rates for the City and the nation all exceeding 2005 forecasts. Going forward, these constraints persist and are joined by risks that include inflated housing markets, a Chinese yuan no longer pegged to the dollar, a new Federal Reserve Chairman, and continuing negative effects from major hurricanes in August and September.

A. ECONOMIC OUTLOOK

Both the national and the City economies are likely to grow more slowly in 2006 because higher costs will be a drag on economic growth, the risks that were evident in 2005 have grown in size, and new risks have emerged.

On the cost side, oil prices reached a record-high, averaging $65.57 per barrel in September 2005. A rise in oil prices crowds out other spending and slows the economy. Higher oil prices could also spill over to core inflation, increasing the cost of textiles, housing, and medical and other services. No immediate relief from high energy prices appears to be on its way, because the winter is expected to be cold and the aftermath of several major hurricanes, notably Katrina and Rita, is keeping gasoline and natural-gas prices high.

Another cost factor is the rise in interest rates. The availability of cheap loans fueled economic growth and higher housing prices in 2005. Foreign investment remained strong in the first 10 months and this excess liquidity kept long-term rates low despite record-level budget and trade deficits. But with the Federal Reserve in 2005 raising the target fed funds rate at every meeting of the Federal Open Market Committee (FOMC), the fed funds rate reached 4.25 percent as of December 13, 2005, reducing the spread between 10-year Treasuries and the fed funds rate to 27 basis points (0.27 of a percentage point). This decline in interest-rate spreads presents the risk of an inverted yield curve (when long term rates are lower than short-term rates), which in the past has invariably presaged a recession.

Finally, the continuing large trade deficit is a cost to economic growth. When imports exceed exports, it means (other things being equal) that growth in U.S. production is being diminished by the value of net imports because other countries are producing these goods. The first time on record that net U.S. imports exceeded 5.0 percent of Gross Domestic Product (GDP) was in 2003. Net imports continued to exceed 5.0 percent of GDP in 2004 and 2005.

New risk factors have appeared for 2006. The arrival of a new Federal Reserve Chairman adds more uncertainty to the economic outlook. Financial markets have tended to test new Fed Chairmen on their commitment to low inflation, so the appointment of a new Chairman has been followed by unsettled financial markets. In 1979, Mr. Volcker's term opened with a bond-market sell-off and in 1987, Mr. Greenspan's began with a stock-market sell-off. Some speculate that Mr. Bernanke's term will be ushered in by financial-market turmoil and another bond sell-off that will raise long-term rates and add to troubles in housing markets.

A related risk arises from the move of the People's Bank of China (PBoC) to peg its currency against a basket of currencies (although the mix was not specified when originally announced) instead of just the U.S. dollar. Pegging to the U.S. dollar meant that the PBoC was required to hold U.S. Treasuries as a backup for the yuan (renminbi). This helped keep long-term U.S. interest rates low. However, by not pegging 100 percent to the U.S. dollar, PBoC's demand for U.S. Treasuries will be reduced and this could lead to higher U.S. interest rates. The risk remains of a further change in the PBoC's mix of currencies, as well as the possibility that other central banks could follow the lead of the PBoC. The price of gold spiked to an 18-year high of more than $500 an ounce at the end of November, suggesting uneasiness in financial markets about the dollar's future as a reserve currency.

The growth in the U.S. budget deficit is another related risk. The deficit grew 9.1 percent to $412 billion in Federal fiscal year (FFY) 2004 and in FFY 2005 is projected to grow another 3.5 percent to $427 billion, which is 3.5 percent of GDP. The continuing cost of Federal aid to hurricane-devastated areas is an unexpected addition to the U.S. budget deficit. The on-budget deficit is expected to be 4.8 percent of GDP in FFY 2005.

Given the above factors, the national and the City's economy are expected to grow more slowly in 2006. Table 5 provides a summary of the Comptroller's U.S. and City forecasts for 2006.

Table 5. Comptroller's Forecast of Five Key Economic Indicators, NYC and U.S., 2006

	Gross-Product Growth	Payroll-Jobs Growth	Wage-Rate Growth	Inflation Rate	Unemployment Rate
NYC	(GCP) 2.9%	0.7%	5.0%	3.7%	5.7%
U.S.	(GDP) 3.2%	1.1%	3.0%	3.3%	5.0%

SOURCE: NYC Comptroller's Office, based on data from the U.S. Department of Labor(BLS) and the U. S. Department of Commerce (BEA). GCP=Gross City Product.

B. U.S. ECONOMIC PERFORMANCE, 2005

National economic highlights of 2005 include the following:

- <u>Real GDP growth averaged 3.8 percent</u> (annualized rate) for the first three quarters of 2005 (3.8 percent in the first quarter, 3.3 percent in the second quarter, and 4.3 percent in the third quarter). During the same period, personal consumption rose 3.7 percent, private domestic investment grew 3.6 percent, and government expenditure increased by 2.5 percent. The trade deficit rose to an annualized record rate of $627 billion, as annualized exports were $1,186 billion and imports were $1,813 billion.

- Job growth was weaker than in 2004. The nation gained 1,840,000 jobs in the first 11 months of 2005, averaging 167,000 jobs per month or annualized growth of 1.5 percent. The private sector grew at an average annualized rate of 1.6 percent per month and the public sector grew 0.9 percent. Within the private sector, growth was concentrated in construction (which grew 4.2 percent), professional and business services (2.6 percent), financial activities (2.4 percent), education and health services (2.2 percent), leisure and hospitality (1.6 percent), trade, transportation and utilities (1.2 percent). The only sector to lose jobs was manufacturing (losses of 0.5 percent).

- The overnight interest rate (the fed funds rate) rose to 4.25 percent as of December 13, 2005. This was 207 basis points, or 2.07 percentage points, above the rate prevailing a year earlier (December 13, 2004). At the same time, the 10-year Treasury rate rose only 36 basis points, to 4.52 percent as of December 13. The markets had been expecting the fed funds rate increase.

- The inflation rate surged to an average of 3.4 percent during the first ten months of 2005. The core inflation rate, which includes all items except food and energy, averaged 2.2 percent, an acceleration from the 2004 rate of 1.7 percent.

Table 6 provides summary projections for seven U.S. indicators in 2005 and 2006.

Table 6. Seven U.S. Indicators, Actual 2004, and Comptroller's Projections, 2005-2006

	2004	2005	2006
Real GDP Growth, (2000 $)	4.2%	3.6%	3.2%
Payroll Jobs, Percent Change	1.1%	1.5%	1.1%
Consumer Price Index (1982=100), % Change	2.7%	3.5%	3.3%
Wage-Rate Growth	4.3%	4.8%	3.0%
Unemployment Rate	5.5%	5.1%	5.0%
Fed Funds Rate	1.35%	3.22%	4.57%
10-Yr T-Notes	4.27%	4.32%	5.09%

SOURCE: NYC Comptroller's Office and data from BLS, BEA, and the Federal Reserve Board of Governors. Actual data are shown in the 2004 column. The Comptroller's projections (averages for the year) are in the 2005 and 2006 columns.

Table 7 compares the Comptroller's forecasts for 2005 and 2006 with the Mayor's forecasts and with the Blue Chip Economic Indicators, a monthly report of top analysts' forecasts for the U.S. economy for the year ahead. The three forecasts track closely, with the exception of the Mayor's forecast of inflation, which is lower than that of the Comptroller's Office and the Blue Chip Consensus. The Mayor expects declining energy prices to exert more restraint on inflation in 2006 than does the Comptroller's Office.

Table 7. Percent Change in Real GDP, Inflation Rate, and Unemployment Rate, Projections, 2005 and 2006

	GDP Growth		Unemployment Rate		Change in CPI	
	2005	2006	2005	2006	2005	2006
1. NYC Comptroller's Office	3.6%	3.2%	5.1%	5.0%	3.5%	3.3%
2. Mayor	3.5%	3.2%	5.1%	4.9%	3.5%	2.7%
3. Blue Chip Consensus	3.5%	3.3%	5.1%	5.0%	3.4%	3.1%

SOURCE: OMB, NYC Comptroller's Office and Blue Chip Economic Indicators, November 10, 2005.
CPI=Consumer Price Index.

C. NYC'S ECONOMIC PERFORMANCE, 2005

The City's economy continued to improve during the first ten months of 2005. NYC's real gross city product (GCP) grew at an average annualized rate of 3.6 percent. Payrolls added 33,400 jobs during the first ten months of 2005, as shown in Chart 1, and the unemployment rate averaged 5.7 percent.

However, the City's inflation rate jumped to an average of 3.9 percent in the first ten months of 2005, as energy prices climbed 17.7 percent. Core inflation averaged 3.0 percent.

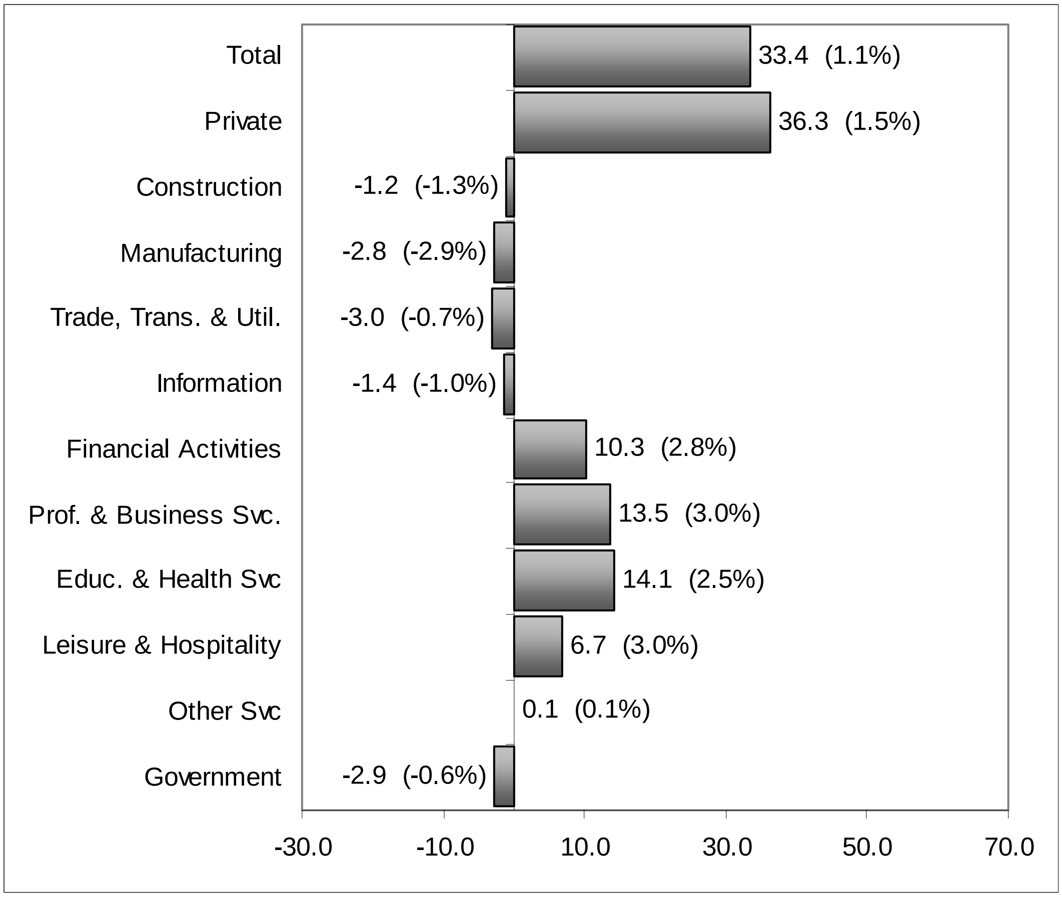
The economic highlights of the first three quarters of 2005 were as follows:

- First quarter: The City's economy, as measured by GCP, grew faster than the nation's. On a quarter-over-quarter basis, real GCP grew at an annualized rate of 4.0 percent compared with real GDP growth of 3.8 percent. The City's payroll jobs grew faster than nationwide (1.9 percent, above the nation's 1.6 percent) and the commercial vacancy rates in Manhattan fell for the fifth consecutive quarter. On the other hand, both the City's inflation rate and its unemployment rate were greater than the nation's─the City's inflation rate was 4.1 percent, well above the nation's rate of 3.0 percent, and the City's unemployment rate was 5.7 percent, above the nation's 5.3 percent.

- Second quarter: The City's economy kept pace with the nation, as GCP grew 3.4 percent and GDP grew 3.3 percent. However, the City's payroll jobs growth was less than the nation's (one percent, below the nation's 1.9 percent), its inflation rate was higher (3.3 percent, above the nation's 2.9 percent), and its unemployment rate was higher (5.7 percent, above the nation's 5.1 percent). However, commercial vacancy rates continued to decline.

- Third quarter: GCP grew 3.4 percent, below GDP growth of 4.3 percent. Commercial vacancy rates continued to improve and the hotel occupancy rate remained high. But the City's payroll jobs increased more slowly than the nation's (1.2 percent, below the nation's 1.6 percent), the inflation rate was higher than the nation's (4.1 percent, above the nation's 3.8 percent), and the City's unemployment rate was higher (5.6 percent, above the nation's 5.0 percent).

Chart 1. Change in NYC Payroll Jobs in Thousands, Seasonally Adjusted Annual Rate, First 10 Months of 2005



SOURCE: Monthly Data from U.S. Department of Labor and NYC Comptroller's Office. Annualized growth in jobs is shown in parentheses.

D. COMPTROLLER'S NYC FORECASTS FOR 2006

The cost pressures and risks facing the national economy are of concern for the City as well. Since the City's economy is highly dependent on the financial sector, the impact of higher interest rates will be amplified locally. The City's economy is likely therefore to grow more slowly in 2006, despite generally positive leading indicators:

- The total number of building permits authorized rose to 82,744 in the first nine months of 2005, a 7.1 percent increase over the first nine months of 2004. The number of building permits authorized is an indicator of the level of construction activity in the City and is sensitive to economic conditions.

- The City's Business Conditions Index, which is the National Association of Purchasing Management (NAPM-NY) composite gauge of current business conditions in the City, averaged 338.9 during the first 11 months of 2005, 15.9 percent above the first 11 months of 2004. However, two of the key components of the composite index were not favorable. The 11-month 2005 average for current conditions was 57.9, 8.8 percent below the average for the first 11 months of 2004. Finally, the 11-month 2005 average for the six-month outlook fell to 59.7, 12.5 percent below the first 11 months of 2004.

- The City's average help-wanted-ads index, reported by the Conference Board, for the first nine months of 2005 rose to 19.6, an increase of 14.3 percent on a year-over-year basis. The nation's average help-wanted index during the first nine months of 2004 increased 2.0 percent on a year-over-year basis. Table 8 shows the forecast for selected City indicators.

Table 8 provides a summary projection for five NYC indicators in 2005 and 2006.

Table 8. Selected City Indicators, Actual 2004 and Comptroller's Forecasts, 2005-2006

	2004	2005	2006
Real GCP, (2000 $), % Change	2.4	3.4	2.9
Payroll Jobs (Annual Change), '000s	10.0	34.0	25.0
Wage-Rate Growth, %	7.4	4.0	5.0
Consumer Price Index (1982=100), % Change	3.5	3.9	3.7
Unemployment Rate, %	7.1	5.7	5.7

SOURCE: NYC Comptroller's Office based on BLS and BEA. GCP=Gross City Product.

The Comptroller's Office forecast for the NYC economy is for slower job growth and higher inflation rates than the Mayor's, as shown in Table 9. For 2005, the City's GCP forecast appears low given year-to-date job growth and income gains. Wall Street's performance has rebounded in late 2005, and will likely exert a greater stimulus than was expected at the time that the City's forecast for the November Modification was being prepared. The lower inflation forecast by the City is consistent with its national forecast, but lower than projected by the Comptroller's Office.

Table 9. Comparison of Forecasts of Real GCP, Employment, and Inflation, 2005-2006

	GCP Growth		Change in Payroll Jobs		Change in CPI	
	2005	2006	2005	2006	2005	2006
NYC Comptroller's Office	3.4%	2.9%	34,000	25,000	3.9%	3.7%
Mayor	1.0%	2.1%	39,000	42,500	3.7%	2.9%

SOURCE: NYC OMB, November 2005 Plan and NYC Comptroller's Office. The GCP estimates are calculated differently by OMB and the Comptroller.

IV. Revenue Outlook

City-funds revenue projections in the November Modification range from $1.3 billion to $2 billion higher than the Adopted Budget projections. As Table 10 below shows, the higher revenue projections are mainly due to expectations of stronger tax revenues. The FY 2006 revision also includes an increase in miscellaneous revenues reflecting mainly expectations of higher interest income due primarily to higher than expected cash balances. These revenue increases are partially offset by a decrease of $50 million in expected Federal Aid.

Table 10. Changes to the FY 2006-FY 2009 Revenue Projections

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Tax revenue	$1,965	$1,382	$1,326	$1,455
Miscellaneous Revenue	129	(16)	(17)	(17)
Anticipated Federal Aid	(50)	0	0	0
Other	40	2	2	2
Total	**$2,084**	**$1,368**	**$1,311**	**$1,440**

Tax Revenue

The City raised its total tax-revenue forecasts for FY 2006 by $1.97 billion, or 6.5 percent, as shown in Table 11.[4] Non-property tax revenue estimates were revised upward by $1.95 billion, accounting for nearly all the increase. Projected property-tax revenues were increased by $11 million. The projections for FYs 2007 through 2009 were increased $1.38 billion, $1.33 billion, and $1.46 billion, respectively.

Table 11. Changes to the City's Tax Revenue Assumptions

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Adopted Budget – Total	**$30,334**	**$30,923**	**$32,164**	**$33,724**
Changes:				
Property	11	(23)	(23)	(23)
Personal Income (PIT)	653	840	840	832
Business	376	302	309	401
Sales	107	103	119	153
Real-Estate Related	736	65	0	0
All Other	82	93	81	92
Total Change	**$1,965**	**$1,380**	**$1,326**	**$1,455**
Total Change - Percent	**6.48%**	**4.47%**	**4.12%**	**4.31%**

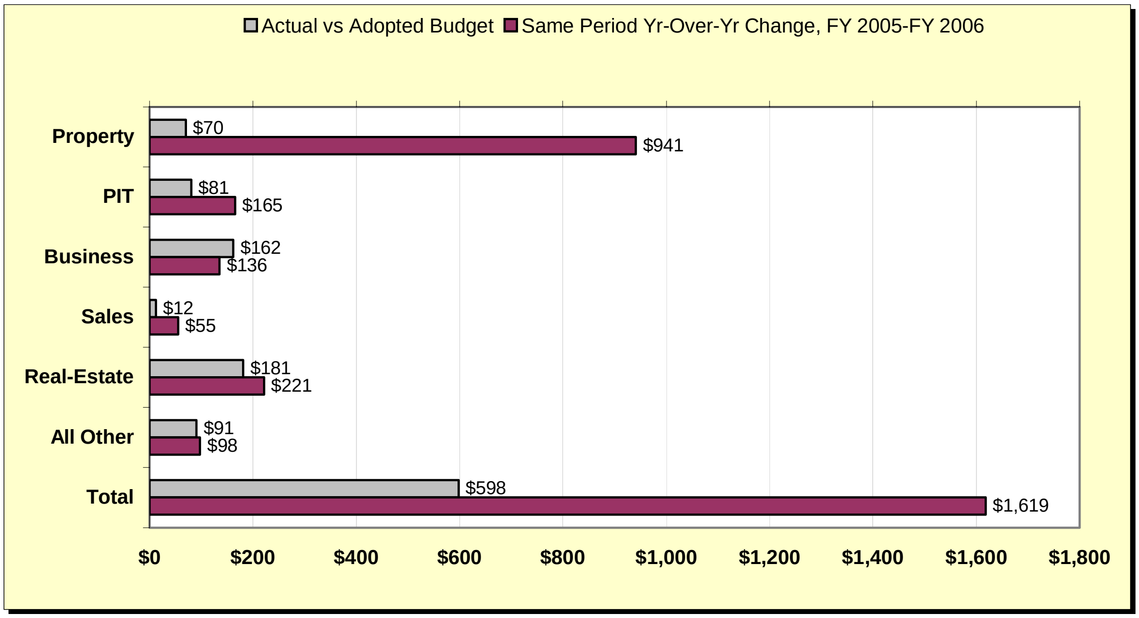
SOURCE: NYC Office of Management and Budget.

[4] The discussion of tax revenue forecasts in this section includes net lien sales in property taxes, the school tax relief program (STAR) in property tax and personal income tax, and the portion of personal income tax set aside for the New York City Transitional Finance Authority (NYCTFA) debt service.

This increase reflects collections to date, which are greater than the projections at budget adoption by approximately $598 million as illustrated in Chart 2. These gains reflect the growing national and local economy and increased Wall Street profits.

Chart 2. Tax Collections for the First Four Months of FY 2006 Compared with Adopted Budget Assumptions and the Same Period in FY 2005

($ in millions)



SOURCE: NYC Office of Management and Budget.

Property-tax collections were $70 million more than the Adopted Budget estimate for the first four months of FY 2006, as illustrated in Chart 2. On November 16th, the City Council amended and restated the real property tax rates for all four classes of real properties in the City for FY 2006 so as to limit increases on residential property. As has become an annual custom, the City requested the State Legislature to enact a law for FY 2006 that requires that the current base proportion of any class not exceed the prior fiscal year's adjusted base proportion by more than 2.0 percent, instead of the 5.0 percent that is part of the standing Real Property Tax Law.[5] For any given class, any percent increase in excess of the two percent cap would be shifted to other classes with registered increases of less than 2.0 percent. For the City in FY 2006, this change effectively shifted the excesses from Classes 1 and 2 (mostly residential properties) to Classes 3 and 4 (mostly utility and commercial properties). Such shifts are revenue-neutral by design.

Under the restated tax rate schedule, the increase in the Class 1 tax rate from the prior fiscal year is reduced from 7.40 percent to 4.32 percent. The increase in the Class 2

[5] Each of the four classes has a corresponding adjusted base proportion, which represents the share of the total levy that the class has to bear. Adjusted base proportions are modified current base proportions that have been adjusted for physical and quantity changes in properties.

tax rate is decreased from 4.47 percent to 1.47 percent. Tax rates for Classes 3 and 4 were previously projected to decrease 4.72 percent and 5.14 percent, respectively. Now, they will decline only 1.94 percent and 2.18 percent.

Although the City's real estate market activity has started to moderate, the double-digit surges in market values activity since FY 2002 and the subsequent five-year phase-in of their assessment increases will continue to support revenue growth in the out-years. Property tax revenue is expected to grow at an average annual 6.3 percent rate for the plan period.

Non-property-tax collections as of October were $526 million greater than the Adopted Budget estimate. The better-than-expected receipts reflect higher collections from the real-estate-related taxes, which are $181 million above the Adopted Budget estimate, and the business taxes, which are $162 million higher.[6] Non-property-tax collections as of October are $675 million higher than the same period in FY 2005.

Personal income tax (PIT) net revenue forecast before New York City Transitional Finance Authority (NYCTFA) retention is increased by $653 million in the November Modification. Forecasts for gross collections are raised by $691 million and refunds are increased by $38 million. The increase in the City's forecast is based mainly on the increase in jobs, higher average wages, and a rebound in financial sector bonuses. Collections for the first four months of the fiscal year were $81 million higher than the Adopted Budget estimate. Withholdings were $780,000 above expectations and installment payments were higher by $53.7 million. On a year-over-year basis, net PIT collections exceed collections for the first five months of FY 2005 by $201 million.

Real-estate-related tax revenues for FY 2006 have been raised by $736 million in the November Modification. The forecasts for mortgage recording tax (MRT) and real property transfer tax (RPTT) revenues are $355 million and $382 million higher than the Adopted Budget estimates. These two taxes account for 37.7 percent of the $1.954 billion increase in non-property tax revenue estimates.

The 30-year mortgage rate in the Northeast region was more than 6.0 percent in October.[7] Sales are slowing as mortgage rates rise, and real-estate-related tax collections in October 2005 have declined from collections in September, although they are at approximately the same level as 12 months before (See Chart 3).

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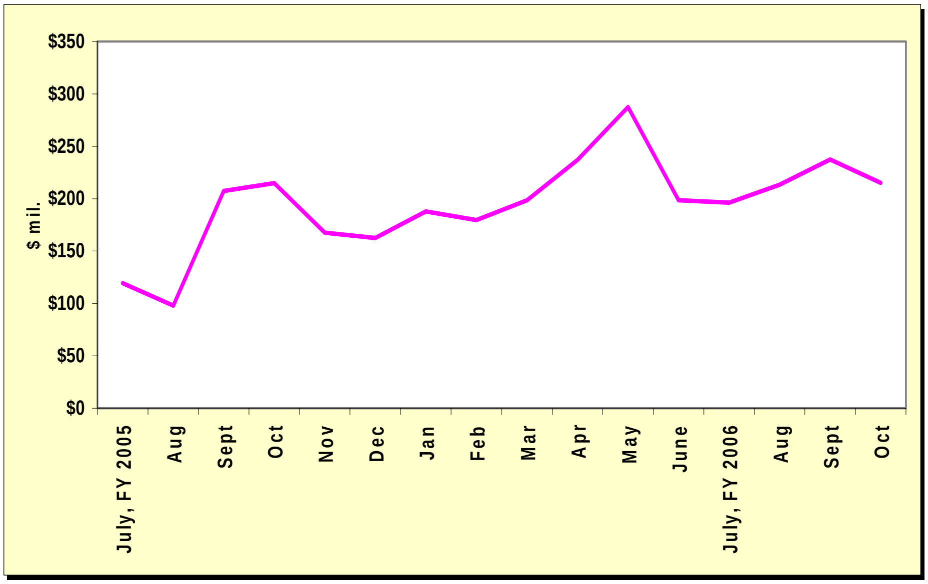
[6] Property-related taxes are the mortgage recording tax and the real property transfer tax. Business taxes are the general corporation tax, the banking corporation tax and the unincorporated business tax.

[7] Freddie Mac Primary Mortgage Market Survey.

Chart 3. Real-Estate-Related Tax Revenues FY 2005-06



Source: NYC Office of Management and Budget.

Business tax revenue forecasts for FY 2006 are $376 million greater in the November Modification. The general corporation tax (GCT) revenue forecast increases by $236 million, the unincorporated business tax (UBT) forecast is raised $94 million, and the banking corporation tax (BCT) net forecast increases by $46 million. Cumulative business tax collections through October were $162 million more than the Adopted Budget estimate and $136 million greater than the same period in FY 2005. Most of this increase is economically driven, reflecting stronger Wall Street activity.

Sales tax revenue estimates for FY 2006 are higher than the Adopted Budget estimate by $107 million. Collections for the first four months of FY 2006 were $12 million more than the Adopted Budget forecast and $55 million above FY 2005 levels. This is strong growth considering that beginning September 1, 2005, purchases on clothing and footwear costing less than $110 are again exempt from sales tax.

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's forecasts of tax revenues for FY 2006 are lower than the City's by approximately $64 million, or 0.2 percent of projected tax revenue in the November Modification. The Comptroller's forecast for the outyears is higher than the City's with the property tax revenue projections accounting for most of the differences in FY 2008 and FY 2009.

The difference between the Comptroller's and the City's property projections stems primarily from differences in growth rate assumptions. According to the City's projection, property tax revenue is expected to increase 8.5 percent in FY 2006 and to grow at an average annual rate of 5.6 percent for the rest of the plan period. The

Comptroller's estimated property tax revenue growth in FY 2006 is 8.6 percent, virtually equivalent to the City's. For FY 2007 to FY 2009, an average annual increase of 6.7 percent is predicted, 1.1 percent above the City's average annual estimate over the same period.

The Comptroller's forecasts of PIT, business, and sales tax revenues reflect projections of GCP that are slightly more positive than the City's in FYs 2007 and 2009 and are similar to the City's in FYs 2008. The Comptroller's Office forecasts that tax revenues over the plan period will, cumulatively, be $1.1 billion higher than the City estimates. The Comptroller's tax revenue forecast for FY 2006 reflects collections in the first four months and the Comptroller's forecasts of jobs, wages, and Wall Street bonus.

Table 12. Comptroller's Risks and Offsets to the City's Tax Revenues, FYs 2006-2009

($ in millions)

Tax	FY 2006	FY 2007	FY 2008	FY 2009
Property	$16	$95	$277	$507
PIT	(80)	140	45	85
Business	0	30	30	(10)
Sales	0	(30)	(110)	(15)
Real Estate-Related	0	80	35	0
Total	**$(64)**	**$315**	**$277**	**$567**

SOURCE: NYC Comptroller's Office, based on data from NYC Office of Management and Budget. A positive number indicates the Comptroller's forecast is higher than the City's.

Since FY 2006 budget adoption in June, the City has raised its real-estate related tax revenue forecast by $736 million. At the time of budget adoption, the Comptroller's Office's estimate of real-estate related tax revenues was $600 million greater than the City's, reflecting mainly differences in the outlook for long-term interest rates. The November Modification estimate is in line with the current forecast of the Comptroller's Office, which maintains the same rate assumptions but is adjusted to reflect updated collection data. Because of expected upward pressure on long-term interest rates, the Comptroller's Office, like the City, expects a softening in the real estate markets, and therefore a decline in the volume of transactions. The outyear forecasts of the Comptroller's Office and the City reflect this expectation.

The City raised its forecast for PIT for FY 2006 by $653 million in the November Modification. While the Comptroller's Office has also raised its PIT forecasts to reflect gains in jobs, wages and Wall Street profits, its forecast for FY 2006 PIT is slightly less optimistic than the City.

Miscellaneous Revenues

Miscellaneous revenues include fees for licenses and franchises, rental income, water and sewer revenues, fines, interest income, and "other miscellaneous revenue." The FY 2006 City's forecast for miscellaneous revenue in the November Modification is $3.7 billion, which is $1.4 billion below FY 2005 (exclusive of private grants and intra-City revenues). This decrease reflects the loss of large non-recurring resources available in FY 2005 such as the State reimbursement for MAC debt service, airport rental arrears, and asset sales.

The City's forecast for FY 2006 miscellaneous revenue exceeds the Adopted Budget forecast by $129 million. Most of the projected increase ($110 million) reflects higher interest income resulting from larger projected cash balances and higher interest-rate assumptions.[8] The "Miscellaneous Revenue" sub-category increased by $27 million because of higher estimated proceeds from HPD mortgage and in rem negotiated sales. Projected revenues from rental income and charges for services decreased slightly from the Adopted Budget forecast.

Over the term of the Financial Plan, miscellaneous revenues are projected to decline slightly from $3.5 billion in FY 2006 to $3.2 billion in FY 2007 and remain flat at $3.2 billion in each of FYs 2008-2009. Non-recurring resources contained in the FY 2006 miscellaneous revenue forecast are approximately $235 million, well below the $1.5 billion collected in FY 2005. Table 13 shows the City's forecast of the main nonrecurring miscellaneous items available to balance the FY 2006 budget.

Table 13. City's Forecast of Nonrecurring Miscellaneous Revenues in FY 2006

($ in millions)

	FY 2006
Tobacco Settlement Revenues from Trapping Account	$120
Sale of Taxi Medallions	67
Restructure of Escrow Account	48
Total	**$ 235**

SOURCE: NYC OMB

The City anticipates the release of $120 million of tobacco settlement revenues (TSRs) currently retained in a reserve account. As a protection to bondholders, the TSASC agreement includes provisions to use a portion of excess tobacco settlement revenues to fund a reserve account or "trapping account." The City expects that by the end of the fiscal year, TSASC will have an alternative mechanism in place that will allow the trapped TSRs to be released to the City. In addition, the City will recognize $67 million for the sale of taxi medallions and $47.9 million in revenue resulting from the residual proceeds from the sale of 2005 Escrow Securitization Corporation Bonds.

Federal and State Aid

The City projects Federal and State aid receipts of about $15 billion for FY 2006, supporting about 28 percent of total spending of $52.8 billion. The November Modification reflects an increase of $364 million in Federal categorical grants and

[8] The average daily cash balance for the first quarter of FY 2006 was $7.7 billion, $3.39 billion above the average daily balance of the first quarter of FY 2005.

$188 million in State categorical grants. The Federal grants increase is mainly from the recognition of unspent Federal funds rolled from FY 2005, part of the normal process at this point of the fiscal year. The projected State grants increase is primarily for education and health, with the remainder spread across other major areas such as police, transportation, and welfare. In addition, the City has removed a residual action from its FY 2006 gap-closing program to attain $50 million in additional Federal assistance.

For the outyears of the plan, the City has included significant additional State aid in conjunction with the recently approved teachers' contract. The assumed State support for the contractual salary increase accounts for the majority of additional education aid reflected in FYs 2007-2009, ranging from $368 million to $406 million annually. Outside of these increases, the City shows only minor changes in its other Federal and State aid assumptions in the November Plan. Federal and State grants are projected to stay relatively flat over the outyears of the plan at between $14.6 billion in FY 2007 and $14.7 billion in FY 2009.

The November Plan does not contain a gap-closing program involving Federal and State actions in FY 2007. A Federal and State agenda will likely accompany the City's preliminary budget submission in January. Federal budget priorities now target many domestic programs, particularly entitlement programs, for long-term savings to reduce the Federal budget deficit.

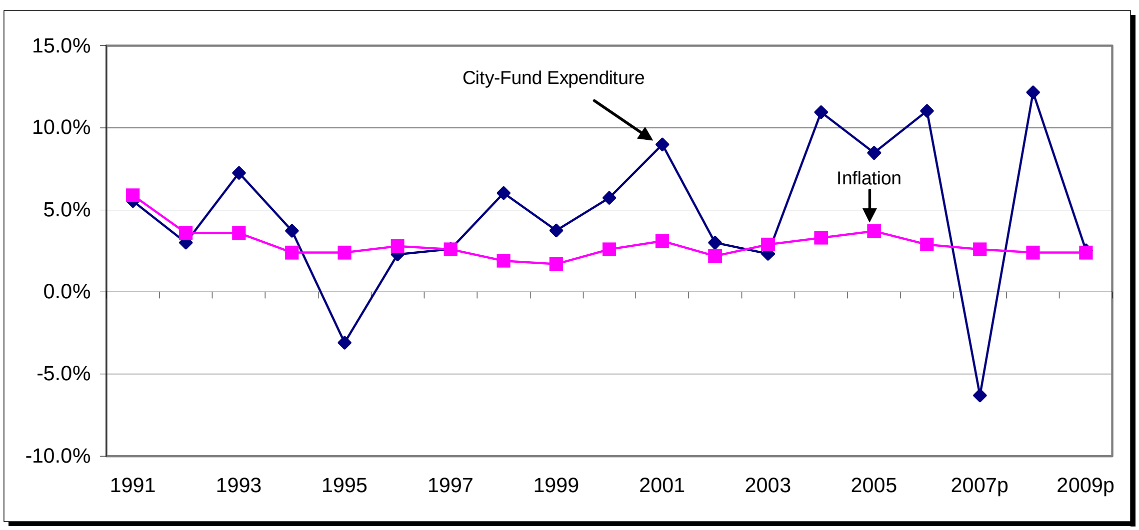
V. Expenditure Analysis

The November Modification has increased the FY 2006 City-funds expenditure estimates by approximately $2.1 billion. Most of the increase results from the establishment of a $1.7 billion BSA to prepay FY 2007 debt service. Additional labor costs, reflecting the collective bargaining agreements reached since budget adoption in June, account for another $626 million in increased spending. The City has also increased its energy budget by $101 million in response to rising energy cost. The increases are mitigated by expected savings in Medicaid spending and debt service cost.

With the exception of FY 2007, expenditure projections in the outyears have been revised upward by more than $950 million, driven primarily by the recurring costs of recent collective bargaining agreements. For FY 2007, the anticipated prepayment of $1.7 billion of FY 2007 debt service will enable the City to reduce its FY 2007 expenditure budget by $854 million despite additional cost of labor, energy and miscellaneous increases in agency spending.

As Chart 4 below shows, City-fund expenditure, adjusted for net prepayments, has outpaced inflation except in years of unusual fiscal stress. From FY 1991 to FY 2005, FYs 1992, 1995 and 2003 were the only years in which spending did not grow more rapidly than the general price level. In the aftermath of 9/11 and recession, City-fund spending growth has averaged 7.2 percent annually, while inflation has averaged 3.3 percent per year. Over the Financial Plan period, City-fund expenditures are expected to exceed the projected rate of inflation by an average 2.4 percentage each year.

Chart 4. City-Fund Expenditure, Adjusted for Net Prepayments, vs. Inflation



Pensions

Pension contribution projections in the November Modification remain unchanged from the Adopted Budget. Over the four-year Financial Plan period, pension contributions are projected to grow to $4.7 billion in FY 2006 and $5.1 billion in FY 2007 and then level off at $4.9 billion in the remaining out-years, as shown in Table 14 below.

Table 14. FY 2006 November Modification Projections of the City's Pension Expenditures

($ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009
Five Actuarial Systems	$ 3,284	$ 4,639	$ 4,987	$ 4,875	$ 4,745
Other Systems	86	96	99	104	106
TOTAL	$ 3,370	$ 4,735	$ 5,086	$ 4,979	$ 4,851

However, the November Modification projections are based on estimated data. They do not include the impact of the changes to the actuarial assumptions and methodologies to be implemented in FY 2006 that were recommended by the Chief Actuary and adopted by the Boards of Trustees of the five actuarial pension systems in October and November.[9] Nor do they include miscellaneous changes in member demographics, new collective bargaining agreements or the impact of newly legislated benefits. As per the Chief Actuary's new projections, all these changes and updates combined will lower the City's FY 2006 and FY 2007 pension contributions to the actuarial systems by $734 million and $298 million, respectively, but increase FY 2008 and FY 2009 contributions by $475 million and $827 million, respectively.

Table 15. The City's Contributions to the Five Actuarial Pension Funds

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Chief Actuary's 11/30/2005 Projections [a]	$3,905	$4,689	$5,350	$5,572
FY 2006 November Modification Projections	$4,639	$4,987	$4,875	$4,745
Contribution Increase/(Decrease)	**($734)**	**($298)**	**$475**	**$827**

[a] Using new actuarial assumptions and methods.

NOTE: The Chief Actuary's projections include the cost of the World Trade Center Disability Law and the recent union contract settlements discussed in "Labor" beginning on page 24. The cost component of the contract settlements is currently being held in the labor reserve and will be transferred to the pension budget later, as necessary.

[9] Some changes, like the elimination of the phase-in of actuarial liabilities related to the COLA enacted by Chapter 125 of the Laws of 2000 and the adoption of the "One-Year Lag" methodology require State legislation. Legislation is also necessary for the continuation of the proposed "Actuarial Interest Rate" assumption, which the Chief Actuary recommends be left unchanged at 8.0 percent for calculating employer contributions for FYs 2006 to 2009.

Impact of Changes in Actuarial Assumptions and Methods

In September and October, the Boards of Trustees of the actuarial systems voted to adopt the changes to actuarial assumptions and methodologies recommended by the Chief Actuary. The estimated FY 2006 cost impact to the City due to the Chief Actuary's revisions alone totals $438 million as shown in Table 16, below, following a brief description of the major elements of the revisions.[10]

- *Change in Actuarial Assumptions.* Changes to economic and demographic assumptions include revisions to salary scale, overtime, withdrawal, and accidental disability assumptions. The total impact of this change in FY 2006 is an increase in City contributions by $338 million as shown in Table 16.

- *Immediate Recognition of All Actuarial Liabilities Created by the Cost of Living Allowances (COLA) enacted by Chapter 125 of the Laws of 2000.* Chapter 125 mandated that recognition of the liabilities created by the new COLA benefits be phased in over five years. Subsequently, Chapter 278 of the Laws of 2002 extended the phase-in period to ten years. The adoption of the Chief Actuary's recommendations will discontinue the ten-year phase-in and recognize the full liabilities created by Chapter 125 of the Laws of 2000. This change will increase the City's contributions by $245 million in FY 2006.

- *Adoption of a "One-Year Lag" Methodology for Pension Cost Calculation.* The new "One-Year Lag" methodology will use asset information and census data as of the last day of the second preceding fiscal year as a basis to compute pension contributions for the current fiscal year. For example, employer contributions for FY 2006 would be based on asset values and census data as of June 30, 2004. Under this new method, the City will know with a greater degree of certainty its required pension contributions for a fiscal year before the budget is adopted for that fiscal year, avoiding budget surprises during the year.[11] This change will reduce the City's FY 2006 contribution by $432 million.

- *Transition Effect on Administrative and Investment Expenses Related to the "One-Year Lag" Methodology.* Through FY 2005, Administrative and

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[10] The cost impacts in other fiscal years, of the Chief Actuary's changes in actuarial assumptions and methods, have not been isolated and, hence, are not available.

[11] Contributions may still change after budget adoption if new/additional benefits are enacted, as governed by Section 430 of the Retirement and Social Security Law (RSSL). Section 430 applies when a new benefit or an improvement to any benefit is enacted that warrants an increase in actuarial contributions. It requires State and municipal employers to "commence payment for such increased cost …… (in) the employer's fiscal year in which such benefit or improvement becomes effective." Therefore, if any such new benefit or benefit improvement is enacted after the adoption of the budget, the increased cost of the new benefit or benefit improvement would have to be appropriated.

Investment Expenses paid from the corpus of the funds were recovered with interest from employers during the fiscal year immediately following the year of expenditure. Under the "One-Year Lag" methodology that is being implemented in FY 2006, such expenses will be recovered two years with interest from employers during the second fiscal year following the year of expenditure. In transitioning to the new methodology, employers will not be required to make any payment for these expenses in FY 2006, the first year of implementation, thereby reducing FY 2006 contribution by $165 million. This is because the FY 2004 corpus-funded Administrative and Investment Expenses that would have been required to be paid in FY 2006 have already been recovered from employers in FY 2005 under the methodology employed at that time.

- *Change in the Actuarial Asset Valuation Method.* The revised asset valuation method will phase in "Unexpected Investment Returns" (UIRs) over a six-year period.[12] Combined with the "One-Year Lag", the new six-year actuarial asset valuation method effectively recognizes UIRs over a seven-year period, cumulatively zero percent in year one, 15 percent in year two, 30 percent in year three, 45 percent in year four, 60 percent in year five, 80 percent in year six and 100 percent in year seven.[13] This change will reduce the City's FY 2006 contributions by $424 million.

Table 16. Impact of Changes in Actuarial Assumptions and Methods on FY 2006 City Contributions to the Five Actuarial Pension Funds

($ in millions)

Revised Demographic Assumptions	$73
Revised Salary Scale and Overtime	256
Related Methodology (to value Ordinary Disability liabilities)	9
Total Revised Assumptions	$338
Full Recognition of COLA Liabilities	$245
One-Year Lag Methodology – Basic	($432)
One-Year Lag Expense Transition	(165)
Total One-Year Lag	($597)
Revised Actuarial Asset Valuation Method	($424)
NET CHANGE IN FY 2006 CITY CONTRIBUTIONS	($438)

NOTES: (1) Estimates derived by the Office of the Comptroller from Projections provided by the Chief Actuary on September 16, 2005.
(2) Estimates include cost impacts resulting from the uniformed Police settlement but not the uniformed Fire or Teacher's settlements.
(3) Estimates include cost expected to result from the enactment of the World Trade Center Disability Law (Chapter 104 of the Law of 2005).

[12] The Chief Actuary defines Unexpected Investment Returns (UIRs) as investment returns above or below the long-term Actuarial Investment Return Assumption (AIRA), which is currently 8.0 percent.

[13] The City's previous actuarial asset valuation method recognized UIRs over a five-year period, cumulatively 10 percent in year one, 25 percent in year two, 45 percent in year three, 70 percent in year four and 100 percent in year five.

Health Insurance

As shown in Table 17 below, the November Modification projects that the City's health insurance expenditures will increase from $2.9 billion in FY 2006 to $3.7 billion in FY 2009.[14] These projections represent slight increases from those in the FY 2006 Adopted Budget. About $16 million of the FY 2006 increase is a restoration of funding that was inadvertently omitted from the FY 2006 Budget. The City added $10 million per year for fiscal years 2007 to 2009 in anticipation of a possible increase in Medicare Part B premiums.

Table 17. Change in the City's Health Insurance Expenditures

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
FY 2006 November Modification	$2,911	$3,155	$3,454	$3,739
FY 2006 Adopted Budget	$2,893	$3,145	$3,444	$3,729
Increase/ (Decrease)	$ 18	$ 10	$ 10	$ 10

NOTE: The projections include health insurance expenditures for the Department of Education as well as the City's portion of the City University of New York.

Labor

Since the FY 2006 adoption of the Budget, the City has reached collective bargaining agreements with six unions representing pedagogical and uniformed employees. Agreements with terms of approximately four years were reached with the United Federation of Teachers (UFT), Uniformed Firefighter's Association (UFA), the Uniformed Sanitationmen's Association (USA), and the Detectives' Endowment Association (DEA).[15] These agreements granted wage increases to employees ranging from 15 percent for the UFT to approximately 17.1 percent for DEA, UFA and USA, as shown in Table 18. Settlements with the Corrections Officers' Benevolent Association (COBA) and the Sergeants' Benevolent Association (SBA) covered a two-year period and provided increases of 5 percent on the first day of the contract and another 5 percent compounded on the first day of the thirteenth month, mirroring the pattern of the Patrolmen's Benevolent Association (PBA) contract.

When fully implemented, the full-year costs of the recent contract settlements total approximately $1.6 billion. However, a portion of the cost will be funded with productivity initiatives covered in the contracts. The productivity savings for uniformed employees will be mainly achieved as follows: a change in salary steps for new

[14] The projections are based on increases in premiums of 8.75 percent in FY 2006, and provisional rate increases of 8.0 percent in each of FY 2007 through FY 2009.

[15] UFT, USA, COBA and SBA have ratified their contracts. The UFA membership has yet to vote on their contract. DEA membership rejected their contract on December 1, 2005.

employees, and in the case of detectives and sergeants, a revised salary schedule; elimination of an annual leave day or equivalent; and an increase in the number or length of tours. Sanitation employees are also expected to realize increase targets for refuse and recycling tonnage.

Table 18. Summary of Recent Contract Settlements

Unions	**Term**	**Wage Increase**			
UFT	June 1, 2003 - October 12, 2007	12/1/2003 **2%**	12/1/2004 **3.5%**	11/1/2005 **5.5%**	10/1/2006 **3.25%**
UFA	June 1, 2002 - July 31, 2006	6/1/2002 **5%**	6/1/2003 **5%**	8/1/2004 **3%**	8/1/2005 **3.15%**
USA	November 23, 2002 – March 2, 2007	11/23/2002 **5%**	11/23/2003 **5%**	3/2/2005 **3%**	3/2/2006 **3.15%**
COBA	February 1, 2003 - April 30, 2005	2/1/2003 **5%**	2/1/2004 **5%**		
SBA	June 1, 2003 - May 31, 2005	6/1/2003 **5%**	6/1/2004 **5%**		
DEA	February 15, 2004 - February 14, 2008	2/15/2004 **5%**	2/15/2005 **5%**	2/15/2006 **3%**	2/15/2007 **3.15%**

The UFT contract, on the other hand, calls for reforms that will expand instruction, empower principals, and modify school safety and disciplinary measures as highlighted below:

1. Expand instruction
    - Additional 50 minutes per week instructional time
    - Additional instructional day per year – beginning with the 2006 school year, school begins Tuesday following Labor Day
    - Creation of lead teacher positions in targeted schools to be identified by the Chancellor. Teachers for these positions will be referred by principals. These teachers will get $10,000 on top of their salaries
    - One additional day in June for leadership training.

2. Empower principals
    - Modification of seniority transfers and bumping. Teachers exercising transfer or bumping rights must be interviewed by the principal and a committee of teachers. The final decision, however, shall be made by the principal.

3. School safety/disciplinary measures
    - Expedite disciplinary measures for teachers who are charged with sexual misconduct and chronic lateness and absenteeism rate
    - Modify Circular 6 – teachers will now be assigned to lunchroom and hall duty.

The City had previously provided funding for teachers based on the District Council 37 (DC37) agreement and for the uniformed employees based on the PBA contract. Since the new contracts, with the exception of the COBA and SBA contracts, have deviated from these agreements, additional funding is required. The November Plan reflects funding for the additional cost of the UFT contracts. The November Plan also contains funding for the cost of wage increases for the additional years of those uniformed employees' contracts that extend beyond the two-year of the PBA contract. Further, the City has added funding to provide for wage increases for all other employees based on the additional years of these uniformed contracts. As such, the City's budget was increased by $626 million in FY 2006, $781 million and about $840 million in each of FY 2008 and FY 2009.[16]

The City is funding wage increases averaging 1.25 percent annually, or half the expected inflation rate, for FYs 2007 through 2009, thus providing in part for any wage increases that may occur beyond the funding included for four year contracts. Every one percent increase in wages above the City's current outyear funding of 1.25 percent will cost the City an additional $70 million in FY 2007 and $462 million by FY 2009.

Headcount

Full-time City-funded headcount is expected to be 224,161 by June 30, 2006, as shown in Table 19. This represents a net increase of 1,504 employees, including 512 teachers, from the actual number on payroll as of October 31, 2005. For the outyears, headcount is expected to increase 303 to 224,464 by June 30, 2007 and remain relatively stable through FYs 2008 and 2009.

[16]The City assumes funding from the State of $35 million in FY 2006 and $300 million in FY 2007, $337 million in each of FY 2008, and FY 2009 for the UFT contract for a total increase in collective bargaining cost of $661 million in FY 2006, $1.1 billion in FY 2007, and $1.2 billion each in FYs 2008 and 2009.

Table 19. City-Fund Full-Time Year-End Headcount Projections

	Oct. 31, 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009
Agency Uniformed:					
Police	36,187	34,824	34,824	34,824	34,824
Fire	11,515	11,211	11,211	11,211	11,211
Correction	8,427	8,593	8,578	8,578	8,578
Sanitation	7,558	7,685	7,685	7,685	7,685
Subtotal	63,687	62,313	62,298	62,298	62,298
Pedagogical:					
Dept. of Education	88,378	88,890	88,873	88,873	88,873
City University	2,720	2,706	2,700	2,700	2,700
Subtotal	91,098	91,596	91,573	91,573	91,573
Civilian:					
Police	9,139	9,230	9,422	9,422	9,422
Fire	4,390	4,422	4,422	4,422	4,422
Admin. for Child Svcs.	6,157	6,357	6,357	6,357	6,357
Dept. of Health	2,653	2,868	3,109	3,146	3,151
Social Services	11,078	11,342	11,382	11,382	11,382
All Other Civilians	34,455	36,033	35,901	35,876	35,832
Subtotal	67,872	70,252	70,593	70,605	70,566
Total	**222,657**	**224,161**	**224,464**	**224,476**	**224,437**

SOURCE: Office of Management and Budget, FY 2006 November Financial Plan.

City-funded part-time headcount is expected to total 32,223 full-time-equivalent (FTE) employees on June 30, 2006 and then remain at comparable levels, as shown in Table 20. However, some changes are planned in individual agencies. Between October 31, 2005 and the end of fiscal year 2006, the City expects to increase FTEs by 1,711 mainly in the Police Department, the Department of Parks and Recreation, the Department of Health and Mental Hygiene, and the Administration for Children's Services. These increases will be partially offset by decline of 367 FTEs at the City University.

Table 20. City-Fund Full-Time Equivalent Year-End Headcount Projections

	Oct. 31, 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009
Agency Pedagogical FTEs:					
Dept. of Education	923	952	952	952	952
City University	1,814	1,468	1,468	1,468	1,468
Subtotal	2,737	2,420	2,420	2,420	2,420
Civilian FTEs:					
Dept. of Education	14,595	14,619	14,619	14,619	14,619
City University	821	800	800	800	800
Police	5,375	6,073	6,395	6,395	6,395
Dept. of Parks & Rec.	3,709	4,148	3,654	3,639	3,639
Dept. of Health	1,574	2,036	2,146	2,163	2,180
Admin. for Child Svcs.	16	257	257	257	257
All Other Civilian FTEs	1,685	1,870	1,796	1,796	1,797
Subtotal	27,775	29,803	29,667	29,669	29,687
Total FTEs	**30,512**	**32,223**	**32,087**	**32,089**	**32,107**

SOURCE: Office of Management and Budget, FY 2006 November Financial Plan.

Overtime

The City's FY 2006 overtime budget is $740 million, an increase of $124 million over the Adopted Budget estimate. This is due mainly to an increase of $119 million in the uniformed employees' overtime budget. Police uniformed overtime increased by $77 million, reflecting about $64 million of Homeland Security funds and a reimbursement of $6 million from the Metropolitan Transit Authority for overtime expenditures incurred after the London bombings. The projected increase in Fire uniformed overtime was $32 million, which includes $10 million in Homeland Security funds and $22 million in adjustments to cover the shortfall in overtime expenditures in the previous plan. There was also an increase of $10 million to the Department of Correction uniformed overtime.

The City has spent $279 million for overtime through October 2005. This is moderately higher than the $265 million overtime spending over the same period in FY 2005.[17] Fiscal year-to-date overtime spending includes overtime expenses incurred in providing support to New Orleans in the aftermath of Hurricane Katrina for which the City expects Federal reimbursement. Based on year-to-date overtime spending, net of Katrina-related overtime expenditure, the Comptroller's Office projects that FY 2006 overtime spending will be $838 million, $98 million higher than the City's projection.

[17] The FY 2005 overtime spending is adjusted to net out overtime spending during the Republican National Convention for which the City was reimbursed by the Federal government.

Table 21. Projected Overtime Spending, FY 2006

($ in millions)

	City Planned Overtime FY 2006	Comptroller's Projected Overtime FY 2006	FY 2006 Risk
Uniform			
Police	$323	$380	($57)
Fire	119	125	(6)
Correction	50	60	(10)
Sanitation	65	66	1
Total Uniformed	$557	$631	($74)
Others			
Police-Civilian	$16	$40	($24)
Admin. for Child Svcs.	15	15	0
Environmental Protection	21	21	0
Transportation	29	29	0
All Other Agencies	102	102	(0)
Total Civilians	$183	$207	($24)
Total City	**$740**	**$838**	**($98)**

NOTE: The Comptroller's overtime projection assumes that the City will be able to achieve some offsets to overtime spending from personal services savings.

Public Assistance and Medicaid

The November Modification continues to project City-funds baseline grants expenditures of $512 million for public assistance in FY 2006. This projection is based on a year-end caseload assumption of 438,295 by June 2006. Since reaching the lowest caseload level in 40 years in July 2005, the City's welfare rolls have experienced only a slight increase in the opening months of FY 2006. For November, the Department of Social Services reported a public assistance caseload of 414,493, representing an increase of only 1,000 recipients from the July caseload of 413,493.

Even as welfare caseload continues to move in a general downward trend, the City's grants spending has been relatively stable in the past two years. City-funded grants spending for public assistance has hovered in a tight band of between $40 million and $42 million per month since December 2003. Thus far in FY 2006, public assistance grants expenditures have not deviated from this pattern. This results from the growing proportion of caseload that is now under the State-mandated Safety Net Assistance (SNA) program. The City provides a higher share of support to the SNA program (50 percent) than to the federally mandated Family Assistance program (25 percent). Because of underlying growth in the SNA caseload, the drop in the overall welfare caseload has not resulted in lower grants expenditures. Total welfare caseload has fallen 5.2 percent since the end of FY 2004, while the SNA portion of the caseload (excluding time-limit transfers from the Family Assistance program) has actually risen 7.4 percent over the same period. Despite the disparity between the City's projection and current caseload level, it appears the City has adequately budgeted for public assistance grants expenditures in the current year.

In the November Modification, the City has incorporated a one-time savings of $450 million in its Medicaid budget for FY 2006 from the implementation of the State Medicaid cap provision. Under the cap provision, the growth of local Medicaid spending will be capped at 3.5 percent in 2006, 3.25 percent in 2007, and 3 percent in 2008 and beyond. Localities also have an added option of swapping a fixed percentage of local sales tax receipts for a full Medicaid takeover by the State beginning in 2008.

As stipulated in the legislation, the prescribed caps for 2006 and subsequent years would be based on Medicaid cash payments from localities during the 2005 calendar year. The alignment of the 2005 spending base against the City's Medicaid projection produces a one-time savings in FY 2006 because the City, under accrual-basis accounting, would no longer need to recognize certain residual liabilities caused by the normal lag in the Medicaid billing cycle. These costs will be absorbed by the State once the cap provision goes into effect in January 2006.

After reflecting these savings, the City's Medicaid budget (including the Health and Hospitals Corporation) is estimated at $4.57 billion in FY 2006. Over the remainder of the November Plan, Medicaid spending is expected to range between $5.17 billion in FY 2007 and $5.46 billion in FY 2009. Compared with the estimated 2005 Medicaid base recently released by the State, the City's Medicaid spending projections appear in line with the growth trend under the cap structure. The 2005 base is subject to a final review by the State in June 2006 to determine if additional adjustments are needed to accurately reflect spending in the base year.

Department of Education

In the November Modification, the City reflected additional funding of $476 million for the Department of Education budget in FY 2006. The bulk of the increase, $327 million, is attributable to the additional costs associated with the recently-approved United Federation of Teachers (UFT) contract, providing teachers with a 15 percent pay raise over a term of 52 months. The current pact, which expires in October 2007, includes provisions that would increase after-school tutoring sessions to 37 1/2 minutes per day (Monday through Thursday) and extend the school year by two days.[18] In addition to the UFT contract costs, the City has rolled about $95 million of unspent FY 2005 federal funds into the current year and assumed additional State support of $33 million for special education needs and regional operations.

In the outyears, funding for the DOE budget has been raised by $623 million in FY 2007 and approximately $670 million each year in FY 2008 and FY 2009. The UFT contract costs are projected at $550 million in FY 2007 and rise to $597 million annually in FY 2008 and FY 2009.[19] After reflecting the new funding, the DOE budget is

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[18] See "Labor" beginning on page 24 for a more detailed discussion of terms of the UFT contract.

[19] The City assigns a 60/40 funding split between City and State in support of the additional salary costs for teachers. Beginning in FY 2007, the State's share of the additional contract costs assumes this funding ratio at $220 million and grows to $239 million in each of FY 2008 and FY 2009.

projected to surpass $15 billion by FY 2009, compared with an estimate of $14.6 billion for FY 2008. As a result of the funding increases, DOE instructional spending in the outyears rises by an average of more than $700 million annually compared with the June Plan.[20]. Instructional spending, at about $6.7 billion in each of the outyears, would constitute about 45 percent of total DOE spending, compared to an average of 42 percent in the June Plan.

The City may have underestimated non-public school payments for special education programs in the November Plan projections. During the FY 2005 close, the City made additional provisions for payments to special education contract schools and pre-kindergarten handicapped programs. The level of FY 2005 spending accruals for these programs actually exceeds spending projections in each year of the November Plan. Therefore, to reflect the trend from a higher FY 2005 base, the City may need to provide upwards of $25 million annually to address potential funding needs in these programs for FYs 2006-2009.

Debt Service

Debt service, net of prepayments, sums to $4.35 billion in FY 2006, $5.10 billion in FY 2007, $5.55 billion in FY 2008, and $5.93 billion in FY 2009.[21] This represents decreases from the June 2005 Financial Plan projections of $24.56 million in FY 2006, $79.5 million in FY 2007, $20.4 million in FY 2008, and $2 million in FY 2009.

The reduction of $24.6 million in the FY 2006 debt service estimate is due primarily to savings of $26.3 million from not issuing short-term notes in FY 2006, offset by $1.8 million of miscellaneous debt service re-estimates. The debt service decrease of $79.5 million in FY 2007 is due primarily to NYCTFA refunding savings of $36.2 million, $20.7 million from GO refunding activity and $21.4 million from lower than anticipated debt-service costs associated with year-to-date long-term borrowing costs in the first four months of FY 2006. In FY 2008, the estimated decrease of $20.4 million is due primarily to lower long-term borrowing costs in FY 2006 to date, offset by increases in projected variable rate debt service costs.

Debt service as a percent of local tax revenues is a commonly accepted measure of affordability. In FY 2005, debt service as a percent of local tax revenues was 13.5 percent. In FY 2006 it is projected to consume 13.4 percent of local tax revenues and is estimated to rise to 15.7 percent in FY 2007, 16.5 percent in FY 2008, and to 16.7 percent in FY 2009, as shown on Chart 5.

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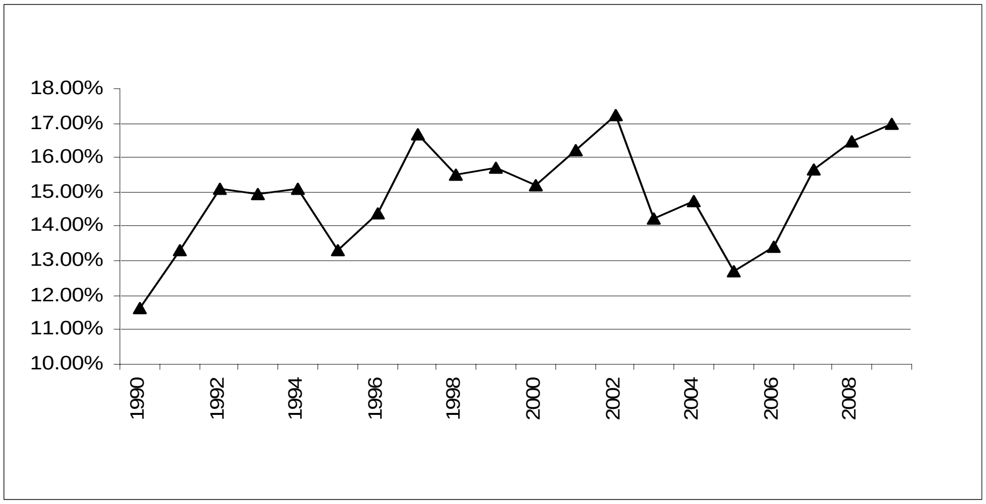
[20] The rise in instructional dollars exceeds the November Plan increases because it includes transfers of reserved funds for collective bargaining within the DOE budget.

[21] Includes debt service on GO, NYCTFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

Chart 5. Debt Service as a Percent of Tax Revenues, 1990-2009



SOURCE: Office of Management and Budget, City of New York, November FY 2006 Financial Plan, November 2005.

Capital Plan

The September 2005 Four-Year Capital Plan for FYs 2006-2009 is the highest Four-Year Plan on record, averaging $9.22 billion in total funds and $6.98 billion in City funds. After adjusting for the reserve for unattained commitments, the Capital Plan over FYs 2006-2009 sums to $36.9 billion in all funds and $27.94 billion in City funds. Projected total-fund commitments for FY 2006 are $10.96 billion. Commitments are projected to decrease slightly to $10.53 billion in FY 2007 and then drop to $8.39 billion in FY 2008, and $7.02 billion in FY 2009.

Excluding the Department of Environmental Protection (DEP), the City-Funded portion of the Plan totals $20.34 billion.[22] Commitments for DOE projects make up 21 percent of the GO supported plan followed by Bridges, Tunnels, Highways, and Street projects at 15 percent, Housing and Urban Development projects at 13 percent, Public Safety, Dept. of Correction, and Court Facility Projects at 12 percent. Parks, Libraries and Cultural Affairs projects make up another 11 percent of the plan.

[22] DEP capital commitments are primarily funded through the issuance of Water Finance Authority Debt.

Appendix —Revenue and Expenditure Details

Table A1. *November Modification Revenue Detail*

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09 Percent	Dollar
Taxes:						
Real Property	$12,599	$13,231	$14,147	$14,781	17.3%	$2,181
Personal Income Tax	$7,239	$7,295	$7,495	$7,953	9.9%	$714
General Corporation Tax	$2,143	$2,230	$2,274	$2,440	13.9%	$297
Banking Corporation Tax	$543	$510	$508	$537	(1.1%)	($6)
Unincorporated Business Tax	$1,171	$1,231	$1,225	$1,315	12.3%	$144
Sale and Use	$4,252	$4,391	$4,523	$4,789	12.6%	$537
Commercial Rent	$473	$497	$515	$531	12.3%	$58
Real Property Transfer	$1,098	$641	$595	$609	(44.5%)	($489)
Mortgage Recording Tax	$1,091	$617	$554	$554	(49.2%)	($537)
Utility	$366	$333	$327	$324	(11.5%)	($42)
Cigarette	$116	$113	$111	$109	(6.0%)	($7)
Hotel	$287	$298	$306	$318	10.8%	$31
All Other	$409	$409	$401	$410	0.2%	$1
Tax Audit Revenue	$512	$509	$509	$509	(0.6%)	($3)
Total Taxes	**$32,299**	**$32,306**	**$33,490**	**$35,179**	**8.9%**	**$2,880**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$379	$371	$372	$370	(2.4%)	($9)
Interest Income	$269	$115	$123	$134	(50.2%)	($135)
Charges for Services	$524	$502	$501	$502	(4.2%)	($22)
Water and Sewer Charges	$999	$997	$1,011	$1,029	3.0%	$30
Rental Income	$174	$180	$179	$171	(1.7%)	($3)
Fines and Forfeitures	$692	$691	$691	$690	(0.3%)	($2)
Miscellaneous	$629	$343	$342	$344	(45.3%)	($285)
Intra-City Revenue	$1,330	$1,275	$1,274	$1,275	(4.1%)	($55)
Total Miscellaneous	**$4,996**	**$4,474**	**$4,493**	**$4,515**	**(9.6%)**	**($481)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capita Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$235	$235	$235	$235	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$562**	**$562**	**$562**	**$562**	**0.0%**	**$0**
Other Categorical Grants	**$965**	**$924**	**$930**	**$935**	**(3.1%)**	**($30)**
Inter Fund Agreements	**$366**	**$356**	**$345**	**$345**	**(5.7%)**	**($21)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**0.0%**	**$0**
Less: Intra-City Revenue	**($1,330)**	**($1,275)**	**($1,274)**	**($1,275)**	**(4.1%)**	**$55**
TOTAL CITY FUNDS	**$37,843**	**$37,332**	**$38,531**	**$40,246**	**6.3%**	**$2,403**

Table A1 (Con't). *November Modification Revenue Detail*

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09 Percent	Dollar
Federal Categorical Grants:						
Community Development	$279	$247	$247	$247	(11.5%)	($32)
Welfare	$2,162	$2,029	$2,028	$2,029	(6.2%)	($133)
Education	$1,903	$1,808	$1,808	$1,808	(5.0%)	($95)
Other	$1,129	$771	$762	$761	(32.6%)	($368)
Total Federal Grants	**$5,473**	**$4,855**	**$4,845**	**$4,845**	**(11.5%)**	**($628)**
State Categorical Grants						
Welfare	$1,851	$1,885	$1,884	$1,885	1.8%	$34
Education	$6,585	$6,917	$7,013	$7,049	7.0%	$464
Higher Education	$188	$188	$188	$188	0.0%	$0
Department of Health and Mental Hygiene	$470	$418	$423	$427	(9.1%)	($43)
Other	$414	$331	$329	$331	(20.0%)	($83)
Total State Grants	**$9,508**	**$9,739**	**$9,837**	**$9,880**	**3.9%**	**$372**
TOTAL REVENUES	**$52,824**	**$51,926**	**$53,213**	**$54,971**	**4.1%**	**$2,147**

Table A2. *November Modification Expenditure Detail*

($ in thousands)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09 Percent	Dollar
Mayoralty	$75,339	$71,270	$70,792	$70,792	(6.0%)	($4,547)
Board of Elections	$77,884	$68,884	$68,884	$68,884	(11.6%)	($9,000)
Campaign Finance Board	$63,009	$8,103	$8,103	$8,103	(87.1%)	($54,906)
Office of the Actuary	$5,322	$5,322	$5,122	$5,122	(3.8%)	($200)
President, Borough of Manhattan	$4,053	$3,128	$3,128	$3,128	(22.8%)	($925)
President, Borough of Bronx	$5,844	$4,681	$4,506	$4,506	(22.9%)	($1,338)
President, Borough of Brooklyn	$5,483	$3,942	$3,942	$3,942	(28.1%)	($1,541)
President, Borough of Queens	$4,831	$3,655	$3,655	$3,655	(24.3%)	($1,176)
President, Borough of Staten Island	$3,951	$3,138	$3,138	$3,138	(20.6%)	($813)
Office of the Comptroller	$61,282	$61,004	$60,704	$60,912	(0.6%)	($370)
Dept. of Emergency Management	$28,356	$5,800	$5,800	$5,800	(79.5%)	($22,556)
Tax Commission	$2,395	$2,422	$2,422	$2,422	1.1%	$27
Law Dept.	$114,771	$106,648	$106,648	$106,648	(7.1%)	($8,123)
Dept. of City Planning	$20,669	$19,714	$19,714	$19,714	(4.6%)	($955)
Dept. of Investigation	$17,116	$16,726	$16,726	$16,726	(2.3%)	($390)
NY Public Library - Research	$4,477	$15,963	$15,964	$15,964	256.6%	$11,487
New York Public Library	$14,327	$84,729	$84,769	$84,769	491.7%	$70,442
Brooklyn Public Library	$8,853	$63,317	$63,351	$63,351	615.6%	$54,498
Queens Borough Public Library	$8,389	$60,997	$61,080	$61,080	628.1%	$52,691
Dept. of Education	$14,611,850	$14,785,948	$14,894,207	$15,002,857	2.7%	$391,007
City University	$581,465	$523,210	$522,995	$523,012	(10.1%)	($58,453)
Civilian Complaint Review Board	$10,160	$8,909	$8,909	$8,909	(12.3%)	($1,251)
Police Dept.	$3,698,559	$3,539,509	$3,527,267	$3,506,429	(5.2%)	($192,130)
Fire Dept.	$1,316,744	$1,257,997	$1,251,668	$1,244,433	(5.5%)	($72,311)
Admin. for Children Services	$2,199,025	$2,092,334	$2,091,971	$2,091,971	(4.9%)	($107,054)
Dept. of Social Services	$6,859,545	$7,367,084	$7,517,256	$7,664,172	11.7%	$804,627
Dept. of Homeless Services	$711,238	$679,102	$679,101	$679,101	(4.5%)	($32,137)
Dept. of Correction	$847,292	$823,747	$818,672	$813,204	(4.0%)	($34,088)
Board of Correction	$961	$857	$857	$857	(10.8%)	($104)
Dept. of Employment	$0	$0	$0	$0	—	$0
Citywide Pension Contribution	$4,599,415	$4,949,897	$4,842,792	$4,714,976	2.5%	$115,561
Miscellaneous	$5,573,958	$6,375,541	$6,986,631	$7,566,421	35.7%	$1,992,463
Debt Service	$3,110,310	$2,335,870	$4,458,910	$4,841,059	55.6%	$1,730,749
M.A.C. Debt Service	$10,000	$10,000	$10,000	$0	(100.0%)	($10,000)
NYCTFA Debt Service	$0	$708,399	$980,765	$986,008	—	$986,008
Public Advocate	$2,858	$1,897	$1,897	$1,897	(33.6%)	($961)
City Council	$47,545	$46,518	$46,518	$46,518	(2.2%)	($1,027)
City Clerk	$3,050	$3,050	$3,050	$3,050	0.0%	$0
Dept. for the Aging	$256,323	$226,899	$226,899	$226,899	(11.5%)	($29,424)
Dept. of Cultural Affairs	$133,859	$105,510	$105,510	$105,510	(21.2%)	($28,349)
Financial Info. Service. Agency	$48,877	$44,952	$42,415	$42,415	(13.2%)	($6,462)
Dept. of Juvenile Justice	$100,488	$100,268	$100,268	$100,268	(0.2%)	($220)
Office of Payroll Admin.	$11,483	$10,597	$10,597	$10,597	(7.7%)	($886)
Independent Budget Office	$2,776	$2,746	$2,746	$2,746	(1.1%)	($30)
Equal Employment Practices Comm.	$810	$713	$713	$713	(12.0%)	($97)

Table A2 (Con't). *November Modification Expenditure Detail*

($ in thousands)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09 Percent	Dollar
Civil Service Commission	$597	$597	$597	$597	0.0%	$0
Landmarks Preservation Comm.	$3,729	$3,729	$3,729	$3,729	0.0%	$0
Districting Commission	$0	$0	$0	$0	—	$0
Taxi & Limousine Commission	$28,483	$25,573	$25,573	$25,573	(10.2%)	($2,910)
Commission on Human Rights	$6,966	$6,836	$6,836	$6,836	(1.9%)	($130)
Youth & Community Development	$295,969	$222,471	$222,746	$222,746	(24.7%)	($73,223)
Conflicts of Interest Board	$1,544	$1,351	$1,351	$1,351	(12.5%)	($193)
Office of Collective Bargain	$1,627	$1,627	$1,627	$1,627	0.0%	$0
Community Boards (All)	$12,986	$12,700	$12,700	$12,700	(2.2%)	($286)
Dept. of Probation	$76,417	$75,202	$75,202	$75,202	(1.6%)	($1,215)
Dept. Small Business Services	$127,414	$87,936	$87,936	$87,936	(31.0%)	($39,478)
Housing Preservation & Development	$494,096	$478,317	$478,207	$477,079	(3.4%)	($17,017)
Dept. of Buildings	$78,788	$69,544	$68,257	$66,692	(15.4%)	($12,096)
Dept. of Health & Mental Hygiene	$1,596,950	$1,477,386	$1,494,914	$1,510,658	(5.4%)	($86,292)
Health and Hospitals Corp.	$723,343	$953,440	$937,398	$923,713	27.7%	$200,370
Dept. of Environmental Protection	$815,460	$792,347	$787,511	$787,571	(3.4%)	($27,889)
Dept. of Sanitation	$1,118,361	$1,152,223	$1,148,672	$1,144,466	2.3%	$26,105
Business Integrity Commission	$5,317	$5,317	$5,317	$5,317	0.0%	$0
Dept. of Finance	$199,757	$199,435	$199,504	$199,504	(0.1%)	($253)
Dept. of Transportation	$549,965	$492,353	$492,353	$492,353	(10.5%)	($57,612)
Dept. of Parks and Recreation	$253,795	$225,936	$219,449	$219,449	(13.5%)	($34,346)
Dept. of Design & Construction	$100,744	$98,889	$94,889	$88,889	(11.8%)	($11,855)
Dept. of Citywide Admin. Services	$271,981	$262,390	$261,332	$261,325	(3.9%)	($10,656)
D.O.I.T.T.	$170,389	$189,318	$186,560	$186,495	9.5%	$16,106
Dept. of Record & Info. Services	$4,335	$3,810	$3,810	$3,810	(12.1%)	($525)
Dept. of Consumer Affairs	$13,330	$13,443	$13,443	$13,443	0.8%	$113
District Attorney - N.Y.	$78,203	$63,801	$63,801	$63,801	(18.4%)	($14,402)
District Attorney - Bronx	$42,849	$37,418	$37,418	$37,418	(12.7%)	($5,431)
District Attorney - Kings	$69,311	$64,683	$64,683	$64,683	(6.7%)	($4,628)
District Attorney - Queens	$36,432	$33,522	$33,522	$33,522	(8.0%)	($2,910)
District Attorney - Richmond	$6,709	$5,762	$5,762	$5,762	(14.1%)	($947)
Office of Prosec. & Spec. Narc.	$15,302	$13,595	$13,595	$13,595	(11.2%)	($1,707)
Public Administrator - N.Y.	$1,075	$1,022	$1,022	$1,022	(4.9%)	($53)
Public Administrator - Bronx	$391	$338	$338	$338	(13.6%)	($53)
Public Administrator - Brooklyn	$520	$467	$467	$467	(10.2%)	($53)
Public Administrator - Queens	$418	$365	$365	$365	(12.7%)	($53)
Public Administrator - Richmond	$335	$282	$282	$282	(15.8%)	($53)
Prior Payable Adjustment	$0	$0	$0	$0	—	$0
General Reserve	$289,694	$300,000	$300,000	$300,000	3.6%	$10,306
Energy Adjustment	$65,947	$112,855	$90,019	$80,216	21.6%	$14,269
Lease Adjustment	$0	$25,669	$43,331	$61,476	—	$61,476
OTPS Inflation Adjustment	$0	$52,842	$107,007	$162,526	—	$162,526
City-Wide Total	**$52,824,471**	**$54,175,788**	**$57,332,587**	**$58,437,212**	**10.6%**	**$5,612,741**

Glossary of Acronyms

AIRA	Actuarial Investment Return Assumption
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
COBA	Corrections Officers' Benevolent Association
COLA	Cost of Living Allowances
DC 37	District Council 37
DEA	Detectives' Endowment Association
DEP	Department of Environmental Protection
DOE	Department of Education
FOMC	Federal Open Market Committee
FTE	Full-Time Equivalents
FFY	Federal Fiscal Year
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product

GO Debt	General Obligation Debt
HPD	Housing Preservation Development
MAC	Municipal Assistance Corporation
MRT	Mortgage Recording Tax
NAPM – NY	National Association of Purchasing Management - New York
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PS	Personal Services
PIT	Personal Income Tax
RPTT	Real Property Transfer Tax
SBA	Sergeants' Benevolent Association
STAR	School Tax Relief Program
SNA	Safety Net Assistance
TSASC	Tobacco Settlement Asset Securitization Corporation

UBT	Unincorporated Business Tax
UFA	Uniformed Firefighters Association
UFT	United Federation of Teachers
UIRs	Unexpected Investment Returns
U.S.	United States
USA	Uniformed Sanitationmen's Association