The Comptroller's Comments on the Fiscal Year 2005 Executive Budget

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

May 2004

Prepared by the New York City Office of the Comptroller, Bureau of Fiscal and Budget Studies
For more information, visit www.comptroller.nyc.gov or call (212) 669-2507.

WILLIAM C. THOMPSON, JR.
Comptroller

Deputy Comptroller / Chief of Staff
Gayle M. Horwitz

First Deputy Comptroller
Adam M. Blumenthal

Deputy Comptroller for Policy, Audit, Contracts and Accountancy
Greg Brooks

Deputy Comptroller for Budget
Andrew M. Joseph

Deputy Comptroller for External Relations
Eduardo Castell

Budget Chief
Eng-Kai Tan

Chief Economist
John Tepper Marlin

Project Coordinator
Manny Kwan

Bureau Chief
Tina Lubin

Assistant Director
Robert DeLaurentis

Staff
Kettly Bastien
Amitabha Basu
Millicent Budhai
Rosa Charles
Basil Duncan
Peter E. Flynn
Michele Griffin
Debbie Gutierrez
Michael Hecht
Farid Heydarpour
Dahong Huang
Hope Lendzian
Irina Livshits
Marcia Murphy
Andrew Rosenthal
Michael Zhang

TABLE OF CONTENTS

LISTS OF TABLES

LISTS OF CHARTS

I. Executive Summary

Two years ago, the City confronted a $6.7 billion budget deficit. Through a series of responsible actions, including tax increases, spending reductions, and borrowing and refinancing of debt, the City closed the Fiscal Year 2003 and FY 2004 budget gaps. The Mayor and the City Council deserve credit for adopting a wise course in addressing the City's fiscal challenges. The people of New York City, too, deserve credit for the sacrifices they made to help the city during the difficult times of the past few years.

Now, as the start of the new fiscal year approaches, the City appears on course to adopt a balanced FY 2005 budget. However, of concern is the fact that the City is allocating approximately $3 billion in non-recurring resources to balance the FY 2005 budget. These items include the use of a $1.3 billion rolled-over budget surplus from Fiscal Year 2004, the expected receipt of a lump sum payment of $690 million from the Port Authority of New York and New Jersey as a result of a new lease agreement for City airports, the reimbursement to the City of the $502 million it paid in FY 2004 for Municipal Assistance Corporation debt service, and the expected receipt of $150 million from the Battery Park City Authority for the sale of City-owned properties adjacent to the Battery Park City complex.

This reliance on non-recurring revenues to achieve fiscal balance in the near-term creates greater challenges for the City's fiscal condition in Fiscal Years 2006 and 2007. The City projects a budget deficit of $3.76 billion in FY 2006 and $4.2 billion in FY 2007. The out-year deficits have been exacerbated by the City's decision to use the $695 million Budget Stabilization Account – which had been earmarked to balance the FY 2006 budget – to close the FY 2005 gap.

In addition, the City's use of non-recurring revenues does not address the central budgetary challenge: the fact that year after year, the growth of the City's expenses outpaces the growth of its revenues. Until the causes of this structural imbalance are addressed, the City will continue to face budget deficits on an annual basis.

The reliance on non-recurring revenues also leaves the City little margin for error in the event of another economic downturn. The Comptroller's office's forecast for the New York City economy in calendar years 2004 and 2005 is for slow, continued growth. However, the City's fragile economic recovery is subject to substantial risks, including higher interest rates and the cloud of uncertainty created by the prolonged war in Iraq.

The budget contains cause for concern in other areas as well. While the Executive Budget has provided a subsidy increase and assumed the City will fund certain debt service costs totaling $200 million for the Health and Hospitals Corporation, HHC still faces projected operating deficits of $273 million in Fiscal Year 2005 and over $500 million in each of the out-years. These operating deficits are mainly a function of HHC's stagnant revenues and rising cost structure and warrant careful monitoring.

The Capital Commitment Plan for FY 2005 is substantially higher than the City announced it would be one year ago. This new spending plan leaves the City in a vulnerable position. Last year, the City projected a Capital Commitment Plan in FY 2005 of $5.69 billion. The City's Capital Commitment Plan for FY 2005 is now $9.4 billion, an increase of $3.7 billion in all funds, or 66 percent. By historical standards, this is an extraordinary increase. In the 12 months leading up to FY 2004, for example, the amount of planned capital commitments for that fiscal year decreased 11 percent. In addition, the current uncertain interest rate environment could affect the costs of issuing debt to fund these capital commitments.

The major assumption contained in the FY 2005 capital plan is the City's reliance upon the State of New York to come up with $1.3 billion in capital funds each year beginning in FY 2005 to match the City capital contribution to the Department of Education (DOE). It is unclear if the State of New York will have the resources to support this proposed level of capital support. The State budget process is not yet resolved and thus it is difficult to estimate what New York State's capital support for education projects will be for New York City.

The debt issued to support the City's Capital Commitment Plan will have a substantial impact on the operating budget in coming years. Debt service payments come directly out of the City's operating budget. In FY 2005 alone, the City will make $4.46 billion in debt service payments, consuming 16 percent of local tax revenues.

In charting a course for the future, the City must adopt a prudent approach to balancing the budget while preserving services and addressing the need for ongoing investment in New York City's infrastructure. This is a challenge that can be met only through a collaborative process, with the cooperation of all levels of government, and with a shared vision for the future of the City.

Table 1. FYs 2005-2008 Financial Plan

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	Changes FY 2005-FY 2008 Dollar	Changes FY 2005-FY 2008 Percent
Revenues						
Taxes						
General Property Tax	$11,987	$12,498	$13,091	$13,709	$1,722	14.4%
Other Taxes	$15,442	$15,699	$16,152	$16,983	$1,541	10.0%
Tax Audit Revenues	$508	$508	$509	$509	$1	0.2%
Tax Reduction Program	($250)	($259)	($263)	($267)	($17)	6.8%
Miscellaneous Revenues	$5,769	$4,279	$4,233	$4,265	($1,504)	(26.1%)
Unrestricted Intergovernmental Aid	$562	$562	$562	$562	$0	0.0%
Anticipated State & Federal Actions	$550	$550	$550	$550	$0	0.0%
Less: Intra-City Revenues	($1,133)	($1,132)	($1,132)	($1,131)	$2	(0.2%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$33,420	$32,690	$33,687	$35,165	$1,745	5.2%
Other Categorical Grants	$806	$830	$840	$839	$33	4.1%
Inter-Fund Revenues	$345	$332	$328	$328	($17)	(4.9%)
Total City & Inter-Fund Revenues	$34,571	$33,852	$34,855	$36,332	$1,761	5.1%
Federal Categorical Grants	$4,716	$4,644	$4,632	$4,622	($94)	(2.0%)
State Categorical Grants	$8,573	$8,548	$8,624	$8,694	$121	1.4%
Total Revenues	$47,860	$47,044	$48,111	$49,648	$1,788	3.7%
Expenditures						
Personal Service						
Salaries and Wages	$16,954	$17,176	$17,165	$17,067	$113	0.7%
Pensions	$3,376	$4,107	$4,515	$4,502	$1,126	33.4%
Fringe Benefits	$5,177	$5,475	$5,788	$6,162	$985	19.0%
Subtotal-PS	$25,507	$26,758	$27,468	$27,731	$2,224	8.7%
Other Than Personal Service (OTPS)						
Medical Assistance	$4,766	$4,997	$5,194	$5,401	$635	13.3%
Public Assistance	$2,295	$2,304	$2,305	$2,305	$10	0.4%
Pay-As-You-Go Capital	$200	$200	$200	$200	$0	0.0%
All Other	$12,856	$12,774	$12,954	$13,129	$273	2.1%
Subtotal-OTPS	$20,117	$20,275	$20,653	$21,035	$918	4.6%
Debt Service						
Principal	$1,602	$1,493	$1,615	$1,596	($6)	(0.4%)
Interest & Offsets	$1,813	$2,157	$2,398	$2,689	$876	48.3%
Total	$3,415	$3,650	$4,013	$4,285	$870	25.5%
Budget Stabilization	$0	$0	$0	$0	$0	
Prepayment	($1,306)	$0	$0	$0	$1,306	(100.0%)
NYCTFA						
Principal	$353	$348	$387	$411	$58	16.4%
Interest & Offsets	$607	$607	$589	$571	($36)	(5.9%)
Total	$960	$955	$976	$982	$22	2.3%
General Reserve	$300	$300	$300	$300	$0	0.0%
	$48,993	$51,938	$53,410	$54,333	$5,340	10.9%
Less: Intra-City Expenses	($1,133)	($1,132)	($1,132)	($1,131)	$2	(0.2%)
Total Expenditures	$47,860	$50,806	$52,278	$53,202	$5,342	11.2%
Gap To Be Closed	**$0**	**($3,762)**	**($4,167)**	**($3,554)**	**($3,554)**	

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

Table 2. Plan-to-Plan Changes, January Plan vs. April Plan FY 2005

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008
Revenues				
Taxes				
General Property Tax	$23	$62	$133	$199
Other Taxes	$712	$540	$439	$404
Tax Audit Revenues	$0	$0	$0	$0
Tax Reduction Program	($250)	($259)	($263)	($267)
Miscellaneous Revenues	$704	$38	$24	$15
Unrestricted Intergovernmental Aid	($23)	($23)	($23)	($23)
Anticipated State & Federal Actions	$550	$550	$550	$550
Less: Intra-City Revenues	($37)	($38)	($38)	($37)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$1,679	$870	$822	$841
Other Categorical Grants	$5	$2	($3)	($4)
Inter-Fund Revenues	$15	$12	$12	$12
Total City & Inter-Fund Revenues	$1,699	$884	$831	$849
Federal Categorical Grants	($373)	($397)	($397)	($397)
State Categorical Grants	($106)	($105)	($102)	($92)
Total Revenues	$1,220	$382	$332	$360
Expenditures				
Personal Service				
Salaries and Wages	$364	$526	$513	$406
Pensions	$211	$149	$180	$151
Fringe Benefits	$91	$97	$112	$228
Subtotal-PS	$666	$772	$805	$785
Other Than Personal Service (OTPS)				
Medical Assistance	$225	$250	$250	$250
Public Assistance	$48	$50	$50	$50
Pay-As-You-Go Capital	$0	$0	$0	$0
All Other	$797	$492	$475	$460
Subtotal-OTPS	$1,070	$792	$775	$760
Debt Service				
Principal	$91	($79)	($55)	($129)
Interest & Offsets	($146)	$10	$144	$302
Total	($55)	($69)	$89	$173
Budget Stabilization	($695)	$0	$0	$0
Prepayments	$84	$695	$0	$0
NYCTFA				
Principal	$7	($11)	$13	$14
Interest & Offsets	($20)	($15)	($20)	($21)
Total	($13)	($26)	($7)	($7)
General Reserve	$200	$0	$0	$0
	$1,257	$2,164	$1,662	$1,711
Less: Intra-City Expenses	($37)	($38)	($38)	($37)
Total Expenditures	$1,220	$2,126	$1,624	$1,674
Gap To Be Closed	**$0**	**($1,744)**	**($1,292)**	**($1,314)**

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

Table 3. FYs 2005-2008 Financial Plan Risks and Offsets

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008
City Stated Gap	**($0)**	**($3,762)**	**($4,167)**	**($3,554)**
Revenue Assumptions				
General Property Tax	$0	$0	$0	$50
Personal Income Tax	($64)	$46	$70	$46
Business Taxes	($42)	($137)	($20)	$16
Sales Tax	$10	($39)	($23)	$18
All Other Taxes	($27)	($13)	($14)	($15)
Expenditure Projections				
Overtime	($207)	($150)	($150)	($150)
State Actions	($200)	($200)	($200)	($200)
Reduction in Sabbatical	($34)	($34)	($34)	($34)
PA Grant Expenditure	($15)	($25)	($25)	($25)
Total Risk	**($579)**	**($552)**	**($396)**	**($294)**
Restated Gap	**($579)**	**($4,314)**	**($4,563)**	**($3,848)**

II. Balancing the FY 2005 Budget

The City's $47.9 billion FY 2005 Executive Budget has increased by nearly 1.3 percent compared to the revised FY 2004 budget of $47.3 billion.[1] However, after adjusting for categorical expenditures funded wholly by State and Federal funds, the City-funds budget is expected to increase by $1.5 billion from $33.1 billion in FY 2004 to $34.6 billion in FY 2005, an increase of slightly more than 4.5 percent.

A. THE USE OF NON-RECURRING RESOURCES

While the City has closed the FY 2005 gap of more than $2 billion projected in the June 2003 Financial Plan, it is doing so with almost $3 billion in non-recurring resources. These non-recurring resources mask the underlying imbalance between revenues and expenditures in FY 2005. As Table 4 shows, without the use of one-time resources the City would be confronted with a FY 2005 gap of more than $2.9 billion.

Table 4. The City is Relying On More Than $2.9 billion in Non-Recurring Resources to Balance FY 2005

($ in millions)

REVENUES	
Tax Revenues	$27,687
Non-Tax Revenues	5,402
Total Revenues	**$33,089**
EXPENDITURES	
PS	$18,191
OTPS	13,466
Debt Service[a]	4,354
Total Expenditures	**$36,011**
Gap	**($2,922)**
NON-RECURRING RESOURCES	
Reimbursement for FY 2004 MAC Debt Service	$502
Lump Sum Airport Back Rent and Underpayment	690
Battery Park City Asset Sale	150
Non-Recurring Gap-Closing Actions	134
Tobacco Settlement Residual Revenue	62
Other Asset Sale	78
Prepayment	1,306
Total Non-Recurring Resources	**$2,922**
Executive Budget Gap	**$0**

[a] Before pre-payment.
SOURCE: NYC Office of Management and Budget

[1] Includes PIT revenue retained for NYCTFA debt service and NYCTFA debt service expenditure.

Almost half of the non-recurring resources are due to the prepayment of $1.3 billion of FY 2005 debt service using the projected FY 2004 surplus. This prepayment inflates FY 2004 spending and artificially lowers FY 2005 expenditures by a similar amount. In addition, the City expects to receive a lump sum payment of $690 million from the Port Authority of New York and New Jersey for past underpayments as a result of a new lease agreement reached between the City and the Port Authority last October.

The City also expects to receive $502 million from the proceeds of an anticipated bond offering to fund the take-over of the City's Municipal Assistance Corporation (MAC) debt service. The City has included $502 million to fund MAC debt service in its revised FY 2004 budget and expects to be reimbursed for this amount in FY 2005 as discussed in "Resolving MAC" beginning on page 7.

Other non-recurring resources include the expected receipt of $150 million from the Battery Park City Authority (BPCA) for the sale of City-owned properties adjacent to the Battery Park City complex. The City also anticipates the release of $62 million in residual tobacco settlement revenues that were retained in a "trapping" account in FY 2004.[2] Sale of assets is expected to generate the remaining $78 million in one-time revenue.

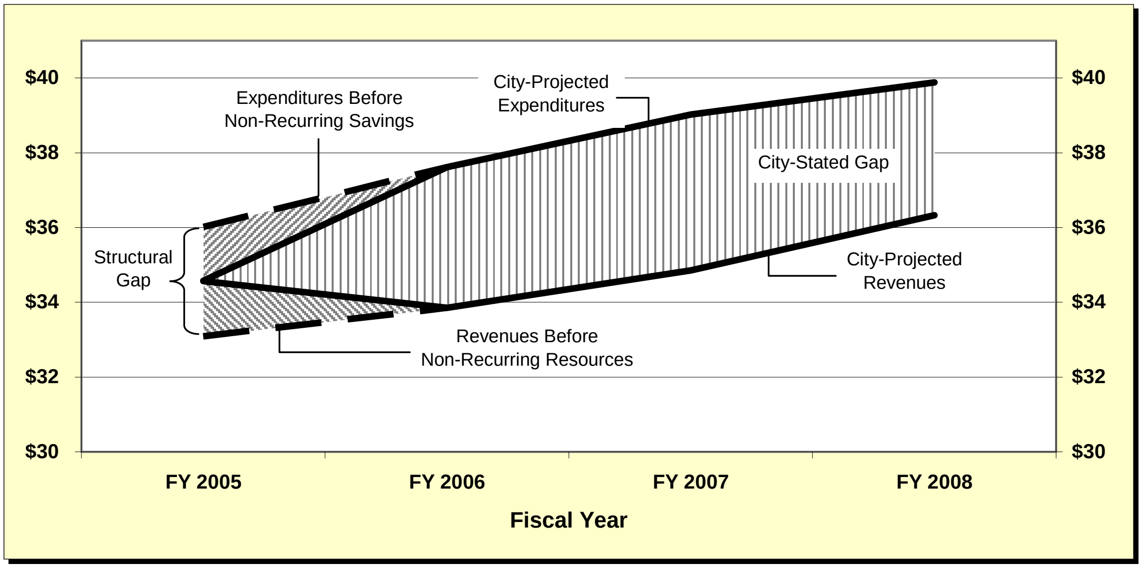
While there may be justification in using one-time non-recurring resources in times of fiscal stress as a bridge to fiscal stability, the over reliance on non-recurring resources to balance the budget when the fiscal outlook is improving is cause for concern. The use of non-recurring resources does not adequately address the structural budget gap between revenue and expenditure growth as shown in Chart 1 on page 6. The City needs to match one-time resources with non-recurring expenditures and develop solutions with recurring benefits to address the structural budget gaps. Any non-recurring resources not used to fund one-time expenditures should be set aside in a Budget Stabilization Account (BSA). Yet, despite more than $2.9 billion in non-recurring resources, the City has removed the $695 million FY 2005 BSA that was established in the Preliminary Budget. The FY 2005 Executive Budget contains no provision for a BSA.

---

[2] See "TSASC, Inc." beginning on page 38 for a discussion of the "trapping" event.

***Chart 1.* Projected City-Fund Revenues and Expenditures and the Structural Gap**

($ in billions)



B. AGENCY GAP-CLOSING PROGRAMS

In addition to using one-time resources to help balance the FY 2005 budget, the City has developed agency gap-closing programs totaling $324 million to provide budget relief. As Table 5 shows, $134 million, or 41 percent, of the $324 million agency gap-closing programs are non-recurring actions. The remaining programs yield recurring benefits averaging $193 million in the outyears of the plan.

The major gap-closing actions with recurring benefits include: revenue enhancements mainly from fee increases and new fees totaling $28 million, procurement savings of almost $36 million as a result of removing the other-than-personal-service (OTPS) inflator fund from agency budgets, and the increased use of State and Federal funding for pension costs in the Department of Education (DOE). In addition, despite a ruling by the New York State Public Employment Relations Board (PERB) that the City cannot deny sabbaticals to save money, the City continues to assume recurring savings of $34 million from these reductions.[3] Other initiatives that range in values from $10,000 to $10 million are spread across 91 programs in City agencies and account for the remaining recurring gap-closing initiatives.

---

[3] The United Federation of Teachers (UFT) had filed a grievance with PERB challenging the City's unilateral reduction in the number of sabbaticals. In a decision issued on April 14, the New York State Public Employment Relations Board ruled that the City cannot deny sabbaticals to save money.

Table 5. FY 2005 Gap-Closing Actions

($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008
Recurring Actions				
Revenue Enhancement	$27,973	$28,753	27,588	$27,328
Use of State and Federal Funding for Pension Costs	16,000	16,000	16,000	16,000
Reduction of Sabbatical Expenses	34,000	34,000	34,000	34,000
Procurement Savings	35,948	35,948	35,948	35,948
Other Recurring Actions	75,808	79,872	80,193	78,239
Total Recurring Actions	**$189,729**	**$194,573**	**$193,729**	**$191,515**
Non-Recurring Actions				
Greater than Planned Attrition Savings	$37,103	$0	$0	$0
Uniformed Agencies Civilian Headcount Reduction	14,143	0	0	0
Uniformed Agencies Overtime Reduction Initiative	41,000	0	0	0
Revenue Enhancement	808	0	0	0
Other Non-Recurring Actions	41,340	0	0	0
Total Non-Recurring Actions	**$134,394**	**$0**	**$0**	**$0**
Total	**$324,123**	**$194,573**	**$193,729**	**$191,515**

SOURCE: NYC Office of Management and Budget
NOTE: Gap-closing program includes initiatives from the April 2004 Executive Budget, the January 2004 Preliminary Budget and the November 2003 Financial Plan.

The largest non-recurring gap-closing initiatives focus on personal services (PS) expenditure reductions. The City anticipates spending reductions of $37 million as a result of attrition savings. Uniformed agencies reductions in civilian headcount and overtime spending of $14 million and $41 million, respectively, are also anticipated. The Police Department is expected to experience the biggest reduction in overtime spending with a reduction of almost $20 million. The Fire Department, Department of Corrections and the Department of Sanitation are expected to reduce overtime spending by $10 million, $5 million and $6 million, respectively. However, given the City's overtime spending trend, its ability to realize savings from these overtime initiatives is questionable as discussed in "Overtime" beginning on page 25.

C. RESOLVING MAC

The recent ruling by the New York State Court of Appeals upholding the legality of the State Legislature's MAC refunding legislation, will likely allow the City to proceed with the refunding of MAC debt. The refunding was stalled when the Local Government Assistance Corporation (LGAC), a majority of whose members are appointed by the Governor, filed a lawsuit in August 2003 challenging the constitutionality of the State Legislature's MAC refunding legislation.

The MAC refunding legislation passed by the State Legislature in June 2003 called for LGAC to provide $170 million annually to fund debt service incurred by the newly created Sales Tax Asset Receivable Corp. (STAR Corp). The STAR Corp. bond proceeds would be used to relieve the City of its obligation to retain sales tax to fund

MAC debt service. This measure would use the LGAC annual revenue appropriation to effectively extend $2.5 billion of MAC debt service for 30 years.[4]

As discussed in "Review of Risks and Offsets" below, the Court of Appeals ruling has removed much of the uncertainty surrounding MAC debt refunding. The City has included funding of $502 million for FY 2004 MAC debt service in its revised FY 2004 budget and expects to be reimbursed for this amount in FY 2005 from the proceeds of bonds issued to refund MAC debt.

D. REVIEW OF RISKS AND OFFSETS

Compared with the January Preliminary Budget, the Comptroller's Office has lowered the FY 2005 risk by $360 million. This reduction is due mainly to the lowering of the risk assessment on City expenditures partially offset by riskier revenue assumptions. In contrast to the January Preliminary Budget, when the Comptroller's tax revenue forecasts were higher than the City's, the Comptroller now expects tax revenues to be $123 million below the City's estimate. The Comptroller's forecast for economic growth and Wall Street profits are lower than the City's and as result the Comptroller's PIT and business tax forecasts are $64 million and $42 million lower, respectively. Sales tax revenues are projected to be $10 million higher while all other taxes are expected to be $27 million below the City's estimates.

Table 6. (Risks) and Offsets to the FY 2005 Executive Budget

($ in millions)

	Preliminary Budget	Executive Budget	Change
Revenue			
Personal Income Tax	$35	($64)	($99)
Business Tax	(7)	(42)	(35)
Sales Tax	56	10	(46)
All Other Taxes	29	(27)	(56)
Total Revenue	**$113**	**($123)**	**($236)**
Expenditure			
Overtime	($217)	($207)	$10
Private Bus Subsidy	(145)	0	145
State Actions	(200)	(200)	0
MAC Debt Service	(490)	(0)	490
Reduction of Teacher Sabbatical	0	(34)	(34)
Public Assistance	0	(15)	(15)
Total Expenditure	**($1,052)**	**($456)**	**$596**
Total Risk	**($939)**	**($579)**	**$360**

[4] The $2.5 billion in MAC debt service consists of $2.15 billion in principal and approximately $364 million in interest.

The Comptroller's risk assessment of the City's expenditure estimates has dropped by $605 million compared to the January Preliminary Budget. The decrease is due mainly to the elimination of MAC debt service risk of $490 million. As discussed in "Resolving MAC" beginning on page 7, the recent ruling by the New York State Court of Appeals upholding the State Legislature's MAC refinancing legislation has removed much of the uncertainty of the state take-over of MAC debt. In addition, the City has restored the subsidy to private buses to the MTA in the Executive Budget. As a result, the Comptroller has removed the risk associated with the savings from the elimination of this subsidy.

New risks identified in the Executive Budget include savings of $34 million from the reduction of teacher sabbaticals and the under-budgeting of Public Assistance (PA) expenditures by $15 million. Despite a recent ruling by the New York State Public Employment Relations Board that the City cannot unilaterally deny teacher sabbaticals to save money, the City continues to include sabbatical reductions in its gap-closing program. In addition, as discussed in "Public Assistance" beginning on page 32, if monthly grant expenditures continue their trend the City could face additional expenditures of $15 million in FY 2005.

III. The Economy

A. THE U.S. ECONOMY

The U.S. economy has grown steadily since the national recession ended in the fourth quarter of 2001. Real chain-weighted U.S. gross domestic product (GDP) grew 3.1 percent in 2003 after growing 2.2 percent in 2002. However, the job market has remained depressed. U.S. payroll jobs declined 0.3 percent in 2003, with 410,300 jobs lost. Also, the unemployment rate rose to six percent in 2003 from 5.8 percent in 2002, as the labor force participation rate fell to 66.2 percent in 2003 from 66.6 percent in 2002.

Gains in 2003 GDP have been attributed to strong productivity and consumer spending. Consumer spending rose 3.1 percent in 2003 after growing 3.4 percent in 2002. Consumer spending rose because of the federal income-tax rebates, mortgage refinancing, and the lower-interest-rate environment. However, the lack of job growth, combined with rising prices for energy and other consumer goods, has raised concerns that consumer demand could weaken in the second half of 2004 and slow the recovery.

In the first quarter of 2004, both GDP and payroll job numbers rose. GDP grew at an annualized rate of 4.2 percent. Payroll jobs rose by 359,700, the biggest gain since the second quarter of 2000. The unemployment rate fell to 5.6 percent, the lowest rate since the fourth quarter of 2001.

With jobs starting to recover and inflation rising, the Federal Open Market Committee (FOMC) is expected to increase the target overnight rate this summer, possibly as early as June. Long-term rates have already risen and are widely expected to rise further. The U.S. budget deficit is at a record level and is threatening the stability of national and global financial markets. A rise in interest rates could significantly reduce values in the asset markets− in stocks but especially in housing− and thereby seriously curb the willingness of debt-burdened consumers to keep up their pace of consumption.

Against this background, the economy is expected to do well in 2004, but may slow in 2005 and show signs of weakness as early as the second half of 2004. Economic growth is expected to weaken further in 2006 as the budget deficit; higher interest rates, higher oil prices, and continued slow job growth take their toll. U.S. economic growth is expected to rebound in 2007.

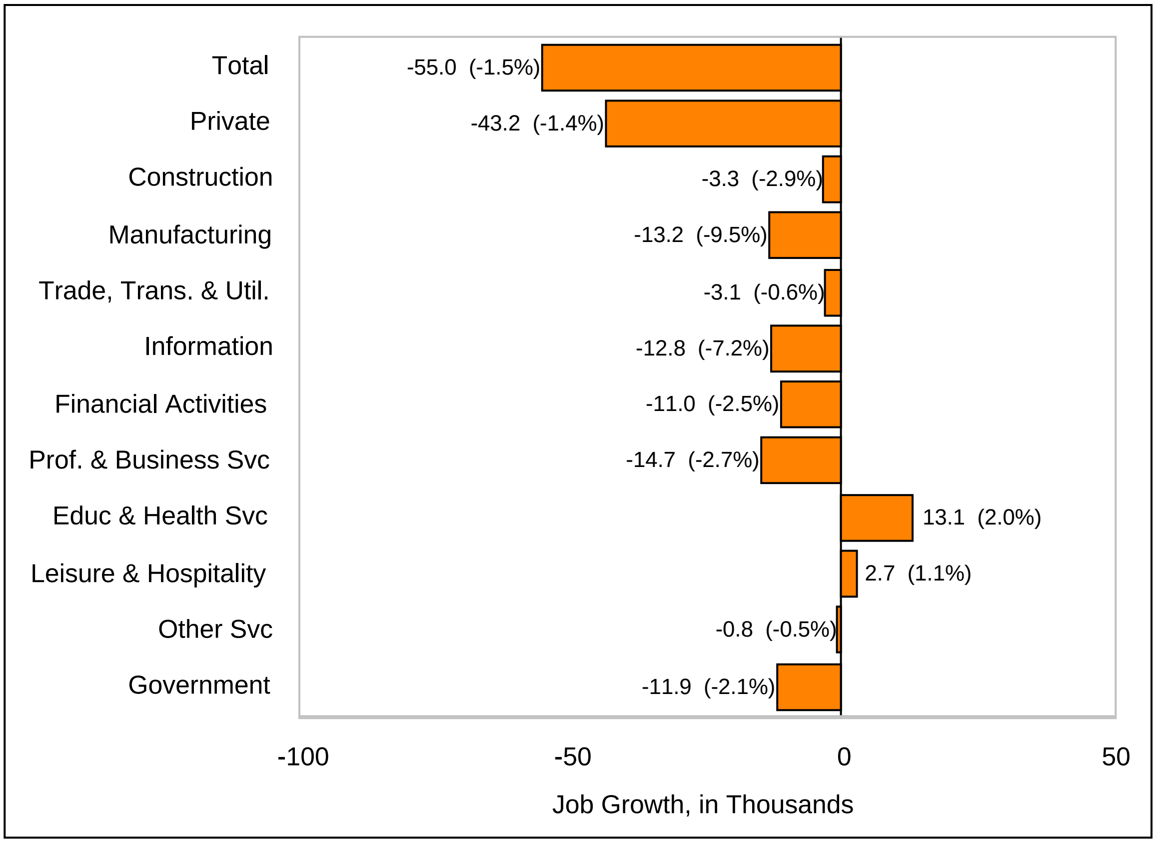
B. THE NEW YORK CITY ECONOMY

The City's economy continued its recession in 2003, but signs of recovery emerged in the fourth quarter. For the full year 2003, real chain-weighted Gross City Product (GCP) fell 2.2 percent, payroll jobs fell 1.3 percent (55,000 jobs), inflation averaged 3.1 percent, and the unemployment rate averaged 8.4 percent. Job losses in 2003 occurred virtually across the board, as shown in Chart 2.

However, the City's economy showed significant recovery in the fourth quarter of 2003. Real GCP grew at an annualized rate of 2.2 percent after 11 quarters of decline, payroll jobs were up by 4,300 (the second increase in three years), and the unemployment rate fell to 8.1 percent.

***Chart 2*. Year-over-Year Changes in Jobs by Industry Sector, 2003 and 2002**

(Jobs in Thousands)



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

Job gains were even greater in the first quarter of 2004. Total jobs were up by 21,400 as the private sector added 21,600 jobs and the public sector lost 200. The unemployment rate remained at 8.1 percent, unchanged from the fourth quarter of 2003. The number of the City residents with jobs increased by 8,100 in the first quarter, compared with the previous increase of 6,300 in the fourth quarter of 2003.

However, on a monthly basis, job gains lost momentum in the first quarter of 2004. After adjusting for the seasonal fluctuations, total jobs fell by 1,100 in March after growing by 3,200 in February and 20,400 in January of 2004. On the other hand, the unemployment rate declined to 7.9 percent in March from eight percent in February and 8.4 percent in January.

The City's recovery lagged the nation in part because of the continued effects of the 9/11 attacks. Factors contributing to the lag include the City's relatively high cost of living, higher taxes, and business concerns about centralization of data, management and other assets in a world vulnerable to terrorism.

C. FORECASTS OF THE U.S. AND NYC ECONOMIES

The Comptroller and the City are in agreement that the nation's GDP will do well in 2004, but then faces more modest growth as inflation takes hold and interest rates rise. The Comptroller, however, for the most part has a somewhat less optimistic view of the City's economic outlook than the City.

United States

The Comptroller projects that U.S. GDP will grow strongly in 2004, but then will begin to slow in 2005 and 2006 before it picks up again in 2007, as shown in Table 7.

Table 7. Projected U.S. Real GDP, Percent Change, Year-over-Year, Calendar Years 2004-2008

	2004	2005	2006	2007	2008
Comptroller	4.5	3.8	3.1	3.5	3.2
Mayor	4.8	3.8	3.6	3.7	2.6

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the NYC Office of Management and Budget for 2004-2008.

The reason for the GDP decline in 2005 and 2006 is an expected drop in consumer spending. Weak job and income growth, higher borrowing costs, and a rise in the cost of living will reduce disposable incomes and buying power. Although jobs are on the rebound, the gains have been modest. Also, incomes will be tighter as a result of weak wage increases and the end of the mortgage refinancing boom. Higher inflation, stemming from a rise in energy prices, will also constrain consumer spending.

The Comptroller projects that U.S. job growth will be slower in 2005-2008 than GDP, around 1.5 percent, as shown in Table 8.

Table 8. Projected Forecasts of U.S. Payroll Jobs, Percent Change, Year-over-Year, Calendar Years 2004-2008

	2004	2005	2006	2007	2008
Comptroller	0.9	1.5	1.7	1.8	1.7
Mayor	1.1	2.3	1.6	1.7	1.0

Source: Comptroller=Forecast by the NYC Comptroller's Office for 2004-2008. Mayor=Forecast by the NYC Office of Management and Budget for 2004-2008.

These forecasts reflect the fact that the U.S. economy is at a difficult juncture. The Federal Reserve has made it clear that the Federal Funds rate of one percent is at a low and the next move will be an increase. The question for the FOMC is when to raise the target interest rate. On the one hand, inflationary pressures are building and the labor market is recovering, signaling the need to raise rates as a pre-emptive strike against inflation. On the other hand, raising rates could disproportionately affect the asset markets, especially housing.

Housing prices have been growing at a much faster pace than jobs and income and thus have created fears that a “housing bubble” exists in parts of the United States. This concern is based on the fact that mortgage rates have been at historical lows. With reduced monthly mortgage payments, homebuyers have been able to afford houses that were previously out of reach. As a result, the average U.S. household debt is very high. Any rise in interest rates could significantly affect the ability of households to spend money. Higher rates are also worrisome for banks, many of which have been aggressive in taking on risk in consumer retail and mortgage financing.

Furthermore, the national debt is at a record high and it is expected to increase until 2009. Financing this debt could contribute both to higher inflation and long-term rates. This would “crowd out” companies competing to raise funds in the capital markets.

For these reasons, most of the gain in GDP is likely to come from private investment and government expenditures. The quality yield spread, the difference between the Baa corporate bond and 20-year Treasury, was 139 basis points in March 2004, which is the second lowest since July 1998 (137 basis points) after the 133 basis points spread in February. This low yield spread increases liquidity for corporations and serves as a stimulus for private investment. Also, government expenditures are expected to rise, driven by non-discretionary spending items such as pensions.

New York City – Comptroller’s Forecast for 2004 and 2008

The Comptroller’s forecast for the NYC economy in 2004 and 2005 is for slow, continued growth. However, this forecast is subject to major risks: (1) Higher interest rates, both short term and long term, because of higher inflation (especially energy costs) and continuing U.S. budget deficits, (2) the end of the two stimuli of tax cuts and mortgage refinancing, (3) continued labor-market drag as a result of outsourcing and high productivity, (4) the cloud of uncertainty created by the prolonged war in Iraq.

For the outyears, the City’s underlying problem is its competitiveness. As a high-cost place to do business, its economy depends on creating value. Wall Street has been the key for creating this value. However, its preeminence is being challenged by computerization, faster communications, and decentralization of markets. These trends may well have been accelerated by recent scandals in the financial markets and by the aftermath of 9/11.

The Comptroller projects that the City’s economy will recover in 2004, but that the path of recovery will be weaker than the nation’s, as shown in Table 9.

Table 9. NYC, Projected Real GCP and Payroll Jobs, Percent Change, Year-over-Year, Calendar Years 2004-2008

	2004	2005	2006	2007	2008
Real GCP, %	3.2	2.7	2.0	2.6	2.8
Payroll Jobs,'000	32.0	44.0	26.0	37.0	40.0

SOURCE: NYC Comptroller's Office.

The City's economy is expected to get a lift from the rebound in Wall Street activities as well as from the general national recovery. Wall Street profits soared to $16.7 billion in 2003 and the Comptroller is projecting they will be about $15 billion in 2004. Also, the weak dollar could provide a significant boost for the tourism industry. Overall, City leading economic indicators like the help-wanted advertising index, the number of building permits authorized, National Association of Purchasing Management-NY Index, and the NY business conditions index all show recovery.

New York City – Comments on the City's Forecast

The comparison between the Mayor's and the Comptroller's forecasts of real GCP is provided in Table 10. Except for 2006, the forecast trends are similar. The Mayor's forecast calls for a slower increase in GCP in 2005 and 2007, but a stronger growth in 2006, whereas the Comptroller's forecast sees GCP slowing down in 2005 and 2006. Both sets of estimates are well below national GDP forecasts. One reason for the City's weaker performance is that a strong area of national growth is military spending, little of which directly benefits the City.

Table 10. Projected NYC GCP, Percent Change, Year-over-Year, Calendar Years 2004-2008

	2004	2005	2006	2007	2008
Comptroller	3.2	2.7	2.0	2.6	2.8
Mayor	5.3	2.1	3.0	2.4	2.5

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the Mayor (NYC Office of Management and Budget) in the Executive Budget, 2004-2008.

The Comptroller's forecast for payroll job is for steady but slow growth except for a drop in the growth rate in 2006, while the City calls for a slower growth in jobs in 2006 and 2008, as shown in Table 11. The City's job projections for 2005 to 2008 amount to an average of only 3,200 jobs per month or an increase of about 1.2 percent per year. The Comptroller estimates growth of about 2,700 jobs per month, or 0.9 percent per year.

Table 11. Projected Payroll Jobs, Change in Thousands, Year-over-Year, Calendar Years 2004-2008

	2004	2005	2006	2007	2008
Comptroller	32.0	44.0	26.0	37.0	40.0
Mayor	33.8	45.3	37.9	49.1	40.5

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office, 2003-2007. Mayor=Forecast by the NYC Office of Management and Budget, 2004-2008.

IV. The Estimations

The FY 2005 Executive Budget reflects both an improving economic outlook for the City and spending pressure on the budget. Since the January Preliminary Budget, the City has increased its FY 2005 tax revenue estimates by $485 million as shown in Table 12. The increase reflects an improving economy and a resurgent Wall Street. Non-tax revenue increases of $1.2 billion bring total revenue increases to $1.7 billion. The bulk of the non-tax revenue increases results from an expectation of $502 million in reimbursement for FY 2004 MAC debt service, as discussed in "Resolving MAC" beginning on page 7, and $550 million in anticipated State and Federal Aid as discussed in "Intergovernmental Aid" beginning on page 23.[5]

Table 12. Changes to the City's Operating Projections Since the January Modification

($ in millions)

	FY 2005	FY 2006
Preliminary Budget Gap	**$0**	**(2,018)**
Revenue Changes		
Tax Revenue	$485	$342
Reimbursement for FY 2004 MAC Debt Service	502	0
Miscellaneous Revenue	185	14
Anticipated State and Federal Aid	550	550
IGA	(23)	(23)
Increase/(Decrease) in Revenue	**$1,699**	**$883**
Expenditure Changes		
Collective Bargaining Settlement	($652)	($580)
Federal and State Actions	(700)	(700)
Bus Subsidy to MTA	(159)	(157)
Medicaid	(225)	(250)
HHC	(200)	(150)
Agency Spending	(304)	(255)
Debt Service	87	127
Pension	43	33
(Increase)/Decrease in Expenditure	**($2,110)**	**($1,932)**
(Increase)/Decrease in Gap	**($411)**	**($1,049)**
Prepayment	($84)	($695)
Elimination of FY 2005 BSA	695	0
Restore General Reserve to $300 million	(200)	0
FY 2005 Executive Budget Gap	**$0**	**($3,762)**

[5] The $550 million increase in anticipated State and Federal Aid is presented in the Executive Budget along with a corresponding removal of $700 million in savings from Federal and State actions. These actions result in a net decrease of $150 million in Federal and State budget relief.

However, the projected revenue increases are more than offset by expenditure increases. As Table 12 shows, the City's expenditure estimates have risen by $2.1 billion mainly as a result of additional spending needs. The cost of wage increases for all City employees, patterned after the tentative DC 37 agreement, is expected to cost the City $652 million in FY 2005.[6] The City has removed its expected savings of $700 million in State and Federal actions and instead has recognized $550 million in additional revenues from anticipated State and Federal Aid. Other increases include $225 million in additional Medicaid spending, a $200 million increase in the subsidy to HHC, and the restoration of $159 million in the subsidy for private buses.

The revised spending plan for FY 2005 resulted in a gap of $411 million. As Table 12 shows, the City is using the BSA established in the Preliminary Budget to close the gap and fund an $84 million shortfall in prepayment. While the City had reduced the FY 2005 General Reserve to $100 million in the Preliminary Budget because of a substantial BSA of $695 million, in the Executive Budget, it has restored the General Reserve to $300 million with the remaining BSA fund. As a result, the City has completely depleted the FY 2005 BSA.

While the City has balanced the FY 2005 budget, the use of the BSA for this purpose has eroded the fiscal condition for FY 2006. As Table 12 shows, the deficit for FY 2006 has grown by $1.7 billion from $2.018 billion to $3.762 billion.

A. REVENUE OUTLOOK

Tax Revenue

Since the release of the FY 2005 Preliminary Budget in January, the City's tax revenue collections have been supported by improving national and local economic performance. As a result, the City has raised tax revenue projections for FY 2005 by $485 million, or 1.8 percent as illustrated in the figure to the right.[7] Gains in personal income tax (PIT) and business tax revenues account for almost two-thirds of the increase reflecting the City's expectation of continuing strength in Wall Street profits.

Changes to the City's FY 2005 Tax Revenue Forecast ($ millions)

	FY 2005
Property	$ 23
PIT	186
Business	121
Sales	74
All Other	81
Total	**$485**

The City has raised its property tax revenue projection by a modest $23 million. The higher property tax revenue projections are mainly due to expectations of lower delinquency and refund resulting in additional collections of $40 million and $38 million respectively.

[6] See "Labor" beginning on page 30 for a detailed discussion of the tentative DC 37 agreement.

[7] The definition of tax revenues used in this section includes NYCTFA set aside from PIT and net lien sales of property. It excludes STAR, audits and any tax program not yet approved.

Higher lien sales proceeds are expected to add another $42 million to collections while a lowering of the property tax levy is projected to offset these gains by $97 million.

Collections for real estate transaction taxes as of March are $154 million above the January Modification estimates. The strength of the collections supports the City's $96 million upward revision to the real estate transaction taxes revenue forecasts for FY 2005. This trend may continue for the remainder of the year as it is expected that there will be a flurry of activity in the real estate market as buyers rush to lock in deals since interest rates are anticipated to begin rising from the current historic lows.

Projections for the business taxes for FY 2005 have been raised by $121 million. Collections through March are $93 million above the January Modification estimates. Wall Street profits more than doubled from $6.9 billion in 2002 to $16.8 billion in calendar 2003, due to both higher revenues, and decreased costs, and are expected to stay strong in FY 2005.

The strength of Wall Street has also prompted the City to raise the PIT revenue forecast for FY 2005 by $186 million above the Preliminary Budget estimate. Collections through March are $168 million higher than projected in January. PIT collections are affected by rate increases enacted effective January 2003. After adjusting for these policy changes, PIT is expected to increase by 6.8 percent in FY 2005.

The sales tax revenue forecast for FY 2005 has been raised by $74 million compared to the Preliminary Budget. Collections through March are $20 million higher than projected in January. The re-imposition of the sales tax on purchases of clothing and footwear under $110 effective June 1, 2003 is scheduled to expire on May 31, 2004. Collections to date and the continued recovery of the City's economy support the sunset of this tax. Sales tax collections to date are above plan by $20 million and overall tax collections are above plan by $673 million. Economic recovery, though mild, is expected to continue.

Although the City's economy and tax revenues are recovering, as discussed in "The Economy" begining on page 10, the Comptroller believes that this recovery is still fragile. The pace of recovery for both the nation and the City are at risk from lingering and emerging issues such as the continued and heightened uncertainties surrounding the war in Iraq, higher interest rates and inflation. The City is especially vulnerable as private investment, which is expected to be one of the main drivers in the recovery of GDP, faces competitive challenges from computerization and decentralization of markets. The growth of businesses in the City, especially on Wall Street, faces greater exposure from these challenges. As a result, the sound growth of jobs and tax receipts are also at risk. Hence, though tax receipts are expected to continue to

FY 2005 Tax Revenue Risks and Offsets
($ in millions)

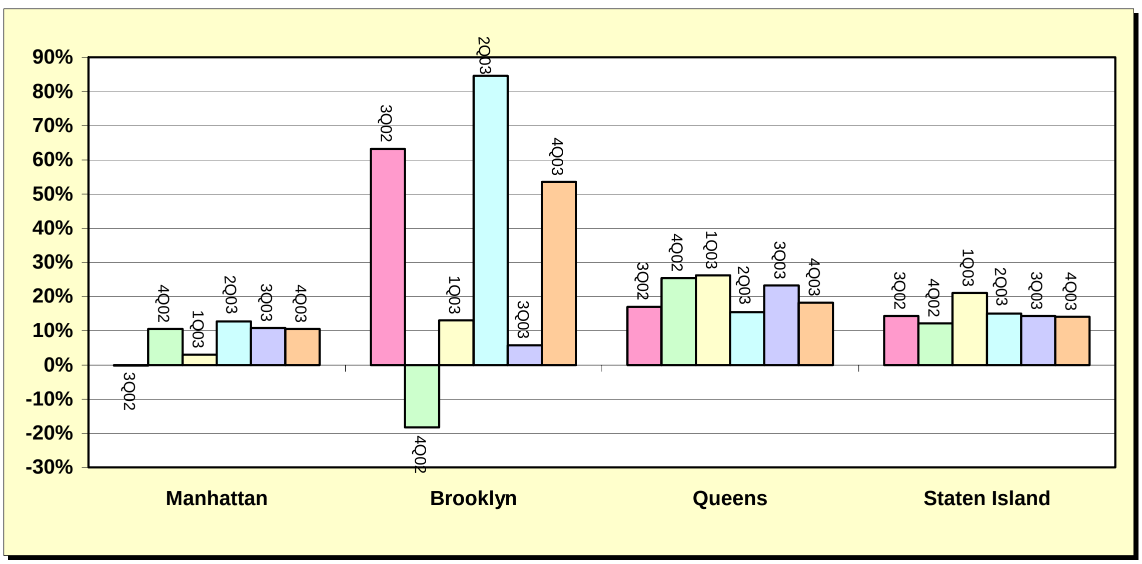
	FY 2005
PIT	($63.9)
Business	(41.6)
Sales	10.4
All Other	(27.3)
Total	**($122.3)**

recover, the pace of recovery that is observed in FY 2004 collections is unlikely to continue. The Comptroller does not expect recovery at the same pace as projected by the City and is therefore projecting risks and offsets as illustrated in the figure above.

Residential Real Estate

The residential real estate market continues to defy expectations as real estate prices continue to rise. Using the market for existing single-family homes as an index of the state of the residential market, it is evident that the residential real estate market remains robust. As shown in Chart 3, on a year-over-year basis, the median price of existing single-family homes has experienced mainly double-digit growth in recent years, with no indication of a slowdown. Even though growth remains strong, there is no sign that the market is accelerating. While the trend is generally up, market behavior varies considerably among the different boroughs. Brooklyn exhibited the most volatility while the other boroughs showed more stable growth.

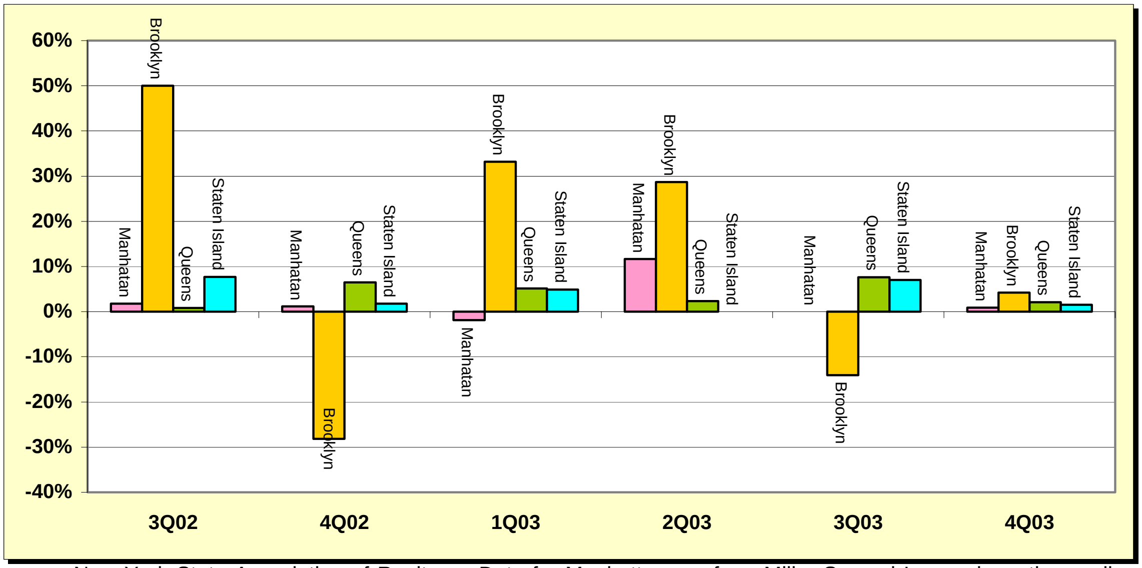
Chart 3. **Year-over-Year Percent Change in the Median Price of Existing Single-Family Homes, NYC**



SOURCE: New York State Association of Realtors. Data for Manhattan are from Miller Samuel Inc. and are the median prices for coops and condos.

On a quarter-over-quarter basis, the variability in the median price of existing single-family homes is waning as shown in Chart 4, indicating that growth may be stabilizing and not accelerating. This could be a signal that the market is running out of steam.

***Chart 4.* Quarter-over-Quarter Percent Change in the Median Price of Existing Single-Family Homes, NYC**

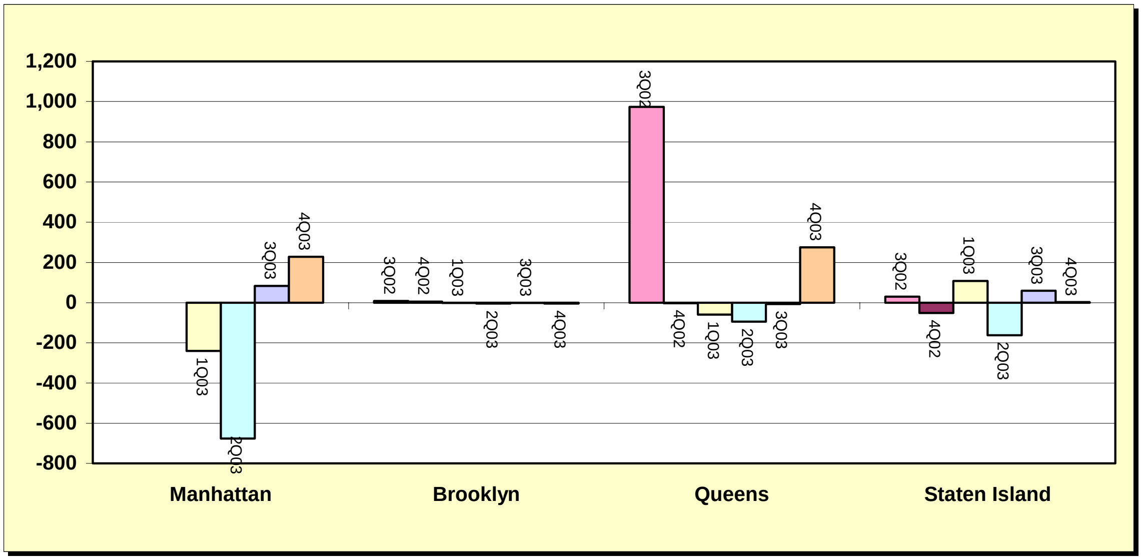


SOURCE: New York State Association of Realtors. Data for Manhattan are from Miller Samuel Inc. and are the median prices for coops and condos.

The tight housing market, that is, the strength of demand relative to supply, is reflected in the number of sales. Despite historically high prices, not much additional supply is entering the market. In fact, some quarters have actually experienced a drop in the number of sales as shown in Chart 5. The lack of sales is more likely due to low inventory than weak demand as prices continue to rise. The weak inventory and strong demand partly help to explain the double-digit price appreciation.

Two indices of changes to the City's housing stock, the number of permits issued and new dwelling units completed, support the view that the City's housing stock is not increasing fast enough to meet the demand. As Chart 6 shows, since 2000, while the number of permits issued and new dwelling units completed have increased annually there is no dramatic change in pattern to suggest major changes to the housing stock.

***Chart 5.* Year-over-Year Change in the Number of Existing Single-Family Homes Sold, NYC**

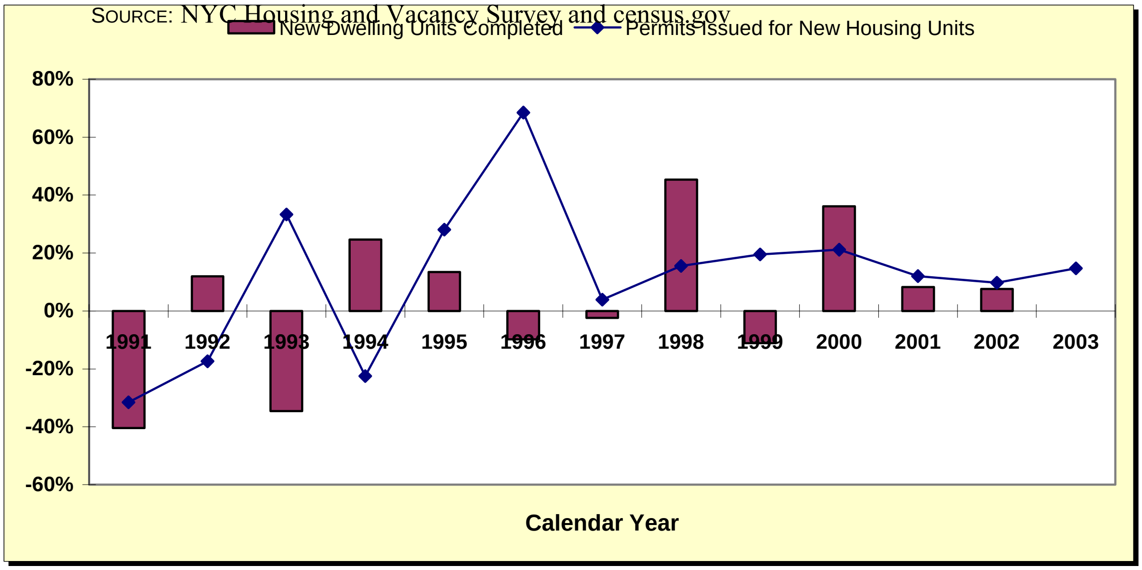


SOURCE: New York State Association of Realtors. Data for Manhattan are from Miller Samuel Inc. and are the number of sales for coops and condos

Data from the Department of Finance suggest no major change in the number of residential units for FY 2005. The recently released tentative assessment roll for FY 2005 has the number of residential units increasing by 17,440 units or 0.66 percent. This is consistent with past trends. The Department of City Planning estimates that NYC housing stock increased by seven percent between 1990 and 2000, which is an average of 0.7 percent per year.[8]

[8] Department of City Planning, "2002 Annual Report on Social Indicators."

***Chart 6.* Percent Change in Permits Issued for New Housing and New Dwelling Units Completed, NYC**



SOURCE: NYC Housing and Vacancy Survey and census.gov

Miscellaneous Revenue

FY 2005 Miscellaneous Revenue ($ in millions)			
	Preliminary	**Executive**	**Diff.**
Miscellaneous	$580	$1,218	$638
Licenses, Franchises, Etc.	$359	$359	$0
Interest Income	$35	$35	$0
Charges for Services	$523	$523	$0
Water and Sewer Charges	$907	$931	$24
Rental Income	$861	$861	$0
Fines and Forfeitures	$704	$709	$5
Total	**$3,969**	**$4,636**	**$667**

Non-tax locally raised receipts are referred to as miscellaneous revenues. These receipts include a variety of fees charged for licenses, franchises and permits, charges for municipal services, fines, rental income, interest income, water and sewer revenues and asset sales. The FY 2005 Executive Budget anticipates collections of $4.6 billion in non-tax revenues. This represents a net increase of 17 percent or $667 million from the amount forecasted in the Preliminary Budget exclusive of private grants and intra-City revenues. As the figure above shows, almost all of the increase is attributable to the miscellaneous revenue category which represents 26 percent of the projected collections and includes sale of City property, mortgages, tobacco settlement proceeds, sale of taxi medallions and E-911 surcharges. Most of the $638 million increase in this category reflects non-recurring revenue. Approximately $502 million stems from an expected reimbursement for MAC debt service payment as discussed in "Resolving MAC" beginning on page 7. In addition, the City expects to realize another $75 million from the sale of HPD mortgages. Proceeds from tobacco revenues are also expected to increase by about $62 million mostly because the City expects tobacco residual revenues retained in FY 2004 in a "trapping account" to be released in FY 2005.[9]

The City still anticipates the receipt of another one-time gain reflected in the FY 2005 miscellaneous budget of $150 million from the BPCA for the sale of City-owned properties adjacent to the complex. In addition to the non-recurring resources included in the miscellaneous category, the FY 2005 Executive Budget includes other major one-time revenues such as lump sum payments that the City expects to receive from the Port Authority for past underpayments and retroactive rents of the JFK and LaGuardia airports constituting the bulk of the rental income expected for the year.

Water and sewer charges have also increased by $24 million compared to the FY 2005 Preliminary Budget. The City expects to collect $810 million for services rendered in the delivery of water and treatment and disposal of waste water, and another $121 million for the rental of the water supply and sewer system plant to the New York City Water Board.

The forecast for fines and forfeitures is $709 million, $5 million more than previously anticipated. Of this total, the City expects to collect $584 million in parking fines in FY 2005.

Intergovernmental Aid

The City projects baseline Federal and State grants of $13.3 billion in the FY 2005 Executive Budget. This total is comprised of $8.6 billion in State categorical grants and $4.7 billion in Federal categorical grants. The funding is expected to provide support for about $7.6 billion in education spending and $3.9 billion in social services expenditures. Other areas that also receive significant Federal and State support include health and mental hygiene ($470 million), community development ($257 million), and the City University of New York ($167 million). Beyond FY 2005, the City projects Federal and State categorical grants to hold steady in the outyears at between $13.2 billion and $13.3 billion each year.

The FY 2005 Executive Budget also contains a less ambitious target for anticipated fiscal relief from Federal actions. Compared with the January Modification, the City has scaled back its expectation of additional Federal support by $150 million mainly because it now appears less likely that an extension of the Federal Medical Assistance Percentage (FMAP) increase will occur. The current temporary FMAP increase (from 50 to 53 percent) that is set to expire on June 30, 2004 has reduced the City's Medicaid spending by $232 million in FY 2004. The President's budget for FYs 2004-2005, however, fails to include a proposal to extend this measure. As a result, the City has lowered anticipated Federal aid from $300 million to $150 million in the FY 2005 Executive Budget, while holding its assumption of additional State support at the same $400 million.

---

[9] For a discussion on the "trapping event", see "TSASC, Inc." beginning on page 38.

The combined total of $550 million in gap-closing actions, previously subsumed in the City's baseline grant projections, are expected to be realized from the City's Federal and State Agenda. The Federal and State Agenda is a comprehensive menu of proposed actions which currently includes $2.2 billion in possible actions that the Federal and State governments could take to provide fiscal relief to the City. Proposed Federal actions include the full appropriation of Title I funds at the authorized level and a more equitable threat-based distribution of Homeland Security funds. The City estimates that these two initiatives could each provide $400 million in additional Federal funds to its budget. Other proposed Federal actions include funding to cover the costs of incarcerating illegal aliens ($87 million), closing tax loopholes for tobacco sales on the internet ($75 million), and authorizing the collection of real estate tax on properties under non-diplomatic use ($50 million). Under the proposed State actions, the City expects $659 million from Medicaid reform that includes the takeover of Family Health Plus ($342 million), the takeover of long-term care ($117 million), and other cost containment initiatives ($200 million). The City also seeks $224 million in various mandate relief savings and up to $211 million from reversing mandated costs that have been shifted from the State in recent years.

While in the recent past the City has achieved certain degree of success in attaining additional assistance from these sources, it is difficult to gauge the level and the specific actions that will materialize to meet the targets in the FY 2005 Executive Budget. Further, the City estimated that the Governor's proposed budget would provide only about half of the expected benefit to the City, falling short of its requested assistance from State actions by about $200 million. Due to the lack of an adopted budget, the State has been passing weekly emergency appropriation bills to continue spending at the State FY 2004 levels. Among the major issues that are being debated in State budget negotiations is setting an appropriate level of education aid by the State, with respect to the Campaign for Fiscal Equity (CFE) court decision. As stipulated by the Campaign for Fiscal Equity *vs. State of New York* ruling, the Governor is required to present and implement a plan by July 31, 2004, to correct the State's inequitable education funding formulas that put school districts such as New York City at a distinct disadvantage.[10]

B. EXPENDITURE ANALYSIS

Headcount

The FY 2005 Executive Budget projects the City will end FY 2005 with 224,331 City-funded employees on June 30, 2005, an increase of 4,082 employees compared with headcount level for June 30, 2004. The expected growth in headcount is due to increases of 4,372 civilian and 123 uniformed employees. A projected decline of 375 in DOE's pedagogical staff partially offsets the increase in civilian and uniformed employees. The increase in civilian headcount results from the reclassification of 2,800 full-time

[10] See "Department of Education" beginning on page 33 for a more detailed discussion on education funding issues.

equivalents (FTEs) employees as full-time workers, and 1,572 additional City workers, of whom about 1,000 are being hired by the City to perform duties that are currently provided by vendor contracts. The overall increase in headcount level is shown in Table 13. The FTEs being reclassified work in the Departments of Social Services, Homeless Services, and Children Services. The Departments of Social Services and Homeless Services are not expected to have any FTEs by June 30, 2005.

Table 13. City-Funded Full-Time Headcount

	Uniform	Civilian	Pedagogical [a]	Total Full-Time
6/30/04 Estimates	62,175	65,206	92,868	220,249
6/30/05 Estimates	62,298	69,578	92,455	224,331
6/30/06 Estimates	62,298	70,199	92,510	225,007
6/30/07 Estimates	62,284	70,194	92,493	224,971
6/30/08 Estimates	62,284	70,209	92,493	224,986

[a] Includes pedagogical in both DOE and CUNY

Of the remaining civilians to be hired, more than half will be employees at the Department of Housing Preservation and Development (HPD). In FY 2005, the City expects to hire 300 new housing inspectors and construction managers at an annual cost of $14 million. This hiring is in response to the demands of Local Law 1 of 2004 (lead paint abatement). HPD will also expand housing programs as part of the City's $3 billion New Housing Marketplace initiative.

Recent hiring trends of only replacing critical workers are expected in FY 2005 and beyond. As shown in Table 13, the City-funded work force is expected to remain relatively flat between FY 2005 and FY 2008, increasing by 655 employees to 224,986 in FY 2008. Most of the increase in workforce is expected to result from a net increase of 631 civilian employees. Uniform headcount, on the other hand, is expected to decline slightly to 62,284 in FY 2008 from 62,298 in FY 2005. The City headcount plan for pedagogical employees is 92,493 in FY 2008, an increase from 92,455 in FY 2005.

The Police Department has been experiencing difficulty in attracting new officers for several years. To maintain Federal funding, police officers headcount has to reach a peak of 36,988 twice a year. This will be achieved with the swearing-in of attrition replacement recruits on July 1st 2004 and January 1st of FY 2005.

Overtime

The Executive Budget includes approximately $551 million for overtime expenditures in FY 2005. This estimate is significantly below the Comptroller's projection and continues a pattern of the City under-budgeting for overtime spending in the Executive Budget. The City typically compensates by increasing funding over the course of the ensuing fiscal year. The Comptroller's analysis indicates that FY 2005 overtime spending has been under-budgeted by at least $207 million. Overtime spending for uniformed police accounts for approximately $160 million or 77 percent of the overtime risk to the budget as shown in Table 14.

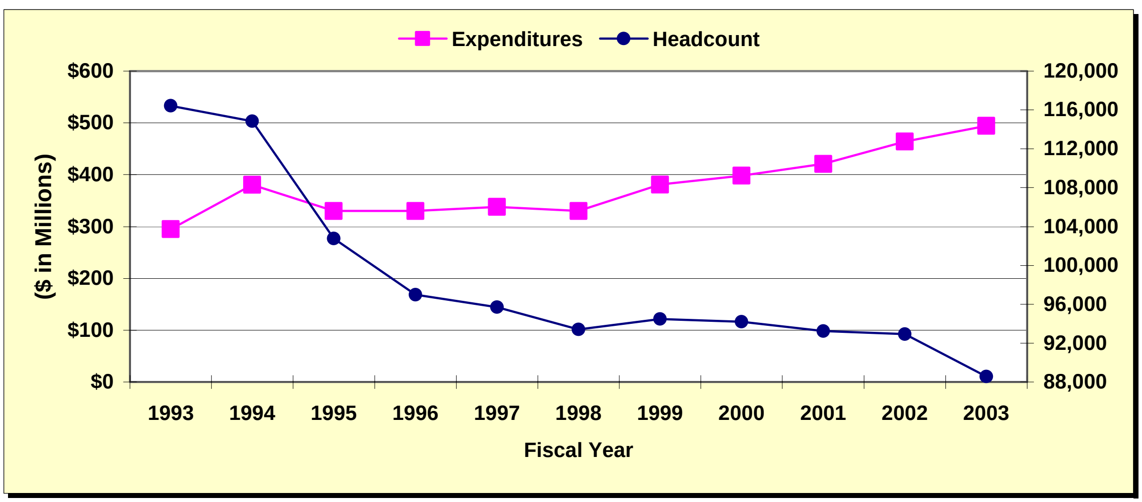
Table 14. Projected Overtime Spending, FY 2005

($ in millions)

	Comptroller's Projection Overtime FY 2005	City Planned Overtime FY 2005	FY 2005 Risk
Uniform			
Police	$356	$196	($160)
Fire	90	81	(9)
Corrections	55	43	(12)
Sanitation	70	64	(6)
Total Uniformed	$571	$384	($187)
Others			
Police Civilian	$34	$14	$(20)
Admin. for Child Svcs.	17	17	0
Environmental Protection	20	20	0
Transportation	28	28	0
All Other Agencies	88	88	0
Total Civilians	187	167	(20)
Total City	**$758**	**$551**	**$(207)**

Overall, the City's annual overtime spending, excluding WTC-related overtime, more than doubled from $405 million in FY 1993 to $827 million in FY 2003. Chart 7 shows that since FY 1995 agency overtime spending, other than uniformed police overtime spending, has climbed steadily during periods of decreasing headcount. While part of the overtime increase can be attributed to salary increases, the Chart shows that overtime spending generally rose in response to reduced staffing levels.

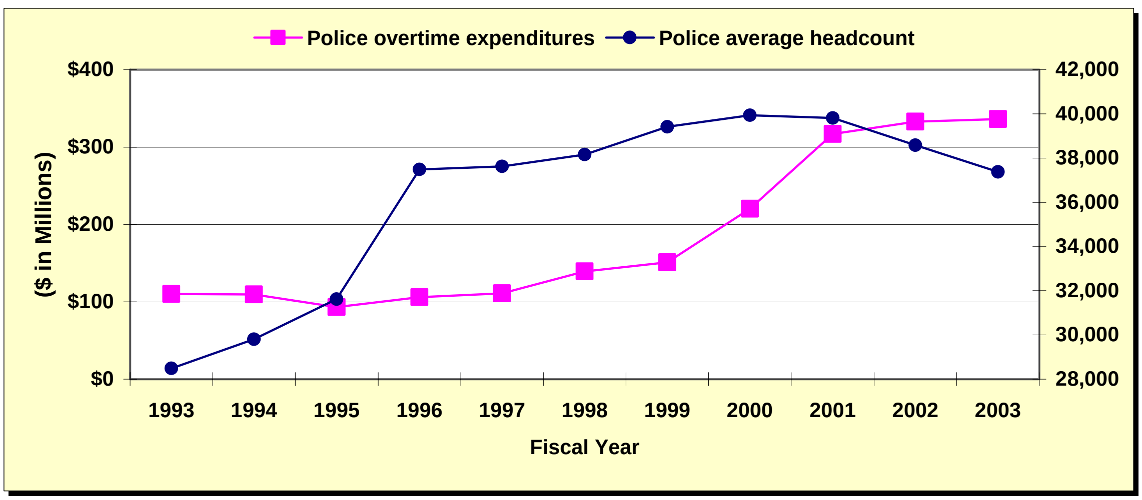
Chart 7. Annual Overtime Expenditures and Annual Average City-Funded Headcount



Note: Overtime expenditure excludes WTC related and uniformed police overtime. Headcount excludes uniformed police officers and pedagogical staff.

On the other hand, uniformed police overtime spending, which currently accounts for about 42 percent of total overtime spending, has increased every year since FY 1995 even as uniformed police headcount was growing, as shown in Chart 8. Uniformed police overtime costs grew at an annual rate of more than 17 percent, from $93 million in FY 1995 to $336 million in FY 2003. Uniformed police overtime is expected to cost about $375 million in FY 2004, including $18 million from the August 14-15, 2003 blackout in New York City. However, the City has budgeted only $196 million in FY 2005 for uniformed police overtime spending. This is 48 percent lower than the expected spending for FY 2004, despite the expectation that the Republican National Convention will result in additional police overtime.[11] The Comptroller estimates that the City has under-budgeted police overtime spending by at least $160 million for FY 2005.

Chart 8. Uniformed Police Overtime Expenditures vs. Average Police City-Funded Headcount, FYs 1993-2003



Given the growth in overtime spending, the City needs to more effectively manage overtime. In managing headcount, the City must consider its impact on overtime spending. Uniformed police overtime presents different challenges to the City as overtime spending is apparently not mitigated by headcount increases. The City has included uniformed police overtime reduction initiatives in its FY 2005 gap-closing programs. However, unless the City has a specific route to the savings and an explicit method for monitoring and measuring these savings, the success of these initiatives remains questionable.

[11] Overall, the City anticipates spending $53 million for security. In FY 2004, $21 million was budgeted, of which $3 million was allocated for overtime costs. In FY 2005, $32 million is budgeted, of which $30 million will be spent for overtime.

Pensions

The Executive Budget projections of the City's contributions to the five actuarial pension systems of $3.28 billion in FY 2005, $4.01 billion in FY 2006, $4.41 billion in FY 2007 and $4.40 billion in FY 2008 reflect increases of $205 million, $151 million, $183 million and $157 million, respectively, from the January Modification. Most of the increases reflect pension costs associated with assumed across-the-board pay raises for all covered employees patterned after the tentative contract between the City and DC 37.[12]

While the contribution for FY 2004 is expected to be final, the projections for FY 2005 through FY 2008 may change significantly. The Chief Actuary of the retirement systems is considering several changes to the actuarial methods and assumptions used in the computation of the City's pension contributions.[13] He has informed the Boards of Trustees that any changes will affect pension contributions beginning in FY 2005.

FY 2004 pension investment returns through April 30, 2004 for the five systems averaged about 13.7 percent. Investment returns generally impact future City contributions. The Executive Budget projections assume that investment returns will equal 8.0 percent in each fiscal year from FY 2004 and beyond. Future pension contributions decrease or increase to the extent that investment returns are higher or lower than 8.0 percent in any fiscal year. However, until the Chief Actuary finalized his recommendations, it is uncertain at this point how the FY 2004 pension investment return will affect FY 2005 pension contributions.

Health Insurance

The FY 2005 Executive Budget projects that the City's health insurance expenditures for employees and retirees, including those for the Department of Education and the City's portion of the City University of New York (CUNY), to grow at an annual average rate of 10.4 percent.[14] The City has increased its FY 2005 health insurance cost estimate by $30.4 million as shown in Table 15.

---

[12] The Executive Budget pension cost projections include provision only for pension cost increases due only to the $1,000 payment and the three percent increase effective July 1, 2003. The City assumes that the entire cost of the July 1, 2004 three percent raise, including the consequent additional pension expenditures, will be funded from productivity and operational savings. See "Labor" beginning on page 30 for a detailed discussion of the DC 37 agreement.

[13] The Chief Actuary will be considering, among other things, the recommendations of the Gabriel, Roeder, Smith and Company (GRS) Experience Study Report. The Chief Actuary has complete discretion in deciding the extent to which he will adopt or modify the GRS recommendation. The GRS Experience Study is discussed in greater detail "Pensions" beginning on page 11 in the "The State of the City's Economy and Finances, 2003" report, issued on December 15, 2003. The report is available on the Comptroller's website at www.comptroller.nyc.gov

[14] The growth rate of total expenses is higher than the growth rate of rate increases because of the increase in the number of retirees.

Table 15 The City's Health Insurance Expenditures (including DOE and CUNY)

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
FY 2005 Executive Budget	$2,383.5	$2,690.8	$2,949.9	$3,220.0	$3,543.8
FY 2005 Preliminary Budget	$2,374.3	$2,660.4	$2,915.4	$3,172.4	$3,382.8
Increase/(Decrease)	$9.2	$30.4	$34.5	$47.6	$161.0

The higher projections in the Executive Budget are due mainly to a revision in the health insurance funding for school safety agents in DOE offset in part by a $4 million annual decrease in the Health Insurance Premium (HIP) Medicare Risk Plan.[15] The projections assume a 10.43 percent rate increase in FY 2005 for non-Medicare eligible employees and retirees and annual rate increases of eight percent thereafter. These projections do not take into account the impact of recent Federal Medicare actions which could result in lower health insurance rate for active and retired City employees who are eligible for Medicare coverage. The City is currently negotiating the health insurance rate for this group with its providers.

In December, the City reached an agreement with the municipal unions that includes the following:

(a) *Additional $100 contribution per member to the Union welfare funds.* The City agreed to increase its annual contribution to the union welfare funds by $100 per member resulting in an annual cost of $55 million to the City. These funds provide benefits such as prescription drugs, dental and optical coverage, and legal services.

(b) *Continuation of the PICA Program Services.* Prior to this agreement, the PICA (psychotropic, injectable, chemotherapy and asthma) program, which cost about $140 million in FY 2003, was in danger of being discontinued as the Healthcare Stabilization Fund, from which it has thus far been financed, lacked sufficient funds. Under this settlement, chemotherapy and asthma will be funded under the Group Health Incorporated (GHI) program while the psychotropic and injectable portion will remain funded out of the Healthcare Stabilization Fund. Employees will not see any difference from before as member services remain unchanged.

[15] The City contends that health insurance for school safety agents formerly funded through the Police Department by a lump-sum amount, was underfunded. This has now been corrected by applying premium rates to appropriate headcounts.

(c) *A new $35 annual administrative fee per member.* The City receives a new $35 administrative fee from each member annually. This administrative fee will be paid on behalf of each member from the union welfare fund representing that employee.

(d) *Increase in co-payments and deductibles.* Co-payments will increase for the PICA program and – for those covered under the GHI health program – for doctors' office visits, diagnostic services, non-mandated in-vitro fertilization services, hospital stays and emergency room visits.[16]

The new fees and co-payments became effective from April 1, 2004. While the new administrative fees and increased co-payments and deductibles will save the City about $100 million per year, most of that will be offset by additional welfare funds contributions to the union, and the cost to continue the PICA services. [17]

Labor

In April 2004, the City and DC 37 reached a tentative agreement on a three-year labor contract covering the 36 month period between July 1, 2002 and June 30, 2005. The major provisions of the three-year contract include:

- A pensionable one-time $1,000 lump sum cash payment effective upon ratification of the contract.
- A three percent wage increase on of the first day of the 13th month of the contract.
- A two percent wage increase on the first day of the 25th month of the contract to be funded with productivity savings
- An additional one percent to be paid over the third year of the contract upon achieving targeted productivity savings to be determined by a Joint Labor Management Committee.

The City has provided funding in the FY 2005 Executive Budget for wage increases for all City employees patterned after the DC 37 agreement. Because the tentative contract calls for the two percent increase to be funded through productivity savings the City has provided funding for only the $1,000 lump sum payment and the three percent wage increase. The estimated costs to the City, including the impact on

[16] Approximately 60 percent of the City's employees and retirees elect to be covered under the GHI health program.

[17] The $100 million figure was estimated by the City and its municipal unions.

pension contributions, are $548 million in FY 2004, $742 million in FY 2005, $670 million in FY 2006, and $664 million in each of FYs 2007 and 2008.[18]

Most of the productivity initiatives outlined in the agreement take the form of reduced benefits for employees hired after June 30, 2004. The wage rate for new employees will be 15 percent lower than the incumbent rate during the first two years of service after which they will earn the incumbent rate. Currently, new employees earn approximately seven percent less than the incumbent rate in their first year of service. In addition, employees hired after June 30, 2004, will accrue vacation days according to a reduced accrual schedule as shown in the figure to the right. New employees will also receive reduced sick leave benefits. For the first five years, new employees will accrue sick leave at a rate 10 days per year compared with the current rate of 12 days per year. In addition, new employees will cash out their sick leave at the rate of one day of leave for every three days of sick leave when they leave the City payroll after 10 years of service. Current employees cash out at one day of sick leave for every two days. Finally new employees will not be eligible for the floating holiday that current employees receive.

Revised Leave Accrual

Years of Service	Projected Accrual	Current Accrual
1 – 4	15	15
Starting 5th Yr	16	20
Starting 6th Yr	17	20
Starting 7th Yr	18	20
Starting 8th Yr	19	25
Starting 9th Yr	20	25
Starting 10th Yr	21	25
Starting 11th Yr	22	25
Starting 12th Yr	23	25
Starting 13th Yr	24	25
Starting 14th Yr	25	25
15 – 16	25	27
17+	27	27

SOURCE: Proposed DC 37 Economic Agreement

Because these productivity gains center on new employees the actual benefits are uncertain as they would depend on, among other things, the number of new hires that are needed to meet staffing plans. Also, certain benefits like the cashing out of sick leave will not be realized immediately. Thus, while the City has adequately funded the $1,000 lump sum payment and the three percent wage increase, it must exercise diligence in ensuring that real productivity savings are achieved to fund subsequent raises. A two percent increase on the first day of the 25th month of the contract together with a one percent increase on the last day of the contract will cost approximately $156 million in FY 2005 and reach $668 million by FY 2008. Hence, the City faces substantial exposure to additional labor costs should the productivity funding not materialize.

It may also be unrealistic for the City to assume that the DC 37 agreement can be applied to all City employees. In the past, uniformed employees and teachers contracts have typically provided higher wage increases than the civilian contracts. This was also the case in the 2000 to 2002 round of labor settlements. The figure to the right

Cost of Additional One-Percentage Point Increase over DC 37 Agreement
($ in millions)

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

[18] The FY 2004 labor cost includes the rollover of $200 million from the FY 2003 labor reserve. The $200 million will fund the $1000 lump payment that is effective in FY 2003.

shows that every percentage point over the DC 37 wage increase would result in additional labor costs of $145 million.[19]

Furthermore, it is likely that the uniformed employees and teachers contracts would not include any reduction in hiring salaries. The City has had difficulty attracting employees for these jobs and it would be counter productive to reduce starting salaries for such positions.

Public Assistance

The City's public assistance caseload experienced its fifth consecutive month of increase, rising by a total of 8,350 recipients to 438,062 in April 2004 compared with 429,712 in November 2003 (the last time that welfare caseload experienced a monthly decline). Thus far in FY 2004, the City's welfare rolls have experienced a surge of nearly four percent or 16,516 recipients from the FY 2003 year-end caseload of 421,546.

A reversal of the dramatic decline in the City's welfare caseload seen in recent years is gradually taking shape. Over the past several years, public assistance caseload fell from a peak of 1,160,593 in March 1995 to a recent bottom of 418,770 in February 2003. However, since February 2003, the City's welfare rolls have been steadily creeping upwards, rising by 19,292 or 4.6 percent.

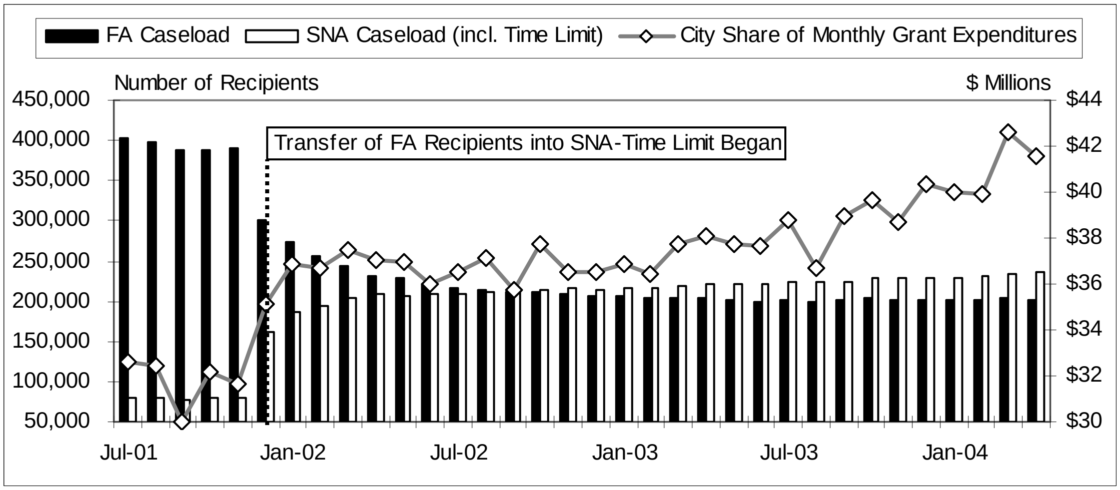
The City's spending for public assistance has been rising both as a function of higher caseload levels and the changing composition of its welfare population. Compared with February 2003, monthly grant spending has grown from $95.7 million to $107.3 million in April 2004. Further, because of the growth in the Safety Net Assistance (SNA) category and the ongoing transfer of former Family Assistance (FA) recipients into the SNA-Time Limit category, the level of City support and its share of required support for overall public assistance spending have also increased, as shown in the monthly caseload and grant spending trends on Chart 9.[20] Prior to the transfer of FA recipients that began in December 2001, City support of monthly grant expenditures typically constituted about 32 percent of overall spending. In April 2004, the City's share of monthly grant expenditures has reached almost 39 percent.

---

[19] Maintains the City's assumption that the non-retroactive wage increases will be funded with productivity gains.

[20] The City provides a 50 percent funding share for SNA program expenditures and a 25 percent funding share for FA program expenditures.

***Chart 9.* Monthly Public Assistance Caseload and Grant Spending Trends**



As shown in Chart 9, the City's share of monthly grant expenditures generally ranged between $36 million and $38 million in the 18 months following the implementation of transfers between the FA and SNA-time limit categories. However, the City's share of monthly grant expenditures has risen above the $40 million mark this year. This trend puts new pressure on the City's public assistance budget.

The City's public assistance budget continues to carry the same caseload and grant spending projections as in the January Modification. The FY 2005 Executive Budget estimates that the caseload will reach 446,902 by June 2004 before rising to 458,902 by June 2005, and will remain flat thereafter. Based on these projections, the City has estimated grant expenditures of about $491 million annually in FYs 2005-2008. While the City's caseload estimates appear to be in line with the trend, it may need to raise its funding for grant expenditures given the rise in monthly grants. If monthly grants continue to edge up going forward, the City could face a risk of $15 million in FY 2005 and risks of $25 million in each of FYs 2006-2008.

Department of Education

The City has projected total funding of $13 billion to the Department of Education (DOE) in the FY 2005 Executive Budget. Compared with the January Modification, the FY 2005 Executive Budget reflects an increase of $293 million in education funding support. Tax-levy funding for the DOE, in particular, is expected to grow from $5.2 billion in FY 2004 to $5.4 billion in FY 2005. This, by definition, would put the City in compliance with the State's education maintenance-of-effort (MOE) funding requirement. The MOE provision stipulates that, at budget adoption, City funding support for education in any given year may not fall below appropriations in the previous year. At current funding levels, the City's FY 2005 appropriations for the DOE would exceed the MOE funding requirement by almost $200 million.

The funding increase reflected in the Executive Budget addresses two major areas of need. First, the DOE budget has now accounted for needs arising from the tentative labor agreement recently reached between the City and DC 37, recognizing in its budget the associated new labor costs of $187 million for its DC 37 personnel.[21] Second, the City has added new funding of about $90 million for the implementation of the Mayor's policy to end social promotion in the third grade. Combined with funding already allocated in the January Modification, the FY 2005 Executive Budget contains a total of $115 million to support initiatives in this area, which are targeted at providing specialized remedial instruction to retained and low-performing third graders ($58 million), establishing the Summer Success Academy to assist struggling second and third grade students ($32 million), and preserving average class size in the third grade ($25 million).

Additionally, the Executive Budget recognizes a net need of $16 million from programmatic re-estimates, after applying offsets resulting from internal realignment and lower pupil register growth projections, to cover increased costs for special education programs, fringe benefits, and leases. The City has also reassigned about $57 million in summer instructional funding that would be used to support part of the additional spending for ending social promotions in the third grade.

The Department could face a risk of $34 million in FY 2005 due to the PERB ruling that the denial of sabbatical requests to teachers is a violation of the teachers' contract. According to the ruling, close to 600 requests for sabbatical leave were improperly denied in FY 2004. The DOE continues to maintain that it has the latitude, under the teachers' contract, to reduce the number of sabbatical leaves granted to teachers, for reasons other than medical and hardship. However, in light of the arbitration ruling, it appears that the Department may need to consider other alternatives to achieve similar savings in its PEG program. The DOE currently assumes savings of $34 million from this initiative in each of FYs 2005-2008.

In the outyears of the plan, the DOE budget is expected to gradually rise from $13 billion in FY 2005 to $13.4 billion in FY 2008, constituting a growth of about three percent during this period. The City projects that the pupil register, in line with the trend in recent years, will fall further over the course of the plan, dropping from the FY 2004 actual enrollment of 1,031,631 to 991,497 by FY 2008. Among the issues that will have a significant impact on education funding in the outyears of the plan is the pending resolution of the Campaign for Fiscal Equity (CFE) court case. As mandated by the court ruling, the Governor has to present and implement a plan to revamp the manner in which education aid is distributed to school districts by July 31, 2004. It is expected that the City will stand to benefit the most from the State education aid reform, amid speculation

---

[21] The City has specifically designated $75 million of State operating aid to support the overall cost, thus increasing its assumption of operating aid by the same amount. See "Labor" beginning on page 30 for a more detailed discussion of the DC 37 labor union agreement.

that the State will need to substantially raise the level of education aid over a number of years in order to meet the corrective action plan requirement under the court ruling.[22]

Health and Hospitals Corporation

The FY 2005 fiscal picture for the Health and Hospitals Corporation (HHC) has brightened considerably due both to the increased subsidy provided by the City and higher revenue estimates in FY 2004. For the FY 2005 Executive Budget, the City projects HHC will end FY 2005 with a cash balance of $167 million. This latest estimate reflects an increase of $163 million from the previous forecast of $4 million in the January Modification.

In the current year, the City projects that HHC will finish with a cash balance of $170 million, about $49 million higher than the projected balance in the January Modification. The improvement results from increased revenues of $127 million, mostly in Medicaid managed care and Medicare collections, stemming in part from incorporating certain gap-closing actions from previous assumptions. This, in turn, has reduced HHC's gap-closing program by $75 million in FY 2004. The improved revenue projections translate into a higher opening cash balance for FY 2005. The Corporation's outlook is further boosted by the City's decision to raise its operating subsidy to HHC by $96 million in FY 2005, raising the total subsidy to $253 million.[23] Though the higher City subsidy somewhat eases concerns over HHC's budget gap, the Corporation could still face an operating deficit of $273 million in FY 2005. To achieve the projected FY 2005 closing cash balance of $167 million, HHC will need to rely on revenue and savings actions of $270 million. The menu of options for reducing the operating deficits include $150 million in Federal and State actions, $55 million in productivity savings and $65 million in revenue enhancement initiatives.

HHC's operating deficits are mainly a function of its stagnant revenues and rising cost structure. In FY 2005, for instance, if not for the additional subsidy provided by the City, projected revenues would have fallen by $30 million or 0.7 percent from a FY 2004 base of $4.1 billion. Third-party revenues, comprised of various collections from Medicaid, Medicare, and self-pay patients, are projected to fall by $123 million or 3.4 percent to $3.44 billion in FY 2005. Medicaid fee-for-service revenue, which represents almost half, or $1.64 billion, of total third-party receipts, is only expected to grow by about two percent in FY 2005. The Corporation's projected disbursements, on the other hand, are expected to rise by $196 million or 4.6 percent, from $4.24 billion in FY 2004

---

[22] See "Intergovernmental Aid" beginning on page 23 for a more detailed discussion of Federal and State aid issues.

[23] In addition to raising its unrestricted subsidy to the Corporation by $96 million, the City has also assumed HHC debt service costs totaling $81 million and offset a revenue loss of $23 million, bringing the total increased financial support to $200 million in FY 2005. The total additional support in the outyears amounts to $150 million each year, including annual increases in unrestricted subsidy of between $13 million and $24 million.

to $4.44 billion in FY 2005. The higher City subsidy to HHC may narrow the gaps between its revenues and disbursements in the short term, but over the longer term, HHC's operating deficits will persist, as evident in its financial projections in the April Modification.

In the outyears of the plan, the City projects operating deficits of over $500 million for HHC in each of FYs 2006-2008. The City has similarly increased its subsidy to HHC in the outyears, albeit at more modest levels of $13 million to $24 million each year. However, this additional assistance will not provide substantial long-term help to HHC. HHC still expects to face substantial out-year gaps because of tepid revenue growth and rising operating costs. HHC's revenue projections are projected to remain stable between $4.1 billion in FY 2006 and $4.18 billion in FY 2008. Projected disbursements, on average, will approach $4.65 billion in each of the outyears. Consequently, operating deficits are expected to range between $506 million and $516 million annually. The April Modification clearly shows that HHC's ability to maintain a positive cash balance in these years will be largely contingent upon the success of its sizeable gap-closing programs. Beginning in FY 2006, HHC estimates that it will need to achieve a gap-closing program of $415 million, in order to reach a year-end cash balance of $76 million. The size of the gap-closing program is projected to expand to $515 million by FY 2008, while its cash balance is forecasted to fall to $57 million. These programs will rely heavily on Federal and State actions, which are expected to range between $250 million and $325 million each year.

Debt Service

Debt service is projected to total $4.47 billion in FY 2005, an increase of $151 million from FY 2004, and comprises 16 percent of local tax revenues and 9.5 percent of total revenues. The elements of the City's projected debt-service costs are shown in Table 16. Over 90 percent of debt service projected to be paid in FY 2005 is from bonds issued prior to April 30, 2004.[24] Thus, with the exception of refunding transactions, there is little flexibility in the repayment of this significant and relatively fixed operating expense.

Table 16. Annual Debt Service Costs

($ in millions)

	FY 2005	Percent of Total
City GO Bonds	$3,211	71.9%
NYCTFA	960	21.5%
TSASC	91	2.0%
DASNY and Other Conduit Issuers	203	4.6%
Total Debt Service	**$4,465**	**100.0%**

SOURCE: FY 2005 Executive Budget, Office of Management and Budget

[24] Total debt service includes GO, NYCTFA, TSASC, MAC, Lease-purchase debt, and interest on short-term notes.

General Obligation Bonds

GO debt service, as shown in Table 16, is the largest component of total debt service at $3.21 billion, or 71.9 percent of total debt service expenditures in FY 2005. Approximately $3 billion, or 94 percent of the estimated debt service due in FY 2005 is from bonds issued prior to April 30, 2004. As illustrated in Table 17, the principal payment component of debt service constitutes $1.51 billion or 47.2 percent of GO debt service.[25]

Table 17. General Obligation Bond Principal and Interest, FY 2005

($ in millions)

Description	FY 2005	% of Total
Principal to be Repaid	$1,515	47.2%
Interest and Other	1,696	52.8%
Total Estimated Debt Service	$3,211	100.0%

SOURCE: NYC Office of Comptroller

With planned GO borrowing of $3.4 billion in FY 2005, new issuance is expected to exceed principal redemption by $1.89 billion. Thus, the City is taking on new debt at more than twice the rate it is retiring debt.

Municipal Assistance Corporation

The City assumes no retention of sales taxes for the payment of debt service costs for the Municipal Assistance Corporation (MAC) in FY 2005. See "Resolving MAC" beginning on page 7.

New York City Transitional Finance Authority

The NYC Transitional Finance Authority (NYCTFA), an instrumentality created by the State of New York in 1997, projects debt service costs of $960 million in FY 2005, an increase of about $204 million from FY 2004, and comprises 21.5 percent of total debt service as shown in Table 16. The major reason for this growth comes from a $168 million increase in principal repayment from $185 million in FY 2004 to $353 million in FY 2005. All of NYCTFA debt service in FY 2005 is from bonds issued prior to FY 2005. As shown in Table 18, the NYCTFA expects to repay $353 million in principal or 37 percent of total NYCTFA debt service due in FY 2005. The NYCTFA has reached its statutory cap and is no longer authorized to issue further senior debt absent a change in State legislation.

---

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

Table 18. NYCTFA Bond Principal and Interest, FY 2005

($ in millions)

Description	FY 2005	% of Total
Principal to be Repaid	$353	36.8%
Interest and Other	607	63.2%
Total Estimated Debt Service	$960	100.0%

SOURCE: NYC Office of the Comptroller

TSASC, Inc.

TSASC, Inc., a local development corporation created in November 1999, issues bonds secured by tobacco settlement revenues. As shown in Table 19, TSASC projects debt service to be $90.7 million in FY 2005, or two percent of total debt service.

Table 19. TSASC Bond Principal and Interest, FY 2005

($ in millions)

Description	FY 2005	% of Total
Principal to be Repaid	$15	16.5%
Interest and Other	76	83.5%
Total Estimated Debt Service	$91	100.0%

SOURCE: NYC Office of the Comptroller

Approximately $90 million, or 99 percent, of TSASC debt service is from debt issued prior to April 30, 2004. There is no planned TSASC borrowing to finance the City's general capital program in FY 2005. The retention, or trapping, of tobacco settlement revenues (TSR) due to tobacco company credit rating downgrades and an increase in market share above seven percent by the non-participating manufacturers coupled with TSASC's higher cost of debt contribute in large part to this policy.[26] A lawsuit brought by a Las Vegas based cigarette importer accusing New York State of establishing a price-fixing cartel could potentially impair the flow of TSR to the City by as much as 35 percent. The lawsuit seeks to release the non-participating tobacco manufacturers from their requirements to fund an escrow account.[27] Based on TSR estimates provided by TSASC as of the FY 2005 Executive Budget, a 35 percent cut to

[26] On June 18th, 2003, a "trapping event" relating to TSASC's bonds occurred due to a downgrade of RJ Reynolds' rating by Moody's Investors Service to Ba1. An additional trapping event, which currently does not require additional money to be trapped, occurred due to an increase in market share above seven percent by manufacturers who did not participate in the settlement. TSASC's bond indenture requires that, upon occurrence of a trapping event, such as the rating downgrade of a major tobacco company, TSR that would otherwise be paid to the City of New York be deposited in a trapping account until 25 percent of the principal amount of outstanding debt is accumulated in that account and that 46 percent of the TSRs would be deposited in the trapping account under the indenture.

[27] Non-participating manufacturers are those tobacco companies that did not become parties to the Master Settlement Agreement.

the TSR available to TSASC would still produce a debt-service coverage ratio of about 1.5 to 1 on existing outstanding debt.

Lease-Appropriation Debt Service

Over the years the City has diversified its financing sources by using conduit issuers such as the New York State Housing Finance Agency, the New York State Urban Development Corporation, and most recently through the Dormitory Authority of the State of New York (DASNY) for courts and hospital purposes. In FY 2005, projected debt-service costs for this category are $203 million, or 4.3 percent of total debt service. As shown in Table 20, about $87 million, or 42.8 percent, of FY 2005 debt service is dedicated to principal repayment. Also in FY 2005, the City plans to issue $86 million of bonds for Lincoln Center with no other financings anticipated at this time.

Table 20. Lease-Appropriation Bond Principal and Interest, FY 2004

($ in millions)

Description	FY 2004	% of Total
Principal to be Repaid	$87	42.8%
Interest and Other	116	57.2%
Total Estimated Debt Service	$203	100.0%

SOURCE: NYC Office of the Comptroller

Capital Commitment Plan for FY 2005

The FY 2005 Capital Commitment Plan totals $11 billion in all funds and $8.7 billion in City funds.[28] After accounting for the reserve for estimated unattained commitments, the Capital Commitment Plan totals to $9.4 billion and $7.2 billion, respectively. This represents an increase to capital commitments, in all funds, of $3.29 billion from FY 2004. Three major program areas; education, courts, and sanitation account for over 95 percent of the increase. In City funds, the increase from FY 2004 is $1.97 billion, with courts, education, and sanitation accounting for just below 95 percent of the increase. As shown in Table 21, the largest components of the FY 2005 commitment plan in all funds are education at $2.63 billion, environmental protection at $2.39 billion, transportation at $1.1 billion, the courts program at $782 million, and sanitation at $631 million. These five program areas comprise 68.5 percent of the FY 2005 plan. In City funds, these same program areas account for 67.5 percent of the FY 2005 plan.

[28] A commitment refers to a contract registration.

Table 21. FY 2005 Capital Commitment Plan

($ in millions)

Description	FY 2005 City Funds	FY 2005 All Funds	% of Total City	% of Total All Funds
DEP - Equipment	$161	$280		
DEP - Sewers	174	174		
DEP – Water Mains	630	630		
DEP – Water Pollution Control	594	619		
DEP - Water Supply	690	690		
Subtotal for DEP	**$2,249**	**$2,393**	**25.7 %**	**21.8 %**
Mass Transit	72	72		
Highways	259	330		
Highway Bridges	487	489		
Waterway Bridges	104	198		
Subtotal for Transportation	**$922**	**$1,089**	**10.6 %**	**9.9 %**
Dept. of Education	**$1,319**	**$2,632**	**15.1**	**23.9**
Higher Education – CUNY	23	24	0.3	0.2
Hospitals	469	469	5.4	4.3
Housing	285	443	3.3	4.0
Economic Development	232	332	2.7	3.0
Correction	139	139	1.6	1.3
Fire	87	87	1.0	0.8
Police	118	118	1.4	1.1
Public Buildings	158	158	1.8	1.4
Sanitation	**631**	**631**	**7.2**	**5.7**
Parks	163	191	1.9	1.7
Courts	**781**	**782**	**8.9**	**7.1**
Other	1,162	1,508	13.1	13.8
Total Authorized for FY 2005	**$8,738**	**$10,996**	**100 %**	**100 %**
Reserve for Unattained Commitments	(1,551)	(1,551)		
FY 2005 Commitment Plan	$7,187	$9,445		

SOURCE: FY 2005 Capital Commitment Plan, April 2004.

The major assumption contained in the FY 2005 capital plan is the City's reliance upon the State of New York to come up with $1.3 billion in capital funds each year beginning in FY 2005 to match the City capital contribution to the Department of Education (DOE). It is unclear if the State of New York will have the resources to support this proposed level of capital support. The State budget process is not yet resolved and thus it is difficult to estimate what New York State's capital support for education projects will be for New York City. If the State match does occur, the DOE will comprise 24 percent of the FY 2005 capital plan, if not, the DOE's share will decline to 14 percent.

Comprising 22 percent of the Capital Plan, the Department of Environmental Protection's (DEP) capital projects are funded almost exclusively with the proceeds of NYC Municipal Water Finance Authority (NYCWFA) bonds whose debt-service is paid from water and sewer user fees. Over two-thirds of the DEP capital programs are due to

Federal and State mandates under the Clean Water and Safe Drinking Water Acts, as well as other negotiated consent decrees.

Accounting for about 10 percent of the FY 2005 capital plan, the City continues its support of its transportation infrastructure with planned commitments of $330 million for highways, $489 million for highway bridges, and $198 million for waterway bridges.

The FY 2005 capital plan also contains $782 million in FY 2005 for the refurbishment and improvement of the courts system throughout the City and $631 million for the Department of Sanitation including $367 million for the rehabilitation and retro-fitting of marine transfer stations.

FY 2005 Financing Program

The City projects borrowing needs of $5.19 billion in FY 2005. Were it not for the inclusion of a pay-as-you-go capital component of $200 million to help fund capital expenditures, the borrowing need would be $5.39 billion. As shown in Table 22, GO bonds constitute $3.4 billion, or 65.5 percent of the total, followed by NYCWFA bonds of $1.65 billion, or 31.9 percent of estimated borrowing.

Table 22. FY 2005 Borrowing Plan

($ in millions)

	FY 2005	% of Total
City General Obligation Bonds	$3,400	65.5 %
TSASC – TIFIA Loan for Ferries	49	0.9 %
NYC Water Finance Authority Bonds	1,652	31.9 %
Conduit Debt – Lincoln Center	86	1.7 %
	$5,187	**100.0 %**

SOURCE: Message of the Mayor, Office of Management and Budget, April 2004

Other modest borrowings include a conduit borrowing of $86 million for Lincoln Center improvements as well as a $49 million drawdown of the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan for ferry projects at the Whitehall and St. George ferry terminals.

Approximately $2.1 billion of the $3.4 billion estimated borrowing for GO bonds is from contract liability prior to March 31, 2004. Thus, 62 percent of estimated current-year borrowing is largely driven by contracts entered into in prior fiscal years.

This is particularly true for DEP and its borrowing partner - the NYCWFA, with approximately $1.29 billion, or 78 percent of NYCWFA borrowing from prior years' contract liability.

C. CASH FLOW ANALYSIS

History of Short-Term Borrowings ($ in millions)			
FY	Amount	Net Cost	Percent of Expenditures
2002	$1,500	$14.37	3.6%
2003	$1,500	$10.60	3.3%
2004	$1,500	$ 7.12	3.2%
2005	$2,400	$66.98	5.1%

The City has maintained a stable level of short-term borrowing during the last three fiscal years, FY 2002, FY 2003 and FY 2004. In each of these three fiscal years the City has met its seasonal borrowing need and sustained adequate levels of cash with the issuance of $1.5 billion in Notes. The FY 2005 budgeted level of short-term borrowing is $2.4 billion, which equals 5.1 percent of projected expenditures in the Executive Budget.[29] It is estimated at 3.2 percent of expenditures in FY 2004 and was 3.3 percent in FY 2003 and 3.6 percent in FY 2002. The FY 2005 short-term borrowing plan consists of $750 million in April Revenue Anticipation Notes (RANs)[30], $800 million in June RANs and $850 million in February Tax Anticipation Notes (TANs)[31]. This compares with the actual borrowings of $1.250 billion in RANs and $250 million in TANs in FY 2004 and $1.5 billion entirely in RANs in each of FY 2003 and FY 2002. The FY 2005 short-term borrowings have a projected net interest cost of $67 million up substantially from the levels of net interest costs in recent years. The loan period in FY 2005 is projected at 200 days for the TANs, 260 days for the April RANs and 330 days for the June RANs. The loan period was 179 days, 182 days and 169 days in FY 2004, FY 2003 and FY 2002, respectively.

Last year, the delay past March 31, 2003 by the State in adopting a new budget resulted in the postponement of payments from the State to localities. The major delay was in general education aid. In FY 2003, the City received April, May and June general education aid as follows: $466 million on June 2, 2003 and $1.081 billion on June 26, 2003. Thus far in this fiscal year, FY 2004, the State has not delayed payments, although the budget adoption process is presently ongoing. In fact, the City received $634 million on March 31, 2004 as an advance of the June general education payment.[32] The balance of education aid payments are expected on a timely basis.

The receipt of all anticipated State aid, continued strong tax collections, and deferred FY 2005 real estate tax collections will enable the City to end FY 2004 with an adequate level of cash. (Payments associated with any new collective bargaining agreements would lower cash balances. The City and District Council 37 reached a tentative agreement on April 20, 2004.)

---

[29] Expenditures are defined here as total expenditures adjusted by adding NYCTFA debt service and subtracting interfund agreements.

[30] The City has chiefly pledged State education aid to secure the payment of RANs.

[31] The City has pledged real estate tax to secure the payment of TANs.

[32] This compares to the $466 million payment received on June 2, 2003.

The volatile nature of the City's daily cash balances makes any projection of short-term need for an upcoming fiscal year before the actual borrowing very challenging. As the figure to the right shows, past estimates at the time of the Executive Budget were reduced at the time of the actual borrowing[33] by $900 million in FY 2004 and $1.5 billion in FY 2003 and increased by $100 million in FY 2002. The actual short-term borrowing need for FY 2005 will be determined when the Notes are issued.

Comparison of Executive Budget Plan to Actual Short-Term Notes
($ in billions)

FY	Executive Budget	Actual	Difference
2002	$1.4	$1.5	$0.1
2003	$3.0	$1.5	($1.5)
2004	$2.4	$1.5	($0.9)

D. BOROUGH PRESIDENTS' PROPOSED REALLOCATIONS

In accordance with section 245 of the New York City Charter, the Borough Presidents may propose modifications to the Preliminary Budget during the Executive Budget process. The net effects of any proposed modifications to the budget may not result in an increase in the total amount of appropriations proposed in the Preliminary Budget.

The Queens Borough President's reallocation proposal was the only submission included in the FY 2005 Executive Budget. The Brooklyn and Manhattan Borough President's offices have submitted reallocation proposals through their borough boards.

The Queens Borough President proposed increasing allocations by $175 million. Among the suggested increases are: 1) $28.4 million for Children's services; 2) $28 million for various programs and institutions for the Department of Cultural Affairs; 3) $26 million for youth programs; 4) $12.3 million to the Queens Public Library; 5) $15.5 million to the Department of Sanitation to restore weekly recycling pick-ups; 6) $11 million to the Department of the Aging; 7) $8.6 million for Parks; 8) $6.3 million for health and mental health services; 9) $3 million for homeless services; and 10) $1.4 million for housing programs. The proposed funding allocations come from a delay of the personal income tax reduction on high income earners, the elimination of the tax exemption for Madison Square Garden, reduction of homeless shelter costs through diversion, procurement consolidations and efficiencies, energy conservation measures, expanding the bottle bill, capturing property tax rebates on delinquent water and sewer payers, and implementing a sales tax on fuel sold to airlines.

The Brooklyn Borough Board made a variety of recommendations in program areas such as: public safety, transportation, sanitation, senior and youth services, education, cultural affairs, libraries, parks, housing, and health services. There are no specific dollar recommendations for many of the items identified and no suggested funding sources for the recommended items.

---

[33] The City completed its prior three short-term borrowings on October 23, 2001, October 9, 2002 and October 16, 2003.

Some of the detailed restoration requests without specific funding recommendations include the re-opening of four firehouses, the maintenance of funding for the Police Department, the Brooklyn District Attorney's Office, the continued funding of the Department of Correction's "Scared Straight" program, the expansion of supplemental garbage collection in commercial zones, increased funding for economic and commercial development, the preservation of existing housing stock, and the restoration of the Teacher's Choice Program for classroom supplies. In addition, some specific funding restoration requests include a $20.5 million restoration to the Department of Cultural Affairs, $15 million to the Brooklyn Public Library for the continuation of six-day service, $6.5 million for the Vallone Scholarship program at the City University of New York, $10 million to the Department of Parks and Recreation, $6 million for the Prospect Park and Queen's Zoos, $10 million to the Department of Youth Services for the Beacon and immigrant assistance programs, $5 million to the Department of Health for AIDS prevention services, and $5 million to HHC for Child Health Clinic funding.

The Manhattan Borough President (MBP), through its borough board, submitted a reallocation proposal of $125 million. Highlights of the proposal include: 1) $28.7 million to the Administration for Children's Services; 2) $20.8 million for the Department of Youth and Community Development; 3) $20 million for the Department of Cultural Affairs; 4) $15.5 million to the City University of New York; 5) $11.2 million for the Department of Health and Mental Hygiene; 6) $4.7 million for the Department of Housing Preservation and Development; and 7) $4 million for the Department of Homeless Services. The source of this funding is the restructuring of the personal income tax for incomes over $270,000 per year.

Some of the proposals, like the restoration of weekly recycling pick-ups, are already incorporated in the Executive Budget, while others such as the tax proposals, require State legislative action. Other initiatives would require further analysis to determine their feasibility. Virtually all of the recommended restorations, from homeless to children's to senior services, are highly visible programs that impact the lives of many New Yorkers.

Appendix – Revenue and Expenditure Details

Table A1. *FY 2005 Executive Budget Revenue Detail*

($ in millions)

	FY 2005	FY 2006	FY 2007	FY2008	Change FYs 2005-08 Percent	Dollar
Taxes:						
Real Property	$11,987	$12,498	$13,091	$13,709	14.4%	$1,722
Personal Income Tax	$6,106	$6,111	$6,188	$6,608	8.2%	$502
General Corporation Tax	$1,673	$1,760	$1,851	$1,951	16.6%	$278
Banking Corporation Tax	$298	$348	$378	$402	34.9%	$104
Unincorporated Business Tax	$934	$985	$1,031	$1,069	14.5%	$135
Sale and Use	$3,961	$4,029	$4,177	$4,353	9.9%	$392
Commercial Rent	$439	$451	$465	$478	8.9%	$39
Real Property Transfer	$476	$488	$511	$535	12.4%	$59
Mortgage Recording Tax	$514	$481	$516	$542	5.4%	$28
Utility	$283	$278	$284	$284	0.4%	$1
Cigarette	$136	$132	$129	$126	(7.4%)	($10)
Hotel	$226	$240	$253	$264	16.8%	$38
All Other	$396	$396	$369	$371	(6.3%)	($25)
Tax Audit Revenue	$508	$508	$509	$509	0.2%	$1
Tax Initiatives Program	($250)	($259)	($263)	($267)	6.8%	($17)
State Tax Relief Program						
Total Taxes	**$27,687**	**$28,446**	**$29,489**	**$30,934**	**11.7%**	**$3,247**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$359	$354	$353	$353	(1.7%)	($6)
Interest Income	$35	$56	$61	$74	111.4%	$39
Charges for Services	$523	$520	$514	$513	(1.9%)	($10)
Water and Sewer Charges	$931	$927	$943	$964	3.5%	$33
Rental Income	$861	$173	$176	$176	(79.6%)	($685)
Fines and Forfeitures	$709	$705	$704	$704	(0.7%)	($5)
Miscellaneous	$1,218	$412	$350	$350	(71.3%)	($868)
Intra-City Revenue	$1,133	$1,132	$1,132	$1,131	(0.2%)	($2)
Total Miscellaneous	**$5,769**	**$4,279**	**$4,233**	**$4,265**	**(26.1%)**	**($1,504)**
Unrestricted Intergovernmental Aid:						
NY State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$235	$235	$235	$235	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$562**	**$562**	**$562**	**$562**	**0.0%**	**$0**
Anticipated State and Federal Aid:						
Anticipated State Aid	$400	$400	$400	$400	0.0%	$0
Anticipated Federal Aid	$150	$150	$150	$150	0.0%	$0
Total Anticipated Aid	**$550**	**$550**	**$550**	**$550**	**0.0%**	**$0**
Other Categorical Grants	$806	$830	$840	$839	4.1%	$33
Inter Fund Agreements	$345	$332	$328	$328	(4.9%)	($17)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra-City Revenue	($1,133)	($1,132)	($1,132)	($1,131)	(0.2%)	$2
TOTAL CITY FUNDS	**$34,571**	**$33,852**	**$34,855**	**$36,332**	**5.1%**	**$1,761**

Table A1 (Con't). ***FY 2005 Executive Budget Revenue Detail***

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	Changes FYs 2005-08 Percent	Dollar
Federal Categorical Grants:						
Community Development	$257	$240	$240	$240	(6.6%)	($17)
Welfare	$2,128	$2,107	$2,114	$2,114	(0.7%)	($14)
Education	$1,733	$1,733	$1,733	$1,733	0.0%	$0
Other	$598	$564	$545	$535	(10.5%)	($63)
Total Federal Grants	**$4,716**	**$4,644**	**$4,632**	**$4,622**	**(2.0%)**	**($94)**
State Categorical Grants						
Welfare	$1,734	$1,734	$1,731	$1,730	(0.2%)	($4)
Education	$5,871	$5,881	$5,949	$6,019	2.5%	$148
Higher Education	$167	$168	$168	$168	0.6%	$1
Department of Health and Mental Hygiene	$470	$473	$482	$482	2.6%	$12
Other	$331	$292	$294	$295	(10.9%)	($36)
Total State Grants	**$8,573**	**$8,548**	**$8,624**	**$8,694**	**1.4%**	**$121**
TOTAL REVENUE	**$47,860**	**$47,044**	**$48,111**	**$49,648**	**3.7%**	**$1,788**

Table A2. ***FY 2005 Executive Budget Expenditure Detail***

($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	Change FYs 2005-08 Percent	Dollar
Mayoralty	$69,231	$69,201	$69,201	$69,201	(0.0%)	($30)
Board of Elections	$74,994	$72,683	$68,183	$68,183	(9.1%)	($6,811)
Campaign Finance Board	$10,915	$17,767	$17,767	$17,767	62.8%	$6,852
Office of the Actuary	$4,731	$4,681	$4,681	$4,681	(1.1%)	($50)
President, Borough of Manhattan	$3,175	$3,020	$3,020	$3,020	(4.9%)	($155)
President, Borough of the Bronx	$4,607	$4,365	$4,365	$4,365	(5.3%)	($242)
President, Borough of Brooklyn	$4,175	$3,820	$3,820	$3,820	(8.5%)	($355)
President, Borough of Queens	$4,039	$3,578	$3,578	$3,578	(11.4%)	($461)
President, Borough of SI.	$3,167	$3,037	$3,037	$3,037	(4.1%)	($130)
Office of the Comptroller	$53,625	$52,838	$52,838	$52,838	(1.5%)	($787)
Dept. of Emergency Management	$4,643	$4,763	$4,763	$4,763	2.6%	$120
Tax Commission	$2,402	$2,302	$2,302	$2,302	(4.2%)	($100)
Law Department	$106,959	$106,476	$104,630	$104,630	(2.2%)	($2,329)
Department of City Planning	$17,770	$17,720	$17,720	$17,720	(0.3%)	($50)
Department of Investigation	$16,458	$16,250	$16,250	$16,250	(1.3%)	($208)
NY Public Library-Research	$16,116	$16,116	$16,116	$16,116	0.0%	$0
New York Public Library	$85,547	$85,547	$85,547	$85,547	0.0%	$0
Brooklyn Public Library	$63,362	$63,362	$63,362	$63,362	0.0%	$0
Queens Borough Public Library	$59,816	$59,816	$59,816	$59,816	0.0%	$0
Department of Education	$13,019,307	$13,185,467	$13,334,215	$13,418,198	3.1%	$398,891
City University	$497,017	$494,085	$491,891	$491,941	(1.0%)	($5,076)
Civilian Complaint Review Bd.	$8,962	$8,893	$8,893	$8,893	(0.8%)	($69)
Police Department	$3,342,881	$3,376,849	$3,378,580	$3,380,208	1.1%	$37,327
Fire Department	$1,130,507	$1,138,268	$1,137,517	$1,137,251	0.6%	$6,744
Admin. for Children Services	$2,126,996	$2,091,704	$2,092,784	$2,092,421	(1.6%)	($34,575)
Department of Social Services	$6,858,659	$7,091,770	$7,300,721	$7,507,843	9.5%	$649,184
Dept. of Homeless Services	$673,748	$655,549	$656,048	$656,047	(2.6%)	($17,701)
Department of Correction	$822,317	$827,709	$824,659	$824,659	0.3%	$2,342
Board of Correction	$803	$803	$803	$803	0.0%	$0
Department of Employment	$0	$0	$0	$0	0.0%	$0
Citywide Pension Contributions	$3,240,223	$3,971,086	$4,378,845	$4,366,381	34.8%	$1,126,158
Miscellaneous	$5,029,600	$5,288,749	$5,557,102	$5,877,973	16.9%	$848,373
Debt Service	$2,108,740	$3,649,699	$4,013,119	$4,285,388	103.2%	$2,176,648
MAC. Debt Service	$0	$0	$0	$0	0.0%	$0
NYCTFA Debt Service	$959,836	$954,723	$976,342	$981,877	2.3%	$22,041
Public Advocate	$1,712	$1,712	$1,712	$1,712	0.0%	$0
City Council	$45,824	$45,831	$45,831	$45,831	0.0%	$7
City Clerk	$2,904	$2,904	$2,904	$2,904	0.0%	$0
Department for the Aging	$213,928	$199,291	$199,291	$199,291	(6.8%)	($14,637)
Department of Cultural Affairs	$103,832	$103,832	$103,832	$103,832	0.0%	$0
Financial Info. Serv. Agency	$37,352	$37,411	$37,411	$37,411	0.2%	$59
Department of Juvenile Justice	$100,646	$104,421	$104,421	$104,421	3.8%	$3,775
Office of Payroll Admin.	$11,407	$10,320	$10,273	$10,273	(9.9%)	($1,134)
Independent Budget Office	$2,669	$2,669	$2,669	$2,669	0.0%	$0

Table A2 (Con't). *FY 2005 Executive Budget Expenditure Detail*

($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	Change FYs 2005-08 Percent	Dollar
Equal Employment Practices Com	$508	$508	$508	$508	0.0%	$0
Civil Service Commission	$571	$571	$571	$571	0.0%	$0
Landmarks Preservation Comm.	$3,248	$3,248	$3,248	$3,248	0.0%	$0
Districting Commission	$0	$0	$0	$0	0.0%	$0
Taxi & Limousine Commission	$23,404	$23,404	$23,086	$23,086	(1.4%)	($318)
Commission on Human Rights	$6,888	$6,888	$6,888	$6,888	0.0%	$0
Youth & Community Development	$166,441	$184,874	$184,874	$184,874	11.1%	$18,433
Conflicts of Interest Board	$1,354	$1,354	$1,354	$1,354	0.0%	$0
Office of Collective Barg.	$1,555	$1,555	$1,555	$1,555	0.0%	$0
Community Boards (All)	$12,384	$12,384	$12,384	$12,384	0.0%	$0
Department of Probation	$73,627	$70,743	$70,743	$70,743	(3.9%)	($2,884)
Dept. of Small Business Services	$86,923	$88,617	$84,513	$84,513	(2.8%)	($2,410)
Housing Preservation & Dev.	$439,517	$429,827	$427,360	$427,360	(2.8%)	($12,157)
Department of Buildings	$57,929	$52,936	$51,165	$51,044	(11.9%)	($6,885)
Department of Public Health & Mental Hygiene	$1,360,797	1,379,428	$1,407,060	$1,407,840	3.5%	$47,043
Health and Hospitals Corp.	$992,206	$947,684	$944,484	$938,384	(5.4%)	($53,822)
Dept. of Environmental Prot.	$763,403	$737,404	$735,854	$735,854	(3.6%)	($27,549)
Department of Sanitation	$1,065,193	$1,080,054	$1,079,115	$1,078,876	1.3%	$13,683
Business Integrity Commission	$5,089	$5,345	$5,345	$5,345	5.0%	$256
Department of Finance	$191,425	$189,631	$190,865	$190,934	(0.3%)	($491)
Department of Transportation	$451,376	$446,518	$446,589	$446,589	(1.1%)	($4,787)
Dept. of Parks and Recreation	$211,746	$211,746	$211,746	$205,746	(2.8%)	($6,000)
Dept. of Design & Construction	$87,413	$87,330	$87,330	$87,330	(0.1%)	($83)
Dept. of Citywide Admin. Services	$246,947	$244,027	$244,027	$244,136	(1.1%)	($2,811)
DOITT	$131,274	$158,448	$154,024	$154,980	18.1%	$23,706
Dept. of Records & Info. Serv.	$3,628	$3,628	$3,628	$3,628	0.0%	$0
Department of Consumer Affairs	$13,723	$13,471	$13,583	$13,611	(0.8%)	($112)
District Attorney - NY	$61,985	$61,589	$61,589	$61,589	(0.6%)	($396)
District Attorney - Bronx	$36,566	$36,231	$36,231	$36,231	(0.9%)	($335)
District Attorney - Kings	$63,406	$63,030	$63,030	$63,030	(0.6%)	($376)
District Attorney - Queens	$32,584	$32,274	$32,274	$32,274	(1.0%)	($310)
District Attorney - Richmond	$5,538	$5,276	$5,276	$5,276	(4.7%)	($262)
Off. Of Prosec. & Spec. Narc.	$13,147	$13,147	$13,147	$13,147	0.0%	$0
Public Administrator - NY	$996	$996	$996	$996	0.0%	$0
Public Administrator - Bronx	$331	$331	$331	$331	0.0%	$0
Public Administrator - Brooklyn	$460	$460	$460	$460	0.0%	$0
Public Administrator - Queens	$359	$359	$359	$359	0.0%	$0
Public Administrator - Richmond	$252	$252	$252	$252	0.0%	$0
Prior Payable Adjustment	$0	$0	$0	$0	0.0%	$0
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Energy Adjustment	$0	$2,612	$1,780	$5,724	0.0%	$5,724
Lease Adjustment	$0	$18,912	$34,932	$50,609	0.0%	$50,609
OTPS Inflation Adjustment	$0	$36,990	$75,022	$110,970	0.0%	$110,970
City-Wide Totals	**$47,859,795**	**$50,805,169**	**$52,278,437**	**$53,201,852**	**11.2%**	**$5,342,057**

Glossary of Acronyms

BPCA	Battery Park City Authority
BSA	Budget Stabilization Account
CFE	Campaign for Fiscal Equity
COLA	Cost of Living Allowances
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DOC	Department of Correction
DOE	Department of Education
DOITT	Department of Information Technology and Telecommunications
DOS	Department of Sanitation
FA	Family Assistance
FMAP	Federal Medical Assistance Percentage
FOMC	Federal Open Market Committee

FTE	Full-Time Equivalents
FY	Fiscal Year
GCP	Gross City Product
GDP	Gross Domestic Product
GHI	Group Health Incorporated
GO Debt	General Obligation Debt
GRS	Gabriel, Roeder, Smith & Company
HHC	Health and Hospitals Corporation
HIP	Health Insurance Premium
HPD	Housing Preservation and Development
JFK	John F. Kennedy Airport
LGAC	Local Government Assistance Corporation
MAC	Municipal Assistance Corporation
MBP	Manhattan Borough President
MOE	Maintenance of Effort
MTA	Metropolitan Transportation Authority
NAICS	North American Industry Classification System

NY	New York
NYC	New York City
NYCERS	New York City Retirement System
NYCTFA	New York City Transitional Finance Authority
NYCWFA	New York City Municipal Water Finance Authority
NYS	New York State
OMB	Office of Management and Budget
OTPS	Other Than Personal Services
PA	Public Assistance
PEG	Program to Eliminate the Gap (an action that is part of a gap-closing program)
PERB	New York State Public Employment Relations Board
PICA	Psychotropic, Injectable, Chemotherapy and Asthma
PIT	Personal Income Tax
PS	Personal Services
RAN	Revenue Anticipation Notes
SFY	State Fiscal Year

SNA	Safety Net Assistance
STAR	School Tax Relief Program
STAR Corp.	Sales Tax Asset Receivable Corp.
TAN	Tax Anticipation Notes
TANF	Temporary Assistance to Needy Family
TIFIA	Transportation Infrastructure Finance and Innovation Act
TRS	Teachers Retirement System
TSR	Tobacco Settlement Revenues
UFT	United Federation of Teachers
U.S.	United States.
WTC	World Trade Center