The State of the City's Economy and Finances, 2006

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

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I. Executive Summary

In its November Modification to the Financial Plan, the City is projecting an FY 2007 surplus of $1.946 billion, before prepayments of FY 2008 expenses. The surplus stems primarily from an additional $2.2 billion in tax revenue projections compared to the Adopted Budget. This is the fifth consecutive year in which revenues will significantly exceed Adopted Budget projections. The additional funds would help to narrow the projected FY 2008 gap between revenues and expenses to $510 million, a dramatic reduction from the $3.8 billion gap projected at the time of the Adopted Budget.

The improvement in the City's revenue picture stems mostly from economic growth and real estate activity that are well above earlier expectations. In the Adopted Budget, the City had expected a softening real estate market, higher interest rates and the risk of higher oil prices to exert more restraint on local and national economic growth than so far has been the case.

The City's economy is in its twelfth quarter of expansion, and job growth in 2006 has exceeded the strong growth in 2005. In October, the City's unemployment rate reached its lowest level in over three decades. For the first 10 months of this calendar year, the City's economy added 57,900 jobs, compared to 46,600 in the same period of 2005. The well-paying financial activities and professional and business services industries together added 20,000 jobs in the January through October period this year. The stock market has rallied as the threat of further interest rate increases abated: Wall Street profits were reported at $9.3 billion for the first half of 2006, compared to $4.4 billion for the same period in 2005.

These factors have contributed to an upward adjustment in the City's FY 2007 revenue projections of $489 million for the business taxes and $604 million for the personal income tax. Furthermore, the projected decline in real-estate-related tax collections has not been as rapid as previously anticipated. The City now projects that FY 2007 collections for these taxes will exceed the expectations of the Adopted Budget by $812 million. The Comptroller's review shows that the business, personal income, and sales taxes will yield an additional $160 million in FY 2007 and $200 million in FY 2008.

However, current economic strength may precede less robust growth in 2007. Signs of slowing are apparent for both the national and local economies, and growth in the City's economic output (GCP) lost momentum through the first three quarters of 2006. GCP expanded at a 4.3 percent annual rate in the first quarter, slowing to a 2.4 percent pace by the third quarter.

Additional revenue in the Plan also derives from unspent Federal grants from FY 2006, which are now included in the FY 2007 total. By contrast, State education aid is assumed to fall short of Adopted Budget estimates by more than $100 million. State revenues that previously flowed into the Department of Education through the general fund have now been earmarked for specific uses that do not benefit the Department's operating budget.

The City has added $256 million to fund the cost of wage increases resulting from labor settlements that occurred between the time of the Adopted Budget and the release of the November Modification. Other agency expenses also registered an increase of $251 million for FY 2007, which will be partly offset by savings in pension and debt service expense.

Since the November Modification, the City reached a labor agreement with the United Federal of Teachers (UFT). The new agreement would span October 31, 2007 to October 31, 2009, and is estimated by the Comptroller's Office to cost $73 million in FY 2007, $55 million in FY 2008, $105 million in FY 2009 and $100 million in FY 2010 above the amount funded in the November Plan. Also, the City's overtime costs are likely to be $87 million greater than reflected in this budget modification.

The Comptroller's Office expects that these additional expenses will be more than offset by a combination of higher tax revenues and lower Medicaid costs than are accounted for in the current plan. We project that the City will have additional resources of $125 million in FY 2007, $305 million in FY 2008, $90 million in FY 2009, and $270 million in FY 2010. Even so, outyear gaps of $3.978 billion in FY 2009 and $3.338 billion FY 2010 remain.

The outyear gaps reflect rapid growth in non-discretionary spending categories such as debt service, health insurance costs, and pensions. The City could face additional expenses if the City Actuary accepts the recommendations of the most recent independent actuarial audit. In their entirety, the recommendations would have increased costs $339 million if applied to FY 2006, although the cost could be partially offset by certain changes in actuarial cost methods. Uncertainty continues to surround how the State will address the CFE school finance case. Any resolution of this issue could involve a significant additional commitment of funds by the City for education.

Last year, the City generated surplus resources exceeding $5.7 billion, as itemized in the Comptroller's Report on the Adopted Budget. Of that amount, $3.7 billion was used to prepay FY 2007 expenses. Except for a small residual, the remainder was applied to provide budget relief to future years and to establish assets to offset the non-pension retiree benefit liabilities that the City has been required to calculate and reveal by the Governmental Accounting Standards Board. Experience has shown how quickly the City's fortunes can swing from abundance to shortfalls, so prudent management of surpluses in good years is necessary to prepare the City for inevitable fiscal tightening.

The City should continue to develop a thoughtful and creative approach to the use of surplus resources. This Office has advocated greater use of pay-as-you-go capital financing methods and the establishment of a Rainy Day Fund as means to provide benefits to future years from the current year's surpluses. The City should also consider using surplus resources to reduce the outstanding debt incurred when it resorted to the bond market to weather the sharp downturn precipitated in 2002 by the September 11, 2001 World Trade Center tragedy.

The presence of repeated surpluses also raises the question of whether the City's high tax burden can be reduced without jeopardizing services. The Comptroller urges policy makers when considering this possibility to be mindful of the extraordinary and transitory nature of the City's recent revenue windfalls, and, if tax reductions are deemed advisable, to give careful consideration to options that will help the City retain and grow its middle class and its entrepreneurial sector.

Table 1. FYs 2007-2010 Financial Plan

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FYs 2007-10 Dollar	Changes FYs 2007-10 Percent
Revenues						
Taxes:						
General Property Tax	$13,136	$13,761	$14,417	$15,096	$1,960	14.9%
Other Taxes	$21,541	$21,263	$21,700	$22,690	$1,149	5.3%
Tax Audit Revenues	$759	$559	$559	$560	($199)	(26.2%)
Miscellaneous Revenues	$5,232	$5,194	$4,781	$4,808	($424)	(8.1%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$0	0.0%
Less: Intra-City Revenues	($1,395)	($1,326)	($1,328)	($1,328)	$67	(4.8%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$39,598	$39,776	$40,454	$42,151	$2,553	6.4%
Other Categorical Grants	$1,041	$983	$996	$1,001	($40)	(3.8%)
Inter-Fund Revenues	$414	$392	$384	$384	($30)	(7.2%)
Total City & Inter-Fund Revenues	$41,053	$41,151	$41,834	$43,536	$2,483	6.0%
Federal Categorical Grants	$5,464	$5,112	$5,110	$5,113	($351)	(6.4%)
State Categorical Grants	$9,872	$9,857	$9,928	$10,054	$182	1.8%
Total Revenues	$56,389	$56,120	$56,872	$58,703	$2,314	4.1%
Expenditures						
Personal Service						
Salaries and Wages	$19,624	$20,054	$20,495	$20,776	$1,152	5.9%
Pensions	$4,869	$5,595	$5,960	$5,972	$1,103	22.7%
Fringe Benefits	$7,085	$6,349	$6,669	$6,928	($157)	(2.2%)
Subtotal-PS	$31,578	$31,998	$33,124	$33,676	$2,098	6.6%
Other Than Personal Service						
Medical Assistance	$4,935	$5,083	$5,222	$5,376	$441	8.9%
Public Assistance	$1,355	$1,355	$1,355	$1,355	$0	0.0%
Pay-As-You-Go Capital	$200	$200	$200	$200	$0	0.0%
All Other	$16,665	$16,024	$16,396	$16,709	$44	0.3%
Subtotal-OTPS	$23,155	$22,662	$23,173	$23,640	$485	2.1%
Debt Service						
Principal	$1,646	$1,764	$1,835	$1,841	$195	11.8%
Interest & Offsets	$2,156	$2,390	$2,670	$3,017	$861	39.9%
Total	$3,802	$4,154	$4,505	$4,858	$1,056	27.8%
BSA	$1,946	$0	$0	$0	($1,946)	(100.0%)
Prepayments	($3,751)	($1,946)	$0	$0	$3,751	(100.0%)
Transfer for NYCTFA Debt Service	($200)	$0	$0	$0	$200	(100.0%)
Defeasance of certain NYCTFA Debt	($16)	($350)	$0	$0	$16	(100.0%)
NYCTFA						
Principal	$369	$106	$425	$461	$92	24.9%
Interest & Offsets	$592	$1,022	$741	$704	$112	18.9%
Total	$961	$1,128	$1,166	$1,165	$204	21.2%
MAC Administrative Expenses	$10	$10	$0	$0	($10)	
General Reserve	$299	$300	$300	$300	$1	0.3%
	$57,784	$57,956	$62,268	$63,639	$5,855	10.1%
Less: Intra-City Expenses	($1,395)	($1,326)	($1,328)	($1,328)	$67	(4.8%)
Total Expenditures	$56,389	$56,630	$60,940	$62,311	$5,922	10.5%
Gap To Be Closed	**$0**	**($510)**	**($4,068)**	**($3,608)**	**($3,608)**	

NOTE: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.
SOURCE: NYC Office of Management and Budget.

Table 2. Plan-to-Plan Changes
November Modification vs. Adopted Budget FY 2007

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Revenues				
Taxes:				
General Property Tax	($4)	$11	$10	$11
Other Taxes	$1,981	$1,853	$1,368	$1,424
Tax Audit Revenues	$250	$50	$50	$50
Miscellaneous Revenues	$77	($1)	($1)	($1)
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Less: Intra-City Revenues	($40)	$7	$7	$7
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$2,264	$1,920	$1,434	$1,491
Other Categorical Grants	$74	$1	$1	$1
Inter-Fund Revenues	$19	$19	$19	$19
Total City & Inter-Fund Revenues	$2,357	$1,940	$1,454	$1,511
Federal Categorical Grants	$401	$55	$55	$56
State Categorical Grants	$3	($95)	($120)	($108)
Total Revenues	$2,761	$1,900	$1,389	$1,459
Expenditures				
Personal Service				
Salaries and Wages	$376	$555	$748	$734
Pensions	($22)	($19)	$101	$248
Fringe Benefits	$165	$96	$112	$124
Subtotal-PS	$519	$632	$961	$1,106
Other Than Personal Service				
Medical Assistance	$0	$0	$0	$0
Public Assistance	($844)	($847)	($847)	($847)
Pay-As-You-Go Capital	$0	$0	$0	$0
All Other	$1,255	$767	$761	$761
Subtotal-OTPS	$411	($80)	($86)	($86)
Debt Service				
Principal	$13	($2)	$35	$30
Interest & Offsets	($144)	($158)	($224)	($239)
Total	($131)	($160)	($189)	($209)
BSA	$1,946	$0	$0	$0
Prepayments	$0	($1,946)	$0	$0
Transfer for NYCTFA Debt Service	$0	$0	$0	$0
Defeasance of certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA				
Principal	$0	($337)	($14)	$0
Interest & Offsets	$57	$484	$194	$180
Total	$57	$147	$180	$180
MAC Debt Service/Administrative Expenses	$0	$0	$0	$0
General Reserve	($1)	$0	$0	$0
Subtotal	$2,801	($1,407)	$866	$991
Less: Intra-City Expenses	($40)	$7	$7	$7
Total Expenditures	$2,761	($1,400)	$873	$998
Gap To Be Closed	**$0**	**$3,300**	**$516**	**$461**

NOTE: General Property Tax includes STAR; Other Taxes includes NYCTFA revenues. As FY 05 Adopted Budget did not include a forecast for FY 09, plan-to-plan changes are unavailable for that fiscal year.

Table 3. FYs 2007-2010 Risks and Offsets

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
City Stated Gap	**($0)**	**($510)**	**($4,068)**	**($3,608)**
Revenue Assumptions				
Property Tax	$0	($30)	$85	$220
Personal Income Tax	120	90	(10)	0
Business Taxes	20	70	0	0
Sales Tax	20	40	(30)	0
Real-Estate-Related Taxes	0	0	100	100
IRS Refund	0	140	0	0
Subtotal	**$160**	**$310**	**$145**	**$320**
Expenditure Projections				
Overtime	($87)	($75)	($75)	($75)
Labor	(73)	(55)	(105)	(100)
Medicaid Savings	125	125	125	125
Subtotal	**($35)**	**($5)**	**($55)**	**($50)**
Total (Risk)/Offsets	**$125**	**$305**	**$90**	**$270**
Restated (Gap)/Surplus	**$125**	**($205)**	**($3,978)**	**($3,338)**

II. The State of the City's Economy

A number of factors conspired to produce a deep recession in New York City's economy early in this decade. Since late 2003, however, the local economy has expanded continuously, and has neared or surpassed the previous peaks of its key economic indicators. Notwithstanding certain risks to the national and City economies, the Comptroller anticipates a continued expansion that will produce record levels of local output, employment and income.

A. NYC'S ECONOMIC PERFORMANCE IN 2006

The third quarter of 2006 marked the 12th consecutive quarter in which New York City's economy expanded, and the 20th consecutive quarter of national economic growth. By historical standards, the current expansion is still young: the 1990s national expansion lasted for 37 quarters. Perhaps learning from the excesses of the late 1990s, however, the Federal Reserve has acted more aggressively to address perceived imbalances, especially in asset markets. Between 2003 and 2006 the central bank raised its target federal funds rate 17 times, causing the benchmark rate to rise a total of 4.25 percentage points.

The Fed's monetary tightening was intended to head off inflationary pressures. The Consumer Price Index for all urban consumers (CPI), increased 2.3 percent in 2003, 3.3 percent in 2004, and 3.4 percent in 2005. In the second quarter of 2006, the CPI rose to a 15-year high of 4.0 percent. Although the energy price increases of the past year contributed to higher inflation, more worrisome to many economists were trends in the "core inflation" rate, a measure which excludes food and energy. Core inflation had been rising continuously, from 1.2 percent in the fourth quarter of 2003 to 2.8 percent in the third quarter of 2006.

A second consideration was soaring housing prices, a trend which was widely viewed as an "asset bubble" that was artificially inflating consumer spending and that could eventually result in a painful readjustment. Single-family house prices nationally rose by 58 percent from the fourth quarter of 2000 through the fourth quarter of 2005, according to the Office of Federal Housing Enterprise Oversight (OFHEO).

By mid-2006 there was growing evidence that the Fed's policy was having its intended effect. Real GDP growth dropped from a 5.6 percent pace in the first quarter of the year to 2.6 percent in the second quarter, and to 2.2 percent in the third quarter (preliminary estimate). Payroll jobs, which increased by 1.7 percent in the first quarter, grew by only 1.2 percent in the second and third quarters, while the unemployment rate remained unchanged at 4.7 percent. Most importantly, a number of indicators suggested that the national housing market was deflating rapidly. OFHEO reported that home price appreciation slowed to a 4.7 percent annual rate in the second quarter, the lowest rate of annual price growth since 1999, while the Commerce Department reported that the median price of a new home sold in September, 2006 fell 9.6 percent from a year earlier.

With the economy clearly slowing, the Federal Reserve's Open Market Committee decided at its August, September, and October meetings to keep the federal funds rate unchanged at 5.25 percent. However, if the core inflation rate continues to increase, the Fed might be forced to further tighten monetary conditions.

Table 4 provides summary projections for key economic indicators in 2006 and 2007.

Table 4. U.S. Economic Indicators, Actual 2005, and Comptroller's Projections, 2006-2007

Indicator	Actual 2005	Projected 2006	Projected 2007
Real GDP Growth, (2000 $)	3.2	3.2	2.1
Payroll Jobs, Percent Change	1.5	1.4	1.2
Consumer Price Index (1982=100), % Change	3.4	3.6	2.8
Wage-Rate Growth	3.5	4.0	3.3
Unemployment Rate	5.1	4.7	4.9
Fed Funds Rate	3.2	5.0	4.9
10-Yr T-Notes	4.3	4.8	5.0

SOURCE: NYC Comptroller's Office and data from BLS, BEA, and the Federal Reserve Board of Governors. Actual data are shown in the 2005 column. The Comptroller's projections (averages for the year) are in the 2006 and 2007 columns.

Although New York City's economic recovery started nearly two years later than the rest of the country's, it has displayed somewhat greater strength during the course of 2006. Nevertheless, there are signs that the pace of growth is weakening. The City's real gross product (GCP) grew at an average annual rate of 3.2 percent during the first three quarters of 2006 compared with 3.6 percent during the same period in 2005. The quarterly pattern also reflects a gradual loss of momentum: GCP increased at an annual rate 4.3 percent in the first quarter of 2006, at a 2.9 percent rate in the second quarter, and at 2.4 percent in the third quarter of the year.

The number of payroll jobs, in contrast, grew faster during the first ten months of 2006 than in the first ten months of 2005. However, quarterly job gains have slowed during the year. For instance, total payroll jobs, which increased by 57,900 overall during the first ten months of 2006, grew by 23,000 in the first quarter, but by only 14,200 and 17,000 in the second and third quarters, respectively.

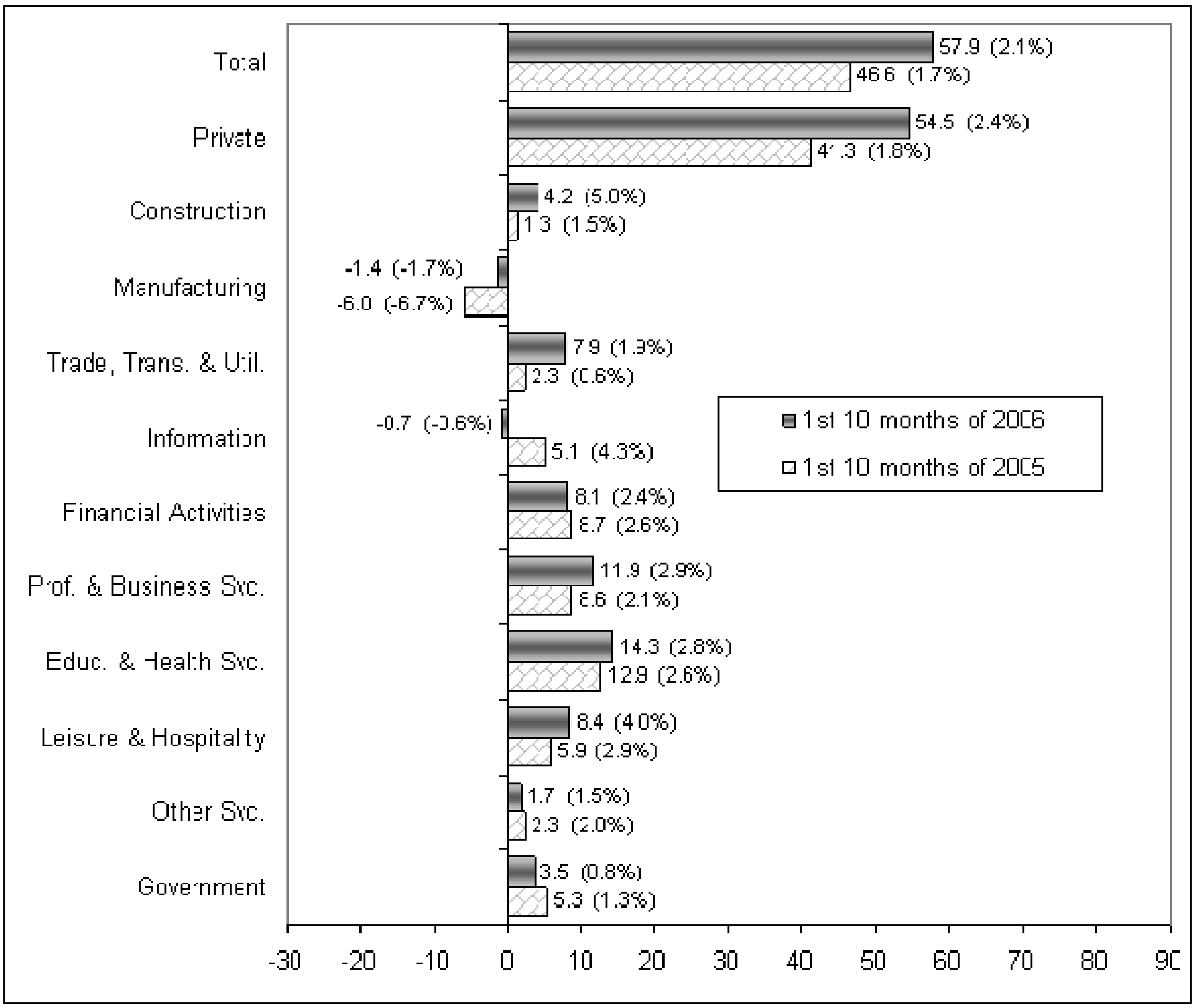
The only major industry sectors in which the City lost jobs during 2006 were manufacturing and information. The City's manufacturing job base contracted by 1,400 and employment in the information sector, which includes publishing, motion pictures and telecommunications, contracted by 700 during the first ten months of 2006.

During the first ten months of 2006, the City's leading job-creating sector has been education and health services, in which about 14,300 jobs have been added. Most of the growth has occurred in the health sector. Strong job growth has also been registered in industries catering to local and visitor retail demand. Supported by the continued strong income growth of City residents and another record year for tourism, retail employment was up by about 7,100 jobs during the first ten months of 2006, and leisure and hospitality employment had increased by about 8,400 compared to the previous year. Construction employment increased by 4,200 reflecting the residential building boom in the City.

A positive development for the City's economy during 2006 has been the continuous job creation in strategic sectors such as financial activities and professional and business services. The financial sector added 8,100 jobs during the first ten months of 2006, slightly less than the 8,700 increase during the same period of 2005. Job creation in professional and business services increased by 11,900 compared to the 8,600 in the previous year.

Chart 1 shows the change in the City's payroll jobs during the first ten months of 2006 versus the first ten months of 2005.

Chart 1. ***Change in NYC Payroll Jobs, Seasonally Adjusted Annual Rate First 10 months of 2006 vs. First 10 months of 2005***



SOURCE: Monthly Data from U.S. Department of Labor and NYC Comptroller's Office.

Although by October 2006, the total number of payroll jobs in the City had not yet recovered to the pre-recession peak reached in December 2000, the City's unemployment rate had fallen to 4.1 percent in October 2006, its lowest rate in over three decades. On a quarterly basis, the seasonally adjusted unemployment rate improved to 5.1 percent in the third quarter of 2006 from 5.4 percent in the first quarter and 5.2 percent in the second quarter. Moreover, the City's labor force participation rate and employment-to-population ratio had reached record highs. These developments are somewhat contradictory. In part, they can be explained by methodological differences in the way employment and unemployment data are generated. There are also indications, however, that more City residents are finding opportunities for self-employment. According to the U. S. Bureau of Economic Analysis, between 2000 and 2004 the number of wage and salary jobs in the City fell 174,000, while the number of self-employed positions increased 166,000.

Table 5. Change in Civilian Employment, Unemployment, and Labor Force, NYC, First 10 months of 2006 vs. First 10 months of 2005

	First 10 months of 2005	First 10 months of 2006
Civilian Employment	52,900	48,800
Unemployment	(12,800)	(64,200)
Labor Force	40,200	(15,400)

SOURCE: NYC Comptroller's Office based on NYS Department of Labor.

B. ECONOMIC OUTLOOK

Any time the Federal Reserve engineers an economic slowdown, there is a risk that the monetary measures will prove too strong and the economy will slip into recession. At the present time, however, it appears that the economy is on target for the "soft landing" that has historically been difficult to achieve. GDP growth has moderated, inflation appears to be subsiding, and the national housing market seems to be deflating in a controlled manner. Moreover, short-term interest rates have risen while long-term rates have remained relatively stable, and recent stock market performance reflects investor optimism. Nevertheless, the economy may be particularly vulnerable to unexpected shocks such as a surge in oil prices, a housing market crash, or international financial turbulence stemming from the country's large trade and budget deficits.

The Comptroller anticipates that the national economy will continue to grow at a modest pace through the remainder of 2006 and into the first half of 2007, thereafter regaining some momentum. If inflation continues to moderate, economic growth could even be stimulated by interest rate cuts later in 2006 or early in 2007. While the risk of a national recession is undoubtedly greater than it was a year or two ago, the Comptroller does not expect one within the four-year time horizon of the City's current financial plan.

Table 6 compares the Comptroller's forecast for 2006 and 2007 with the Mayor's forecast and with the Blue Chip Economic Indicators, a monthly report of top analysts' forecasts for the U.S. economy for the year ahead.

Table 6. Percent Change in Real GDP, Inflation Rate, and Unemployment Rate, Projections, 2006 and 2007

	GDP Growth		Unemployment Rate		Change in CPI	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**
1. NYC Comptroller's Office	3.2	2.1	4.6	4.9	3.6	2.8
2. Mayor	3.4	2.3	4.7	4.9	3.4	2.3
3. Blue Chip Consensus	3.3	2.5	4.7	4.9	3.4	2.3

SOURCE: OMB, NYC Comptroller's Office and Blue Chip Economic Indicators, November 10, 2006.
CPI=Consumer Price Index.

On both the national and local levels, the housing market is an area of great uncertainty. Many forecasters, including the Comptroller, expect New York City's housing market to outperform the nation's during the coming year. The City's inherent housing supply constraints, its institutional restrictions (including rent regulation, and co-op board restrictions), and the City's inherent appeal as a place to live all suggest that the recent housing boom did not have as speculative a character here as it did elsewhere. The Comptroller is expecting only modest, if any, price declines for owner-occupied housing, on a per-square foot basis, during 2007. In the commercial real estate market the picture is, if anything, even more promising. The overall office vacancy rate continued to decline in Manhattan from 7.8 percent in the second quarter to 7.0 percent in the third quarter of 2006. On a year-over-year basis, the overall vacancy rate fell in the three major submarkets, Midtown, Midtown South, and Downtown. Office rental rates continued to rise, reaching $45.84 per square foot in Manhattan during the third quarter of 2006, compared to $41.35 in the third quarter of 2005. Demand for retail space also remained strong. The Real Estate Board of New York (REBNY) reported that the median asking price per square foot for Manhattan ground-floor space continued to increase through the first three quarters of 2006, reaching $225 in major retail corridors, an increase of 12.5 percent over the previous year. Furthermore, there remained strong investor interest in New York's commercial and investment-grade residential properties, as several notable property transactions demonstrated.

The principal engine of the City's economy is, of course, the financial services sector. Earlier in 2006 there was concern that the Fed's monetary tightening would curtail what had begun as a very good year for the securities industry. However, the stock market has rallied as the threat of further interest rate increases abated, and publicly-held Wall Street firms have reported strong quarterly earnings. Key indicators of Wall Street activity remain positive, and at this point there is little reason for concern regarding the short-term health of the City's financial sector.

The City's economy is expected to grow more slowly during late 2006 and early 2007 than it did over the past 12 months, but the chance of a recession remains low. Table 7 provides a summary projection for five NYC indicators in 2005 and 2006.

Table 7. Selected City Indicators, Actual 2005 and Comptroller's Forecasts, 2006-2007

Indicator	**2005**	**2006**	**2007**
Real GCP, (2000 $), % Change	3.4	3.1	1.9
Payroll Jobs (Annual Change), '000s	49.0	55.0	25.0
Wage-Rate Growth, %	4.8	6.3	4.0
Consumer Price Index (1982=100), % Change	3.9	3.9	3.3
Unemployment Rate, %	5.8	5.0	4.6

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

III. The City's Fiscal Outlook

The City's fiscal outlook for FY 2007 and FY 2008 has improved considerably since the City adopted the FY 2007 budget in June. Where the City had projected a balanced budget for FY 2007 in June, the November Modification indicates that the City expects to end FY 2007 with a surplus of $1.9 billion. In addition, the $3.8 billion gap projected for FY 2008 in the Adopted Budget has shrunk significantly to $510 million in the November Modification. Likewise, projected outyear gaps have narrowed since budget adoption. However these gains are small relative to FY 2008, with the gaps projected to narrow by about $500 million in each of FYs 2009 and 2010.

Better-than-expected strength in the local economy, as reflected in stronger year-to-date tax collections than assumed in the Adopted Budget, has prompted the City to increase its tax revenue projections for FY 2007 by $2.2 billion to $35.4 billion.[1] Revisions to the personal income tax (PIT) and real-estate-related tax revenue projections account for more than half of this increase.[2] The FY 2007 PIT revenue forecast is $604 million above the Adopted Budget projection, reflecting mainly continued strength on Wall Street. Real-estate-related tax revenue projections are $812 million greater, reflecting higher-than-expected sales and refinancing activities as well as high-priced commercial transactions, such as the sale of Stuyvesant Town-Peter Cooper Village for $5.4 billion. The remaining increases to tax revenue forecasts are due mainly to revisions to sales and business tax revenue projections, as discussed in "Tax Revenues" beginning on page 12.

The revised tax revenue forecast is the primary driver behind the improved Financial Plan forecast. Overall, City-fund revenue estimates for FY 2007 were increased by $2.4 billion to $41.1 billion.[3] At the same time, FY 2007 City-fund expenditure estimates were increased by $411 million, resulting in a surplus of $1.9 billion. Funding for City-wide wage increases based on the District Council 37 (DC 37) contract, reached after the release of the Adopted Budget, accounts for most of the projected expenditure increase. The Comptroller's Office had projected in its July 2006 report on the City's Adopted Budget that the FY 2007 cost of wage increases patterned after the DC 37 settlement would total $254 million. In the November Modification, the City added $256 million to fund the FY 2007 cost of wage increases.

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[1] Tax revenues in this report include Personal Income Tax (PIT) retained for New York City Transition Finance Authority (NYCTFA) debt service.

[2] Real-estate-related tax revenues comprise mortgage recording tax (MRT) and real property transfer tax (RPTT) revenues.

[3] The City increased its total-fund revenue estimate by $2.8 billion to $56.4 billion. Total-fund revenues include both Federal and State categorical grants. Since Federal and State categorical grants support Federal and State categorical expenditures they do not impact the City's budget gap.

As shown in Table 8, the City plans to use the projected FY 2007 surplus to fund a Budget Stabilization Account that will be used to prepay FY 2008 debt service. The planned prepayment of $1.9 billion of FY 2008 debt service along with higher FY 2008 revenue estimates of $1.9 billion resulted in additional resources totaling $3.8 billion. The additional resources will support City-fund FY 2008 expenditure increases of $586 million and provide budgetary relief of $3.3 billion. As a result, the projected gap for FY 2008 in the November Modification has narrowed to $510 million from the $3.8 billion level projected in the Adopted Budget.

Table 8. Changes to the City's Projections

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Gap to be Closed Adopted FY 2007 Plan	$0	($3,810)	($4,584)	($4,069)
Revenue Changes				
Tax Revenues[a]	$2,227	$1,914	$1,428	$1,485
Non-Tax Revenues	$130	$26	$26	$26
Total Revenue Changes	**$2,357**	**$1,940**	**$1,454**	**$1,511**
Expense Changes				
Addn'l Cost of Wage Increase patterned after DC 37 Contract	($256)	($452)	($783)	($930)
Reduction in State Education Aid	(41)	(41)	(41)	(41)
Debt Service[b]	74	12	8	29
Pension	22	19	(101)	(248)
Other Agency Expenses	(210)	(124)	(21)	140
Total Expense Changes	**($411)**	**($586)**	**($938)**	**($1,050)**
Total November Modification Changes	**$1,946**	**$1,354**	**$516**	**$461**
(BSA)/Prepayments	**($1,946)**	**$1,946**	**$0**	**$0**
Gap to be closed November Modification	**$0**	**($510)**	**($4,068)**	**($3,608)**

[a] Includes PIT retained for New York City Transition Finance Authority (NYCTFA) debt service.
[b] Includes NYCTFA debt service.

A. RISKS AND OFFSETS

The Comptroller's Office projects that the City may have additional resources of $125 million in FY 2007. For the outyears, the Comptroller's Office projects that the gaps would be reduced by $90 million to $305 million from the amounts projected in the November Modification, narrowing the outyear gaps to $205 million in FY 2008, $3.98 billion in FY 2009 and $3.34 billion in FY 2010. The FY 2008 gap could be reduced to $80 million if the additional FY 2007 surplus projected by the Comptroller's Office is used to prepay FY 2008 expenses.

The additional resources identified by the Comptroller's Office stem mainly from higher tax revenue forecasts and Medicaid savings. As discussed in "Tax Revenues" beginning on page 12, the Comptroller's Office estimates that tax revenues will exceed the City's projections by $160 million in FY 2007, $170 million in FY 2008, $145 million in FY 2009 and $320 million in FY 2010. At the same time, the City has not reflected the revised FY 2005 Medicaid costs used in the computation of Medical Assistance cap which could yield savings of $125 million annually in each of FYs 2007 through 2010. In addition, the City expects to receive a $140 million refund from the Internal Revenue Service in FY 2008 that is not currently reflected in the Financial Plan. The refund is for Social Security taxes that were inappropriately imposed on line-of-duty-injury payments to uniformed workers in the nineties.

These additional resources are partially offset by additional overtime and labor cost. While the City has increased its FY 2007 overtime budget by $62 million, the Comptroller's Office estimates overtime spending for FY 2008 could be $87 million greater than this revised estimate. In addition, the contract settlement with the United Federation of Teachers (UFT) after the release of the November Modification will require additional funds of $73 million in FY 2007, $55 million in FY 2008, $105 million in FY 2009, and $100 million in FY 2010. The additional cost in FY 2007 arises from the $750 lump-sum payment to each employee covered by the contract. The additional outyear costs are due the differences in the timing of the first increase, the 1.0 percent differential in the second increase, and enhanced benefits as discussed in "Labor" beginning on page 24.

B. REVENUE OUTLOOK

City-fund revenue projections in the November Modification rose by a range of $1.45 billion in FY 2009 to $2.36 billion in FY 2007. As shown in Table 9, the higher revenue projections are mainly due to expectations of stronger tax revenues, particularly real-estate-related, personal income, and corporate taxes. Only minor revisions have been made to real property and sales tax projections. Estimates of miscellaneous revenues have been revised upward by $37 million for FY 2007, primarily resulting from higher interest earnings on overnight investments.

Table 9. Changes to the FYs 2007-2010 Revenue Projections

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Tax Revenue	$2,227	$1,914	$1,428	$1,485
Miscellaneous Revenue	37	6	6	6
Other	93	20	20	20
Total	**$2,357**	**$1,940**	**$1,454**	**$1,511**

Tax Revenues

The City has raised its tax revenue assumptions in the November Modification for FY 2007 by $2.2 billion, or 6.7 percent, as illustrated in Table 10.[4] Changes in non-

[4] The definition of tax revenues used in this section includes State reimbursement for the School Tax Relief (STAR) Program, personal income tax (PIT) revenues retained for the New York City Transitional Finance Authority (NYCTFA) debt service, and net lien sales in property taxes. It excludes refunds and audit revenues.

property tax revenue forecasts account for all of the increase. The property tax revenue forecast, reduced by $4 million, is virtually unchanged from the adopted FY 2007 Budget. The upward revisions to the tax revenue forecast are the result of strong collections during the first three months of the fiscal year and a more optimistic outlook for real estate-related activities. Forecasts for FYs 2008 through 2010 are raised by $1.9 billion, $1.4 billion, and $1.5 billion, respectively.

Table 10. Revisions to the City's Tax Revenue Assumptions

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Adopted Budget – Total	**$35,436**	**$35,583**	**$36,676**	**$38,346**
Revisions:				
Property	(4)	11	11	11
Personal Income (PIT)	604	714	385	408
Business	489	556	500	523
Sales	30	30	7	8
Real-Estate Related	812	559	476	462
All Other	297	44	50	73
Total Revisions	**2,228**	**1,914**	**1,429**	**1,485**
Total Revisions - Percent	**6.7%**	**5.7%**	**4.1%**	**4.0%**

SOURCE: NYC Office of Management and Budget.

The City's Forecast of Tax Revenues

Non-property-tax collections, excluding audits, in the first four months of FY 2007 were $638 million greater than the Adopted Budget estimate and $393 million greater than the same period in FY 2006. Greater-than-expected revenue collections were realized in real estate-related tax revenues, business tax revenues and personal income tax (PIT) revenues. Audit collections for the first four months of FY 2007 increased $483 million.

Expected revenues from real property taxes for FY 2007 and the outyears have changed little from the Adopted Budget. Revenue growth in FY 2007 is expected to be 4.0 percent, and is forecast to average 4.7 percent annually in the three subsequent fiscal years, inclusive of a discretionary $400 property tax rebate to homeowners who utilize their properties as a primary residence.

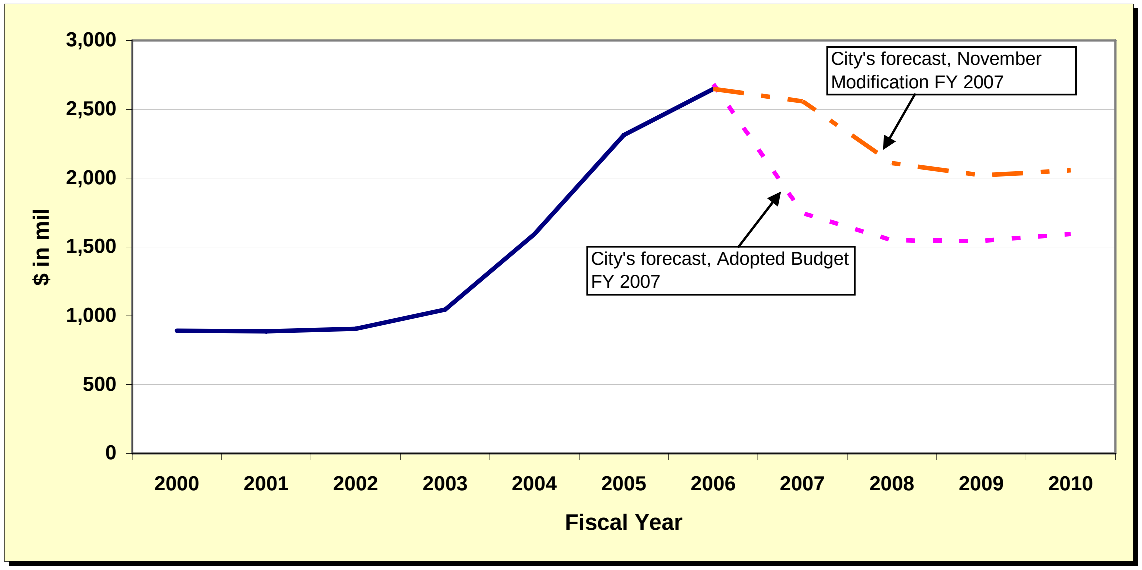
The PIT forecast, before the New York City Transitional Finance Authority (NYCTFA) retention, has been increased $2.07 billion over four years, with the largest anticipated change from the July Plan occurring in FY 2008. Growth in PIT revenues is expected to average 3.2 percent per year over the Financial Plan period. The FY 2007 estimate increases from $7.5 billion in the Adopted Budget to $8.1 billion in the November Modification, or $604 million, as a result of an increase in gross projections, somewhat offset by higher expected refunds. Most of this change is due to an anticipated increase in withholding and installments resulting primarily from forecasts of higher Wall Street bonuses and stronger capital gains growth. Net PIT collections in the first four months of FY 2007 were $176 million above the level anticipated in the Adopted Budget and $121 million greater than the same period in FY 2006.

In the Plan, the City increased its business tax revenue estimates by an average of $517 million per year. The FY 2007 estimate increased $489 million, from $4.1 billion in the Adopted Budget to $4.6 billion in the November Modification. The forecasts for all three business taxes – the general corporation tax (GCT), the banking corporation tax (BCT), and the unincorporated business tax (UBT) are higher throughout the plan period. Estimated net collections for the GCT, the BCT, and the UBT rise an average of $201 million, $129 million, and $157 million, respectively, for each year in the Plan. Overall, business tax revenues are expected to grow at an average rate of 2.1 percent per year over the FYs 2007-2010 period.

Revenue estimates for sales tax revenues during the plan period have been revised upwards slightly, by an average of $19 million annually. The estimate for FY 2007 is raised $30 million, from $4.51 billion in the Adopted Budget to $4.54 billion in the November Modification. Sales tax revenues are expected to grow at an annual rate of 3.6 percent during the financial plan period.

Forecasts for real-estate-related taxes, which comprises real property transfer tax (RPTT) and mortgage recording tax (MRT), have been raised significantly since the Adopted Budget, by an annual average of $577 million over the Plan period. For FY 2007, revenue forecasts for the MRT and the RPTT are each raised by $406 million. These increases reflect the strength of collections to date and greater real estate transaction volume than previously expected. The 30-year mortgage rate in New York State has remained relatively stable after reaching a four-year high this past June. The vacancy rate for prime Midtown office space has fallen to its lowest level since 2001, and asking rents for prime office space have also retraced to the record levels seen in 2001. The favorable conditions for commercial real-estate related activities are reflected in the City's revised upward forecast for the real-estate-related tax revenues in FY 2007 and subsequent years. Despite the higher forecast in the current Plan, real-estate-related tax revenues are expected to decline an average of 11.1 percent annually between FYs 2007 and 2009, and then grow 1.7 percent in FY 2010.

Chart 2. ***Real Estate-Related Tax Revenues, Actual and Forecast, FYs 2000-2010***



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

Risks and Offsets to the City's Tax Revenue Assumptions

Since its July forecast, the Comptroller's Office has lowered its economic growth projections slightly for both the City and the nation. Based on economic forecasts discussed in "Economic Outlook" beginning on page 7, the Comptroller's estimate of total tax revenue exceeds the City's by $160 million in FY 2007, $170 million in FY 2008, $145 million in FY 2009, and $320 million in FY 2010.

Table 11. Tax Revenue Risks and Offsets

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Property	$0	($30)	$85	$220
PIT	120	90	(10)	0
Business	20	70	0	0
Sales	20	40	(30)	0
Real Estate-Related	0	0	100	100
Total	**$160**	**$170**	**$145**	**$320**

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

As in the July 2006 report, "The Comptroller's Comments on the Adopted Budget for Fiscal Year 2007 and the Financial Plan for Fiscal Years 2007-2010," the Comptroller's projections of real property tax revenues from FY 2008 to FY 2010 average 5.3 percent growth on an annual basis, 0.6 percentage points above the City's estimates. This growth reflects (1) a modest decline in expected values of small residential buildings in the next two years followed by a gradual recovery through the end of the decade, (2) moderate momentum in prices of larger residential buildings, and (3) a sustained growth in the values of commercial properties throughout most of the plan period resulting from limited supply and a surplus of investment capital.

The likelihood of a drastic slowdown in the City's real estate market is low. Given the sustained growth in market value of most Class 2 and all Class 4 properties and the phasing-in of their assessed values in recent years, the impact of a moderate decline in prices will not be very substantial. Estimates from the Comptroller suggest that were market values across all parcels to fall by 5.0 percent, the effect on the City's real property tax revenue in the next fiscal year would be a decrease of no more than 2.0 percent, or about $300 million. If the decline reached 10 percent, the subsequent loss in revenue would be no more than 5.0 percent, or approximately $700 million.

The Comptroller's forecasts of PIT, business tax, and sales tax revenues for FY 2007 and FY 2008 exceed the City's by $160 million and $200 million, respectively. For FY 2009, the Comptroller is projecting a total risk of $40 million against the City's estimates of the PIT, business tax, and sales tax revenues, based on a more moderate level of economic growth. Considering the strong performance in the City's real estate market and the movement of mortgage rates, the Comptroller agrees with the City's forecasts of real estate-related tax revenues for FY 2007 and 2008. However, the Comptroller's forecasts for real estate-related tax revenues are more optimistic for FY 2009 and 2010, due to an assumption of a "soft landing" in the real estate market and relatively stable mortgage interest rates.

Miscellaneous Revenues

Miscellaneous revenues include fees for licenses and franchises, rental income, water and sewer revenues, fines, interest income, and other miscellaneous revenues. Excluding intra-City revenues, the City's latest forecast for miscellaneous revenues included in the November Modification increased by a mere $37 million to $3.837 billion in FY 2007 compared with the Adopted Budget. Almost all of the increase is attributed to additional interest income the City expects to earn in overnight investments.

Table 12. Changes in FY 2007 Estimates
Nov 2006 vs. June 2006

($ in millions)

	November	June	Change
Licenses, Franchises, etc.	$395	$395	$0
Interest Income	351	313	38
Charges for Services	553	551	2
Water and Sewer Charges	1,096	1,087	9
Rental Income	176	181	(5)
Fines and Forfeitures	721	728	(7)
Miscellaneous	545	545	0
Total	**$3,837**	**$3,800**	**$37**

The FY 2007 forecast for water and sewer charges increased by $9 million. However, even though this category constitutes the largest within miscellaneous revenues, the bulk of these revenues are not available for general operating purposes because they are earmarked for reimbursement for expenses related to the operation and maintenance of the water and sewer system. Estimates of fines and forfeitures, the second largest category, and rental income were slightly reduced in the November Modification.

Over the term of the Financial Plan, miscellaneous revenue estimates are virtually unchanged from the July Plan and are projected to increase slightly in FY 2008 to $3.868 billion before declining in the last two years of the Financial Plan to $3.453 billion in FY 2009 and $3.480 billion in FY 2010.

Intergovernmental Aid

The November Plan reflects an increase of $404 million in the City's projection of Federal and State grants in FY 2007. The increase, almost entirely in Federal funds, is attributable mainly to the roll of unspent Federal allocations from FY 2006 into the current year, a normal routine at this time of the year. This boosts the City's Federal and State aid assumptions to $15.3 billion in FY 2007, constituting about 27 percent of the overall revenue budget of $56.4 billion.

Compared with the June Plan, the November Plan shows modest declines of $40 million to $65 million annually in the outyears for Federal and State aid, which is projected to average slightly more than $15 billion in each of FYs 2008-10. The most significant changes are in State education aid, under which projections have been reduced $101 million to $126 million each year due to recognition of lower Bond Bank and building aid revenues. These declines are partly offset by Federal aid increases of about $55 million annually, mostly in welfare grants.

In a related issue, the City increased its provision for disallowance of Federal and State grants significantly in FY 2006. The FY 2006 contribution of $542 million to the disallowance reserve was the highest in recent memory. In comparison, over the prior 10 years, the City had not set aside more than $87 million for its disallowance reserve in any given year. The new provision was made primarily in anticipation of a pending Medicaid audit conducted by the Federal Department of Health and Human Services (HHS). Citing poor documentation and failure to follow Federal guidelines, the audit found that the Department of Education improperly submitted $532 million in Medicaid reimbursement claims to the Federal government for special education services rendered in 1993 through 2001. The claims consisted of $436 million for speech therapy services and $96 million for transportation services provided to school children during this period. The State, which oversees the City's Medicaid program, has submitted a response to HHS appealing the audit findings and seeking to overturn its decision to recoup payment from the City.

C. EXPENDITURE GROWTH

Expenditures are projected to grow from $56.4 billion in FY 2007 to $62.3 billion in FY 2010, or 10.5 percent. Expenditures in FY 2007 and FY 2008, however, are distorted by prepayments. After adjusting for prepayments, expenditure growth from

FY 2007 to FY 2010 is a more modest 6.7 percent, or 2.2 percent a year. Inflation from FY 2007 to FY 2010 is projected to be 7.4 percent or 2.4 percent a year.

As Table 13 shows, the rate of spending growth over the Financial Plan period is driven by growth in pension contributions, health insurance costs, Medicaid spending, debt service and judgments and claims (J&C) settlements. Total spending in these areas, which accounts for approximately 31 percent of FY 2007 spending, is projected to grow by 20.5 percent, or $3.7 billion, over the Financial Plan period. Within this group, the projected 8.9 percent growth in Medicaid over the Plan period is relatively modest, reflecting the State Medicaid spending cap limiting spending growth to approximately 3.0 percent in FY 2008 and beyond.

All other expenditures, except wages and salaries and other fringe benefits, are expected to remain relatively flat over the same period. The 24 percent decline in other fringe benefits as shown in Table 13 reflects the $1 billion contribution to the Retiree Health Benefits Trust Fund in FY 2007 which the City has not planned to extend to the outyears. Wages and salaries are projected to grow 5.9 percent, reflecting both wage increases and headcount assumptions.

Table 13. FY 2007 –FY 2010 Expenditure Growth

($ in millions)

	FY 2007	Annual Percentage Change			FY 07-10	FY 2010
		FY 07-08	FY 08-09	FY 09-10		
Pensions	$4,733	15.3%	6.7%	0.2%	23.3%	$5,836
Health Insurance	3,152[a]	9.5%	8.1%	5.6%	25.0%	3,940
Medicaid	4,935	3.0%	2.7%	2.9%	8.9%	5,376
Debt Service	4,774	10.7%	7.4%	6.2%	26.2%	6,022
J & C	602	7.2%	8.2%	7.2%	24.4%	748
Subtotal	$18,196	9.5%	6.1%	3.7%	20.5%	$21,922
Other Fringe Benefits	$3,934	(26.4%)	1.4%	1.8%	(24.0%)	$2,988
Salaries and Wages	19,386	2.2%	2.2%	1.4%	5.9%	20,538
Public Assistance	1,347	0.0%	0.0%	0.0%	0.0%	1,347
Other OTPS	15,549	(3.9%)	2.1%	1.7%	(0.2%)	15,507
Subtotal	$40,216	(3.0%)	2.0%	1.5%	0.4%	$40,388
Total Expenditure	$58,412	0.9%	3.4%	2.2%	6.7%	$62,310

SOURCE: NYC Office of the Comptroller
NOTE: Expenditures include NYCTFA debt service
[a] Includes only the pay-as-you-go health insurance cost for active and retired employees. Does not include the $1 billion contribution to the Retiree Health Benefits Trust Fund reserve. This contribution is included in Other Fringe Benefits.

Pensions

In its November Plan projections, the City forecasts that pension contributions will approach $6 billion in FY 2009 and FY 2010, a 48.7 percent increase from FY 2006, as shown in Table 14 below. Most of the increase between FY 2006 and FY 2009 is due to investment losses in FYs 2001 and 2002 being phased into the actuarial asset values through FY 2009. The November Plan projections also include the estimated impact of a new death benefit legislation related to the World-Trade-Center-disaster and additional pension costs associated with the assumption of City-wide wage increases patterned after the DC 37 agreement.

Table 14. November Plan Projections of the City's Pension Expenditures

($ in millions)

	FY 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010
Five Actuarial Systems	$3,919	$4,766	$5,489	$5,852	$5,863
Other Systems	96	103	106	108	109
TOTAL	$4,015	$4,869	$5,595	$5,960	$5,972

The changes in the projections of the City's contributions to its five actuarial pension systems between the November Plan and the Adopted Budget are illustrated in Table 15.

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

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
FY 2007 Adopted Budget	$4,788	$5,508	$5,751	$5,615
Correction in TRS Asset Value	(32)	(26)	(20)	(14)
Transfer from the Labor Reserve		5	127	277
World Trade Center "Presumptive" Accidental Death Benefit	10	10	10	10
FY 2006 Investment Return Adjustment		(8)	(16)	(25)
FY 2007 November Plan	$4,766	$5,489	$5,852	$5,863

Changes between the Adopted Budget projections and the November Plan are as follows:

- Reductions of $32 million in FY 2007, $26 million in FY 2008, $20 million in FY 2009, and $14 million in FY 2010 as a result of a correction in the valuation of the Variable Annuity Funds in the Teachers' Retirement System.

- Transfers of $5 million in FY 2008, $127 million in FY 2009, and $277 million in FY 2010 from the labor reserve to reflect the pension portion of the additional cost of wage increases for all bargaining units patterned after the DC 37 agreement. However, the additional pension cost (above the DC 37 pattern) for the recently announced, higher settlement with the United Federation of Teachers is not included.

- Increases in the reserve due to the enactment of Chapter 445 of the Laws of 2006, which provides accidental death benefits for certain "presumed" World-Trade-Center-disaster related deaths of eligible pension system members. The City has estimated that the benefits afforded by Chapter 445 will add $10 million per year to the City's pension contributions.

- Reductions due to investment returns generated during FY 2006. The FY 2007 Adopted Budget pension contributions were projected assuming that pension investments would earn exactly 8.0 percent on actuarial asset values. Preliminary estimates indicate that earnings on investments during FY 2006 were slightly higher. The five actuarial pension funds earned an estimated 10.1 percent return on market values during FY 2006, which works out – in actual dollar terms – to be marginally higher than the actuarially assumed return of 8.0 percent on the actuarial asset values. Accordingly, the November Plan has reduced pension contribution projections by $8 million in FY 2008, $16 million in FY 2009, and $25 million in FY 2010. It should be noted that FY 2006 investment performance does not impact employer contributions in FY 2007 because, as a result of the "one-year lag" methodology introduced in FY 2006, FY 2007 contributions are based on June 30, 2005 actuarial asset values.

Independent Actuarial Audit by The Segal Company

Pursuant to Chapter 96 of the New York City Charter, the Comptroller engaged The Segal Company (Segal) to conduct two consecutive biennial independent actuarial audits. Segal has recently completed their second audit resulting in the issuance of four reports, described briefly below.[5]

The Independent Actuary's Statement certifies that the City's pension systems are being funded appropriately and accurately, on sound actuarial principles, and in accordance with applicable statutes.

The Audit Report on Employer Pension Contribution Calculations for FY 2006 verifies the derivation of the pension systems' assets, liabilities and employer pension contribution calculations, as well as the software and methodologies used in those calculations.

The Administrative Review Report validates the quality and completeness of the actuarial data used in valuations by reviewing the actuarial data gathering, transmission, and maintenance processes.

The Experience Study Report reviews actual experience from June 30, 1988 through June 30, 2005 and comments "upon the financial soundness and probity of the actuarial assumptions employed by the city to calculate contributions to the city pension funds," as required by Section 96 of the New York City Charter.

[5] The reports, in their entirety, are available on the Comptroller's website at http://comptroller.nyc.gov/bureaus/bud/all_budget_reports.shtm under "Miscellaneous Reports."

Overall, Segal has noted the excellence and competence with which the Office of the Actuary accomplishes valuation procedures. Segal also identified areas where improvements could be made, such as in certain actuarial methodologies, data quality, data transmission, and the use of new technology. Not unexpectedly, the recommendations that potentially have the greatest financial impact emerged from their Experience Study, which spawned recommendations for change in several actuarial assumptions.

Financial Impact of Segal's Recommendations for Change in Actuarial Assumptions

The more significant actuarial assumption changes recommended by Segal are discussed below. Following the discussions, Table 16 shows the estimated cost impact to the City of implementing the changes. All annual cost estimates in the following discussion and Table 16 are based on FY 2006 contributions.

- **Real Return and Inflation Assumptions.** While Segal has recommended that the overall long-term actuarial investment return assumption (AIRA) be kept unchanged at 8.0 percent, they have recommended changing its underlying "inflation" component as well as the "real rate of return" component. That is, they have recommended that the real rate of return component be dropped from 5.5 percent to 5.0 percent while the inflation component be increased from 2.5 percent to 3.0 percent. In addition to impacting the AIRA, the increase in the inflation component also impacts the salary scale assumption and the valuation of the Cost of Living Allowance benefits paid to eligible retirees. The net financial impact to the City, if the real rate of return were to be reduced by 0.5 percentage points and the inflation component were to be increased by 0.5 percentage points, would be an increase in annual pension contribution, estimated at $224 million annually.

- **Post-Retirement Mortality.** As would be expected (from improvements in healthcare and diets, and more active lifestyles), Segal has found significant mortality improvements and has recommended anticipating and recognizing future mortality improvements. If Segal's recommendations are implemented, the City's annual pension contributions are expected to increase by $151 million.

- **Merit Salary Scale.** Segal has found that the merit and promotion component of salary scales are too high for some groups, particularly teachers, and has recommended that the scales be reduced. This change is expected to reduce the City's annual pension contributions by $139 million.

- **Retirement.** Segal found that Police members are retiring earlier than currently assumed and, even after giving consideration to a possible temporary post-9/11 change in behavior, has recommended increasing the retirement assumption. Also female teachers, who traditionally retired later than their male counterparts, are now retiring earlier and Segal has recommended changing the assumption to reflect this change. Partially offsetting the above cost-increase items, Segal has recommended lower retirement rate assumptions for NYCERS Tier 3 and 4 members as this group is retiring later than Tier 1 and 2 members. If all of Segal's recommendations regarding retirement assumptions are implemented, the net impact is expected to increase the City's annual pension contributions by $45 million.

Table 16. Estimated Impact to the City's Annual Pension Contributions if Segal's Recommended Changes in Assumptions are Implemented

($ in millions)

	Increase/(Decrease)
Real Return & Inflation	$ 224
Post-Retirement Mortality	151
Merit Salary Scale	(139)
Retirement	45
Other Miscellaneous	58
Net Impact	$ 339

NOTE: The Comptroller's Office derived the above cost impacts from Segal's estimate that was based on FY 2006 Employer Contributions.

Segal also reviewed the City's current actuarial cost method, the Frozen Initial Liability (FIL) method. Although they consider this method appropriate, conservative, and actuarially sound, they suggest that the City contemplate switching to the Entry Age Normal (EAN) cost method. In Segal's opinion the EAN provides a more direct measure of the cost of benefits attributable to each year of service. Also, EAN annually produces a measure of the system's funded status as well as a measure of actuarial gains and losses, as by-products of the annual cost calculation. Unlike FIL where the unfunded liabilities are amortized over the "average remaining working lifetime of active members" on a rolling basis, under EAN, the initial unfunded actuarial accrued liabilities and each year's net annual actuarial gains and losses are amortized over closed periods. While, theoretically, the amortization periods used in EAN are discretionary within reasonable parameters, Segal stressed that, if the City does move to EAN, it should not use a period exceeding fifteen years to amortize the initial unfunded actuarial accrued liability. [6] If the City adopts EAN, Segal estimates that employer contributions to NYCERS would increase but would drop for the four remaining Actuarial Systems. The estimated net impact of the change would be a reduction of $232 million in the City's annual pension contributions, with contribution to the Police Pension System accounting for $206 million of the reduction.

[6] Under FIL the average remaining working lifetime of active members is calculated annually on the date of valuation. Segal estimates that in the most recent computation, the average remaining lifetime of active members in all five actuarial system is less than 15 years.

The Chief Actuary of the pension systems is currently reviewing all of Segal's findings, recommendations, and suggestions but has not as yet decided on specific changes, if any, and the timing of any potential implementation.

Health Insurance

The FY 2007 November Plan shows that spending for employee and retiree health insurance, excluding the $1 billion transferred to the New York City Retiree Health Benefits Trust Fund (RHBTF) in FY 2006 and the $1 billion scheduled to be transferred to it in FY 2007, is projected to increase at an average annual rate of 8.4 percent from its FY 2006 level through FY 2010.[7] This mainly reflects an expected rate increase of 8.64 percent in FY 2007, and assumed increases of 8.0 percent for the remaining outyears. Including the FY 2007 contribution into the RHBTF, spending on health insurance is expected to total $4.2 billion in FY 2007, $3.5 billion in FY 2008, $3.7 billion in FY 2009 and $3.9 billion in FY 2010, as shown in Table 17.

The RHBTF was established with an initial deposit of $1 billion in FY 2006 to establish reserves to offset "post-employment benefits other than pensions" (OPEB) provided by the City to its retired employees. Aside from the $1 billion deposits in FYs 2006 and 2007, every year's pay-as-you-go expenses for OPEB (which include retirees' health insurance, welfare benefit contributions for retirees, and Medicare Part B reimbursements) will be channeled through the RHBTF. Since all OPEB expenditures will be disbursed from the RHBTF, the City will have the flexibility in the future to finance the pay-as-you-go expenses from the RHBTF reserves to the extent that assets are available in the RHBTF as the City does not appear to have any legal obligation to fund or reimburse the RHBTF.

Table 17. FYs 2006 –10 Health Insurance Expenditures
FY 2007 November Plan

($ in millions)

	FY 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010
Active Employees	$1,933	$2,071	$2,251	$2,399	$2,462
Retirees	924	1,081	1,201	1,333	1,478
Transfer to Retiree Health Benefits Trust Fund	1,000	1,000	0	0	0
Total	$3,857	$4,152	$3,452	$3,732	$3,940

NOTES: (1) The projections include health insurance expenditures for the Department of Education as well as the City's portion of the City University of New York.
(2) The City's Comprehensive Annual Financial Report for Year ended June 30, 2006, reports health insurance costs of $3,762.6 million for FY 2006. This is due to an adjustment of $94.6 million in prior year payables that reduced FY 2006 reported cost.

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[7] Through FY 2005, the City funded its health insurance expenses on a pay-as-you-go basis.

Labor

Last July, after the release of the Adopted Budget, the City reached a contract settlement with District Council 37 covering a 32-month period from July 1, 2005 to March 2, 2008. The agreement provides for wage increases of 3.15 percent retroactive to July 1, 2005, 2.0 percent effective August 1, 2006 and 4.0 percent effective February 1, 2007. The FY 2007 Adopted Budget included funding for the first two increases for all employees. In the November Modification, the City added $256 million in FY 2007, $452 million in FY 2008, $783 million in FY 2009, $930 million in FY 2010, and $949 million in FY 2011 to cover the 4.0 percent increase and fund a similar increase for all employees.

Since the DC 37 contract agreement, the City has reached agreements with other unions, including probation officers and traffic enforcement agents, patterned after the DC 37 contract. However, the City and the Patrolmen's Benevolent Association (PBA) were unable to reach an agreement on a contract. The Public Employment Relations Board (PERB) has officially declared an impasse between the City and the PBA and has assigned a mediator to work with the City and the PBA to forge a settlement.

After the release of the November Modification, the City reached a tentative agreement with the United Federation of Teachers (UFT) covering a 24-month and 19 day period spanning October 13, 2007 to October 31, 2009. The tentative agreement provides for a $750 lump sum payment to each member on January 1, 2007 and wage increases of 2.0 percent effective October 13, 2007 and 5.0 percent compounded, effective May 19, 2008. In addition, the agreement provides for the following benefits:

- A $100 per member increase in the annual welfare fund contribution beginning October 13, 2007

- A lump sum payment of $166.67 per member into the welfare fund on May 1, 2008

- An additional $35 per member increase in the welfare fund contribution effective October 21, 2009

- Increased longevity payments for certain employees who have at least five years of service effective May 19, 2008

- Increase in the uniform allowance payable to School Safety Supervisor effective May 19, 2008

- Increase by 12 the maximum number of sessions of extracurricular activities for which coaches and teachers in charge of various athletic and extra-curricular activities are paid.

The Financial Plan contains funding for a 2.0 percent increase and a 4.0 percent increase in FY 2008. The Comptroller's Office estimates that the additional percentage point increase and the difference between the effective date of the 2.0 percent wage increase in the tentative contract and the date assumed in the Financial Plan, as well as the additional benefits would result in additional costs of $55 million in FY 2008. The additional cost of the tentative agreement is expected to grow to $105 million in FY 2009 and $100 million annually thereafter. Furthermore, the City will incur costs of approximately $73 million for the lump sum payment in FY 2007.

Headcount

Full-time City-funded headcount is expected to total 228,937 on June 30, 2007, a net increase of 2,177 employees from the actual number of full-time City-funded employees on the City's payroll as of September 30, 2006, as shown in Table 18. Uniformed and pedagogical headcount levels are projected to decline by 2,046. This is offset by an expected increase of 4,223 civilian employees, mainly in the Department of Social Services (DSS), Administration of Children Services (ACS), and Police civilians. The increase in the Police Department reflects the hiring of 400 civilians to replace officers who are now performing desk duties. At ACS and DSS, new hires will enhance ongoing programs and support new ones. In the outyears, headcount levels are expected to decline to 227,861 on June 20, 2008, 226,964 on June 30, 2009, and 226,122 on June 30, 2010. This is due mainly to a projected decrease in pedagogical staff in the Department of Education from 88,548 on June 30, 2007 to 85,691 June 30, 2010.

Table 18. City-Fund Full-Time Year-End Headcount

	Sep. 30, FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Agency					
Uniformed:					
Police	36,090	35,624	35,624	35,624	35,624
Fire	11,481	11,212	11,212	11,212	11,212
Correction	8,613	8,735	8,668	8,668	8,668
Sanitation	7,653	7,622	7,622	7,622	7,622
Sub-total	63,837	63,193	63,126	63,126	63,126
Pedagogical:					
Dept. of Education	89,930	88,548	87,408	86,513	85,691
City University	2,726	2,706	2,700	2,700	2,700
Sub-total	92,656	91,254	90,108	89,213	88,391
Civilian:					
Police	9,383	9,845	9,845	9,845	9,845
Fire	4,445	4,555	4,649	4,649	4,649
DOE	8,519	7,961	7,961	7,961	7,961
Admin for Child Svcs.	6,413	6,871	6,871	6,871	6,871
Dept. of Health	2,718	3,079	3,229	3,234	3,217
Social Services	10,558	11,696	11,753	11,753	11,753
Parks and Recreation	2,693	2,855	2,801	2,801	2,800
All Other Civilians	25,538	27,628	27,518	27,511	27,509
Sub-total	70,267	74,490	74,627	74,625	74,605
Total	**226,760**	**228,937**	**227,861**	**226,964**	**226,122**

SOURCE: Office of Management and Budget, FY 2007 November Financial Plan.

City-funded part-time headcount is expected to total 30,462 full-time-equivalent (FTE) employees on June 30, 2007, slightly less than the actual 31,105 FTEs employed on September 30, 2006. This results mainly from a 29 percent reduction in part-time pedagogical staff in the City University, from 2,068 FTE positions to 1,468 positions, and an 8.0 percent decline in the number of part-time civilian employees in the Departments of Education and Parks and Recreation from 19,489 FTE employees to 18,021 FTE employees. These reductions are partially offset by projected increases in the number of part-time employees in other agencies including an increase of 772 civilian FTEs in the Police Department. FTE headcount is then projected to decline to 30,074 in FY 2008 and to remain at comparable levels for the remaining Financial Plan period, as shown in Table 19.

Table 19. City-Fund Full-Time Equivalent (FTE) Year-End Headcount Projections

Agency	Sep. 30, 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010
Pedagogical FTEs:					
Dept. of Education	681	902	902	902	902
City University	2,068	1,468	1,468	1,468	1,468
Sub-total	2,749	2,370	2,370	2,370	2,370
Civilian FTEs:					
Dept. of Education	15,299	14,784	14,784	14,784	14,784
City University	657	800	800	800	800
Police	4,923	5,695	5,711	5,711	5,711
Dept. of Parks & Rec.	4,190	3,237	2,706	2,687	2,661
Dept. of Health	1,625	1,534	1,709	1,724	1,724
All Other Civilian FTEs	1,662	2,042	1,994	1,995	1,995
Sub-total	28,356	28,092	27,704	27,701	27,675
Total FTEs	**31,105**	**30,462**	**30,074**	**30,071**	**30,045**

SOURCE: Office of Management and Budget, FY 2007 November Financial Plan.

Overtime

The FY 2007 overtime budget in the November Modification totals $755 million, an increase of $62 million over the Adopted Budget estimate. This increase is due to revisions in the uniformed employees' overtime budget. Planned Police uniformed overtime spending has been increased $28 million. The City expects to fund this increase with intergovernmental funds, including Homeland Security grants. Additionally, the Plan includes overtime spending increases of $11 million for the Fire Department and $20 million for the Department of Correction to cover the shortfall in overtime funding in the Adopted Budget.

Through October 2006, the City has spent $304 million on overtime. This is 13 percent higher than the amount spent during the same period in FYs 2006 and

FY 2005.[8] In FY 2006, net of unplanned events, the City spent $903 million on overtime of which about $70 million was funded with personal-services expenditure savings. The Comptroller's Office projects that FY 2007 overtime spending will be $842 million, $87 million higher than the City's projection.

Table 20. Projected Overtime Spending, FY 2007

($ in millions)

	City Planned Overtime FY 2007	Comptroller's Projected Overtime FY 2007	FY 2007 Risk
Uniform			
Police	$307	$350	($43)
Fire	128	148	(20)
Correction	74	74	0
Sanitation	65	65	0
Total Uniformed	$574	$637	($63)
Others			
Police-Civilian	$16	$40	($24)
Admin for Child Svcs	17	17	0
Environmental Protection	23	23	0
Transportation	28	28	0
All Other Agencies	97	97	(0)
Total Civilians	$181	$205	($24)
Total City	**$755**	**$842**	**($87)**

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

Public Assistance

According to the latest caseload data, the City's public assistance caseload rose by 4,096 recipients to 386,992 in October. Despite this increase, welfare caseload has fallen by about 2.0 percent thus far in the first half of FY 2007, compared with the FY 2006 year-end caseload of 393,764. From a longer-term perspective, since falling below the 400,000-recipient threshold—a level not seen since the mid-1960's—public assistance caseload continues to remain below this threshold. The October caseload of 386,992 also represents a 67 percent retreat from the historic peak of 1,160,593 reached in March 1995. Meanwhile, welfare grants expenditures have also fallen precipitously by more than 50 percent over the same period, yet have stabilized since FY 2004. As a result, the City-funded portion of these expenditures has been relatively stable at $40 million to $42 million on a monthly basis.

The City's public assistance caseload and grant projections remain unchanged from the June Plan. The City's projected year-end caseload of 411,120 for FY 2007 is

[8] The FYs 2006 and 2005 overtime spending is adjusted to net out overtime spending due to the Republican National convention , the Metropolitan Transit Authority strike, and Hurricane Katrina.

already 6 percent above the latest reported caseload; thus a revision is likely in the January Plan. Meanwhile, the City's $520 million baseline allocation for welfare grants thus far in FY 2007 appears adequate to cover average monthly spending of slightly less than $42 million.

Department of Education

In the November Plan, the City has increased the Department of Education (DOE) budget to $15.55 billion in FY 2007, reflecting a net boost of about $100 million from the Adopted Budget. At this level, the DOE budget constitutes about 28 percent of the City's projected overall expenditures of $56.4 billion in FY 2007. The DOE funding increase in FY 2007 is comprised mainly of collective bargaining transfers totaling $78 million and State aid adjustments of $13 million. In the outyears, collective bargaining increases will total $193 million in FY 2008 and $437 million in each of FYs 2009-10. The November Plan projections show that the DOE budget would cross over the $16 billion threshold for the first time in FY 2009 and reach $16.32 billion in FY 2010, the end of the current plan period.

The City has also recognized $93 million to $139 million annually in funding shifts between City and State support over the course of the November Plan. The changes have no net impact on overall funding to the DOE because City funds have been increased correspondingly to fully offset the impact of the lower State grants projection. First, the City has begun assigning a portion of its building aid receipts to support debt service for NYCTFA Building Aid Revenue Bonds (BARB). Pursuant to the State's agreement with the City to expand NYCTFA borrowing authority by $9.4 billion for school construction projects in the DOE Capital Plan, an initial issuance of $650 million in NYCTFA-BARB took place in November 2006. Under the agreement, the City and the State would have equal responsibility for new school construction costs, with future building aid receipts representing the State support for these costs. The assignment of building aid to the NYCTFA results in reduced State revenue to the Department of $52 million to $98 million each year of the November Plan. Since building aid is traditionally recognized as revenue in the DOE operating budget, the City has taken the position that the Department will be held harmless from building aid assigned for NYCTFA debt service coverage by offsetting the revenue loss with tax levy funds. Second, the City has reflected the discontinuation of State payment for retiring open education aid receivables. State aid for this purpose from this point on will be intercepted to cover debt service for the 2003 Municipal Bond Bank borrowing, reducing the education aid assumptions by $41 million annually in the plan.

In November 2006, the State Court of Appeals issued a final ruling in the Campaign for Fiscal Equity (CFE) court case that would require additional funding of $1.93 billion for the City's public schools. This figure is significantly less than the $4.7 billion to $5.6 billion increase mandated by the previous court order. Under the ruling, the Governor and the Legislature would have the authority to determine the State-City funding allocation needed to meet the final settlement cost. With regard to the CFE court case, the Governor-elect has recently stated his expectation for the City to contribute a significant share towards its settlement cost, despite the Mayor's objection that the State should bear full responsibility for funding the court decision. Thus, pending the outcome of State budget negotiations, the City could be called upon to come up with a portion of the mandated additional funding.

Debt Service

As shown in Table 21, debt service, after adjusting for the impact of pre-payments, is projected to total $4.86 billion in FY 2007, $5.03 billion in FY 2008, $5.76 billion in FY 2009, and $6.12 billion in FY 2010.[9] This represents decreases from the July 2006 Financial Plan of $73 million, $13 million, $9 million, and $29 million in each of FYs 2007 through 2010, respectively. From FYs 2007 to 2010, total debt service is projected to increase $1.26 billion, or 26 percent.

The $73 million reduction in FY 2007 is due primarily to savings of $36.7 million from the elimination of the planned issuance of short-term notes in FY 2007, and a $90 million savings in debt service from a reduction in planned GO borrowing. These reductions are offset partially by additional NYCTFA debt service of $56 million as a result of a planned increase in borrowing for general capital purposes.

Table 21. FY 2007 November Financial Plan Estimates

($ in millions)

Debt Service Category	FY 2007	FY 2008	FY 2009	FY 2010	Change FY 2007 to FY 2010
G.O.[a]	$3,444	$3,769	$4,123	$4,498	$1,054
NYCTFA [b]	958	778	1,166	1,165	207
Lease-Purchase Debt	359	385	382	360	1
TSASC, Inc.	88	91	92	93	5
Municipal Assistance Corp.	10	10	0	0	(10)
Total	**$4,859**	**$5,033**	**$5,763**	**$6,116**	**$1,257**

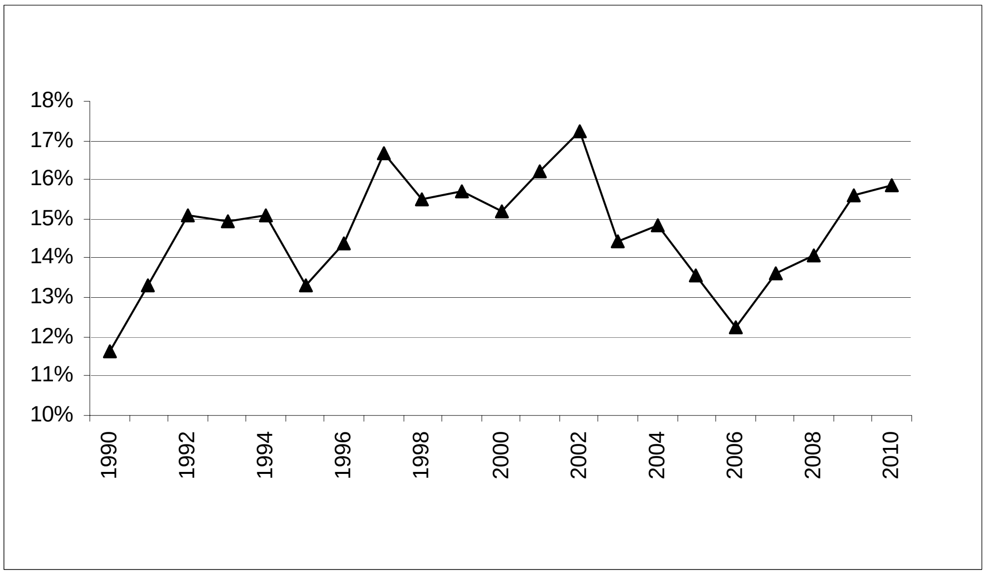
SOURCE: FYs 2007-2010 Financial Plan, November 2006.
NOTE: Debt Service is adjusted for prepayments.
[a] Includes long term G.O. debt service and interest on short term notes.
[b] Amounts do not include NYCTFA building aid bonds.

The decreases in debt service in FYs 2008-2010 are due primarily to the planned issuance of $3.2 billion in additional NYCTFA borrowing for both education and general purposes that the City had previously planned to fund with GO borrowing. Of this additional NYCTFA borrowing, $1.2 billion is for educational purposes to be funded with the new NYCTFA Building Aid Revenue Bonds. As a result, compared to the June Financial Plan, GO debt service has decreased $160 million in FY 2008, $189 million in FY 2009, and $209 million in FY 2010. NYCTFA debt service increases of $147 million in FY 2008, $180 million in each of FY 2009 and FY 2010 as a result of the new borrowing for general capital purposes offset most of the savings in GO debt service.

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

Debt service as a percent of local tax revenues is an accepted measure of affordability used by rating agencies and government officials alike.[10] In FY 2006, debt service as a percent of local tax revenues was 12.3 percent. In FY 2007, it is projected to consume 13.6 percent of local tax revenues and is estimated to increase to 14.1 percent in FY 2008, 15.6 percent in FY 2009, and 15.9 percent in FY 2010, as shown in Chart 3. Average debt service growth of 8.0 percent per year between FYs 2007 and 2010 is significantly above estimated annual tax revenue growth of 2.7 percent.

Chart 3. ***Debt Service, Adjusted for Pre-payments as a Percent of Tax Revenues, FYs 1990-2010***



SOURCE: Office of Management and Budget, City of New York, FY 2007 November Financial Plan.

Capital Plan

The September 2006 Capital Plan for FYs 2007-2010 is the largest four-year plan on record, averaging $10.4 billion per year in all-funds and $8.2 billion per year in City funds. After adjusting for the reserve for unattained commitments, the Capital Plan over FYs 2007-2010 totals $38.97 billion in all-funds, as shown in Table 22 and $30.14 billion in City-funds, as shown in Table 23. The plan is somewhat front-loaded with anticipated all-funds commitments of $13.24 billion in FY 2007, $11.32 billion in FY 2008, $9.22 billion in FY 2009, and $5.19 billion in FY 2010.

All-funds Capital Plan Commitments total $41.67 billion over FYs 2007-2010.[11] The Department of Education (DOE) and City University of New York (CUNY) account

[10] Debt service analysis is adjusted for pre-payments.

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

for the largest share of the plan at 26 percent, followed by the Department of Environmental Protection (DEP) at 18.7 percent, Department of Transportation (DOT) and Mass Transit at 14.5 percent, and Housing and Economic Development with 10.1 percent. These four major program areas constitute 69 percent of the plan, as shown in Table 22.

Table 22. FYs 2007-2010 Capital Commitments, All Funds

($ in millions)

Project Category	**September 2006 for FYs 2007-2010**	**Percent of Total**
Education & CUNY	$10,827	26.0%
Environmental Protection	7,800	18.7
Dept. of Transportation & Mass Transit	6,038	14.5
Housing and Economic Development	4,224	10.1
Technology and Citywide Equipment	2,818	6.8
Administration of Justice	2,425	5.8
Parks Department	1,749	4.2
Hospitals	798	1.9
Other City Operations and Facilities	4,995	12.0
Total	**$41,674**	**100.0%**
Reserve for Unattained Commitments	($2,702)	n/a
Adjusted Total	**$38,972**	**n/a**

SOURCE: Office of Management and Budget, FYs 2007-2010 Capital Commitment Plan, September 2006.

The City-funded portion of the Plan totals $32.84 billion over FYs 2007-2010. DEP's capital projects account for the largest share of the Plan at 23 percent followed by DOE and CUNY at 14.4 percent, DOT and Mass Transit at 13.9 percent, and Housing and Economic Development with 10.7 percent. These four major program areas constitute 62 percent of the plan, as shown in Table 23. The significant share decrease for the DOE portion of the City-funded capital plan reflects the fact that there are substantial State-supported commitments of $6.1 billion in FYs 2007-2009 that appear under all-funds.

Table 23. FYs 2007-2010 Capital Commitments, City Funds

($ in millions)

Project Category	September 2006 for FYs 2007-2010	Percent of Total
Education & CUNY	$4,725	14.4%
Environmental Protection	7,542	23.0
Dept. of Transportation & Mass Transit	4,568	13.9
Housing and Economic Development	3,499	10.7
Technology and Citywide Equipment	2,780	8.5
Administration of Justice	2,422	7.4
Parks Department	1,613	4.9
Hospitals	798	2.4
Other City Operations and Facilities	4,897	14.9
Total	**$32,844**	**100.0%**
Reserve for Unattained Commitments	($2,702)	n/a
Adjusted Total	**$30,142**	**n/a**

SOURCE: Office of Management and Budget, FYs 2007-2010 Capital Commitment Plan, September 2006.

Appendix — Revenue and Expenditure Details

Table A1. ***FYs 2007-2010 Financial Plan Revenue Detail***

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY2007-10 Percent	Changes FY2007-10 Dollar
Taxes:						
Real Property	$13,136	$13,761	$14,417	$15,096	14.9%	$1,960
Personal Income Tax	$8,104	$8,210	$8,409	$8,866	9.4%	$762
General Corporation Tax	$2,593	$2,599	$2,636	$2,729	5.2%	$136
Banking Corporation Tax	$656	$646	$658	$693	5.6%	$37
Unincorporated Business Tax	$1,382	$1,380	$1,418	$1,505	8.9%	$123
Sale and Use	$4,538	$4,600	$4,804	$5,040	11.1%	$502
Commercial Rent	$502	$520	$536	$553	10.2%	$51
Real Property Transfer	$1,269	$1,113	$1,065	$1,084	(14.6%)	($185)
Mortgage Recording Tax	$1,288	$995	$956	$972	(24.5%)	($316)
Utility	$374	$363	$378	$393	5.1%	$19
Cigarette	$120	$117	$113	$111	(7.5%)	($9)
Hotel	$332	$332	$338	$350	5.4%	$18
All Other	$384	$391	$389	$394	2.6%	$10
Tax Audit Revenue	$759	$559	$559	$560	(26.2%)	($199)
Total Taxes	**$35,436**	**$35,583**	**$36,676**	**$38,346**	**8.2%**	**$2,909**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$395	$396	$402	$405	2.5%	$10
Interest Income	$351	$135	$137	$144	(59.0%)	($207)
Charges for Services	$553	$534	$535	$533	(3.6%)	($20)
Water and Sewer Charges	$1,096	$1,087	$1,097	$1,115	1.7%	$19
Rental Income	$176	$173	$172	$171	(2.8%)	($5)
Fines and Forfeitures	$721	$737	$735	$736	2.1%	$15
Miscellaneous	$545	$806	$375	$376	(31.0%)	($169)
Intra-City Revenue	$1,395	$1,326	$1,328	$1,328	(4.8%)	($67)
Total Miscellaneous	**$5,232**	**$5,194**	**$4,781**	**$4,808**	**(8.1%)**	**($424)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$13	$13	$13	$13	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$340**	**$340**	**$340**	**$340**	**0.0%**	**$0**
Other Categorical Grants	$1,041	$983	$996	$1,001	(3.8%)	($40)
Inter Fund Agreements	$414	$392	$384	$384	(7.2%)	($30)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra-City Revenue	($1,395)	($1,326)	($1,328)	($1,328)	(4.8%)	$67
TOTAL CITY FUNDS	$41,053	$41,151	$41,834	$43,536	6.0%	$2,482

Table A1 (Con't). *FYs 2007-2010 Financial Plan Revenue Detail*

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY2007-10 Percent	Dollar
Federal Categorical Grants:						
Community Development	$260	$253	$253	$253	(2.7%)	($7)
Welfare	$2,362	$2,348	$2,351	$2,353	(0.4%)	($9)
Education	$1,717	$1,717	$1,717	$1,717	0.0%	$0
Other	$1,125	$794	$789	$790	(29.8%)	($335)
Total Federal Grants	**$5,464**	**$5,112**	**$5,110**	**$5,113**	**(6.4%)**	**($351)**
State Categorical Grants						
Welfare	$1,763	$1,765	$1,755	$1,755	(0.5%)	($8)
Education	$7,048	$7,147	$7,227	$7,358	4.4%	$310
Higher Education	$188	$188	$188	$188	0.0%	$0
Department of Health and Mental Hygiene	$447	$417	$416	$412	(7.8%)	($35)
Other	$426	$340	$342	$341	(20.0%)	($85)
Total State Grants	**$9,872**	**$9,857**	**$9,928**	**$10,054**	**1.8%**	**$182**
TOTAL REVENUES	**$56,390**	**$56,120**	**$56,872**	**$58,703**	**4.1%**	**$2,313**

Table A2. *FYs 2007-2010 Financial Plan Expenditure Detail*

($ in thousands)

					Changes FY 2007 - 10	
	FY 2007	FY 2008	FY 2009	FY 2010	Dollar	Percent
Mayoralty	$85,046	$82,349	$82,349	$82,304	(3.2%)	($2,742)
Board of Elections	$82,079	$80,294	$80,094	$73,044	(11.0%)	($9,035)
Campaign Finance Board	$14,042	$8,393	$8,393	$8,393	(40.2%)	($5,649)
Office of the Actuary	$5,468	$5,346	$5,346	$5,346	(2.2%)	($122)
President, Borough of Manhattan	$4,851	$3,422	$3,422	$3,422	(29.5%)	($1,429)
President, Borough of Bronx	$6,778	$4,926	$4,926	$4,926	(27.3%)	($1,852)
President, Borough of Brooklyn	$6,047	$4,335	$4,335	$4,335	(28.3%)	($1,712)
President, Borough of Queens	$5,441	$3,955	$3,955	$3,955	(27.3%)	($1,486)
President, Borough of Staten Island	$4,367	$3,439	$3,439	$3,439	(21.3%)	($928)
Office of the Comptroller	$64,014	$73,659	$73,366	$73,366	14.6%	$9,352
Dept. of Emergency Management	$26,360	$7,724	$7,724	$7,724	(70.7%)	($18,636)
Tax Commission	$2,650	$2,604	$2,604	$2,604	(1.7%)	($46)
Law Dept.	$122,335	$120,769	$118,882	$118,882	(2.8%)	($3,453)
Dept. of City Planning	$25,729	$22,839	$22,839	$22,839	(11.2%)	($2,890)
Dept. of Investigation	$18,850	$18,650	$18,650	$18,650	(1.1%)	($200)
NY Public Library - Research	$6,196	$20,041	$20,041	$20,041	223.5%	$13,845
New York Public Library	$21,350	$105,533	$105,533	$105,533	394.3%	$84,183
Brooklyn Public Library	$13,725	$77,268	$77,268	$77,268	463.0%	$63,543
Queens Borough Public Library	$13,642	$75,067	$75,067	$75,067	450.3%	$61,425
Dept. of Education	$15,546,641	$15,756,428	$16,178,761	$16,310,840	4.9%	$764,199
City University	$574,485	$533,980	$534,012	$534,028	(7.0%)	($40,457)
Civilian Complaint Review Board	$10,854	$9,796	$9,796	$9,796	(9.7%)	($1,058)
Police Dept.	$3,792,502	$3,676,241	$3,649,876	$3,627,220	(4.4%)	($165,282)
Fire Dept.	$1,387,956	$1,344,039	$1,332,633	$1,325,219	(4.5%)	($62,737)
Admin. for Children Services	$2,535,679	$2,488,023	$2,488,023	$2,488,023	(1.9%)	($47,656)
Dept. of Social Services	$7,065,901	$7,205,662	$7,352,368	$7,488,259	6.0%	$422,358
Dept. of Homeless Services	$665,822	$659,525	$654,520	$654,520	(1.7%)	($11,302)
Dept. of Correction	$925,510	$900,211	$897,403	$892,840	(3.5%)	($32,670)
Board of Correction	$929	$924	$924	$924	(0.5%)	($5)
Citywide Pension Contribution	$4,732,847	$5,459,202	$5,823,886	$5,835,943	23.3%	$1,103,096
Miscellaneous	$6,505,807	$6,457,362	$7,085,914	$7,800,104	19.9%	$1,294,297
Debt Service	$2,470,067	$2,208,114	$4,504,660	$4,857,739	96.7%	$2,387,672
M.A.C. Debt Service	$10,000	$10,000	$0	$0	(100.0%)	($10,000)
N.Y.C.T.F.A. Debt Service	$960,870	$1,128,330	$1,166,150	$1,164,720	21.2%	$203,850
Transfer for N.Y.C.T.F.A. Debt Service	($200,000)	$0	$0	$0	(100.0%)	$200,000
Defeasance of N.Y.C.T.F.A. Debt Service	($16,000)	($350,000)	$0	$0	(100.0%)	$16,000
Public Advocate	$3,077	$2,176	$2,176	$2,176	(29.3%)	($901)
City Council	$51,850	$49,276	$49,276	$49,276	(5.0%)	($2,574)
City Clerk	$3,905	$3,848	$3,848	$3,848	(1.5%)	($57)
Dept. for the Aging	$265,600	$227,036	$227,036	$227,036	(14.5%)	($38,564)
Dept. of Cultural Affairs	$158,433	$121,471	$121,471	$121,471	(23.3%)	($36,962)
Financial Info. Service Agency	$54,890	$49,041	$46,320	$46,320	(15.6%)	($8,570)
Dept. of Juvenile Justice	$110,304	$109,599	$109,599	$109,599	(0.6%)	($705)
Office of Payroll Admin.	$13,294	$11,354	$11,354	$11,354	(14.6%)	($1,940)
Independent Budget Office	$3,080	$3,071	$3,071	$3,071	(0.3%)	($9)
Equal Employment Practices Comm.	$863	$765	$765	$765	(11.4%)	($98)

Table A2 (Con't). *FYs 2007-2010 Financial Plan Expenditure Detail*

($ in thousands)

					Changes FY 2007 - 10	
	FY 2007	FY 2008	FY 2009	FY 2010	Dollar	Percent
Civil Service Commission	$582	$632	$632	$632	8.6%	$50
Landmarks Preservation Comm.	$4,397	$4,167	$4,167	$4,167	(5.2%)	($230)
Taxi & Limousine Commission	$29,326	$26,534	$26,534	$26,534	(9.5%)	($2,792)
Commission on Human Rights	$7,165	$7,184	$7,184	$7,184	0.3%	$19
Youth & Community Development	$304,561	$236,801	$236,550	$236,550	(22.3%)	($68,011)
Conflicts of Interest Board	$1,859	$1,806	$1,806	$1,806	(2.9%)	($53)
Office of Collective Bargain	$1,804	$1,831	$1,831	$1,831	1.5%	$27
Community Boards (All)	$13,960	$14,083	$14,083	$14,083	0.9%	$123
Dept. of Probation	$78,185	$77,244	$77,244	$77,244	(1.2%)	($941)
Dept. Small Business Services	$132,735	$112,885	$109,986	$92,458	(30.3%)	($40,277)
Housing Preservation & Development	$575,613	$487,633	$485,315	$484,708	(15.8%)	($90,905)
Dept. of Buildings	$87,569	$80,192	$79,538	$79,435	(9.3%)	($8,134)
Dept. of Health & Mental Hygiene	$1,647,591	$1,528,033	$1,542,362	$1,540,669	(6.5%)	($106,922)
Health and Hospitals Corp.	$872,122	$894,126	$972,489	$992,339	13.8%	$120,217
Dept. of Environmental Protection	$907,969	$880,579	$871,910	$869,355	(4.3%)	($38,614)
Dept. of Sanitation	$1,206,202	$1,212,970	$1,208,324	$1,204,072	(0.2%)	($2,130)
Business Integrity Commission	$5,566	$5,620	$5,620	$5,620	1.0%	$54
Dept. of Finance	$206,604	$212,308	$210,807	$209,777	1.5%	$3,173
Dept. of Transportation	$620,534	$549,500	$549,500	$549,444	(11.5%)	($71,090)
Dept. of Parks and Recreation	$287,789	$255,752	$252,341	$251,267	(12.7%)	($36,522)
Dept. of Design & Construction	$105,220	$100,742	$94,742	$94,742	(10.0%)	($10,478)
Dept. of Citywide Admin. Services	$333,501	$301,529	$301,522	$301,522	(9.6%)	($31,979)
D.O.I.T.T.	$198,172	$196,468	$193,124	$193,124	(2.5%)	($5,048)
Dept. of Record & Info. Services	$5,025	$4,254	$4,239	$4,239	(15.6%)	($786)
Dept. of Consumer Affairs	$15,215	$15,391	$15,391	$15,274	0.4%	$59
District Attorney - N.Y.	$85,701	$71,418	$71,418	$71,418	(16.7%)	($14,283)
District Attorney - Bronx	$46,478	$41,806	$41,806	$41,806	(10.1%)	($4,672)
District Attorney - Kings	$76,358	$70,801	$70,801	$70,801	(7.3%)	($5,557)
District Attorney - Queens	$41,368	$41,963	$41,963	$41,963	1.4%	$595
District Attorney - Richmond	$7,015	$6,550	$6,550	$6,550	(6.6%)	($465)
Office of Prosec. & Spec. Narc.	$16,789	$15,321	$15,321	$15,321	(8.7%)	($1,468)
Public Administrator - N.Y.	$1,185	$1,144	$1,144	$1,144	(3.5%)	($41)
Public Administrator - Bronx	$413	$368	$368	$368	(10.9%)	($45)
Public Administrator - Brooklyn	$550	$508	$508	$508	(7.6%)	($42)
Public Administrator - Queens	$445	$402	$402	$402	(9.7%)	($43)
Public Administrator - Richmond	$357	$313	$313	$313	(12.3%)	($44)
General Reserve	$299,200	$300,000	$300,000	$300,000	0.3%	$800
Energy Adjustment	$0	$13,502	$3,656	$4,045	N/A	$4,045
Lease Adjustment	$0	$18,148	$36,841	$56,095	N/A	$56,095
OTPS Inflation Adjustment	$0	$54,165	$109,684	$165,203	N/A	$165,203
City-Wide Total	$56,389,261	$56,630,760	$60,940,091	$62,310,242	10.5%	$5,920,981

Glossary of Acronyms

ACS	Administration for Children Services
AIRA	Actuarial Investment Return Assumption
BARB	Building Aid Revenue Bonds
BCT	Business Corporation Tax
CFE	Campaign for Fiscal Equity, Inc.
CPI	Consumer Price Index
CUNY	City University of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DOE	Department of Education
DOT	Department of Transportation
DSS	Department of Social Services
EAN	Entry Age Normal
FIL	Frozen Initial Liability
FTE	Full-Time Equivalent
FY	Fiscal Year

GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHS	Health and Human Services
IRS	Internal Revenue Service
J&C	Judgments and Claims
MAC	Municipal Assistance Corporation
MRT	Mortgage Recording Tax
NYC	New York City
NYCERS	New York City Employees’ Retirement System
NYCTFA	New York City Transitional Finance Authority
OFHEO	Office of Federal Housing Enterprise Oversight
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Police Benevolent Association
PERB	Public Employment Relations Board

PIT	Personal Income Tax
PS	Personal Services
RPTT	Real Property Transfer Tax
REBNY	Real Estate Board of New York
RHBTF	Retiree Health Benefits Trust Fund
STAR	School Tax Relief Program
NYCTFA- BARB	New York City Transitional Finance Authority Building Aid Revenue Bonds
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers
U.S.	United States