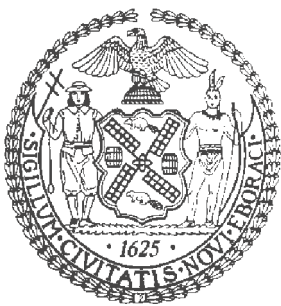


# **The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2007 and the Financial Plan for FYs 2006-2010**



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

On January 31, 2006 the Mayor presented the Five-Year Financial Plan covering FYs 2006 to 2010. The Mayor proposes to use significant surplus resources from the current year to shore up the City's finances by making a large deposit to the Budget Stabilization Account (BSA) of \$3.3 billion and depositing \$1 billion into a new Retiree Health Benefits Trust Fund (RHBTF). The BSA will be used to balance the FY 2007 budget.

The FY 2006 fiscal situation has improved steadily since budget adoption, primarily because the financial and housing markets performed better than originally expected. The November Modification forecast \$2 billion more revenues for FY 2006 than anticipated at the time of the Adopted Budget, and this modification projects receipt of another \$798 million. Furthermore, savings on the expense side that have been recognized since November amount to \$1.713 billion, the majority of which stem from the benefit to this year's budget of the adoption of actuarial changes pertaining to the calculation of pension costs. The resources thus made available would be used to increase the BSA by \$1.5 billion.

The Mayor is seeking to create the RHBTF, into which \$1 billion would be deposited in FY 2006 and another \$1 billion in FY 2007, in anticipation of changes to accounting rules. Historically, health benefits for retirees have been treated entirely on a "pay-as-you-go" basis in the City's budget and financial statements. The Governmental Accounting Standards Board (GASB) has ruled that, by 2008, municipalities must begin to show on their books the value of outstanding and committed obligations related to retiree benefits other than pensions. While this ruling does not require localities to fund these liabilities as they must pension liabilities, such a requirement could be a logical next step, and the Mayor is taking a proactive approach creating the fund now. The amount of the dollar liability is still being determined, but is likely to reach well into the tens of billions.

The Five-Year Financial Plan includes other proposals to devote funds made available this year to offset expenses in the future. Restructuring of outstanding TSASC debt has freed up funds that were held in a "trapping account." The Mayor has chosen to recognize these funds, as well as FY 2006 and FY 2007 residual tobacco settlement revenues, in FY 2008, when there remains a large budget gap. In addition, the Financial Plan continues the \$200 million per year in pay-as-you-go capital financing, which will help reduce the growth of debt service over the long run.

These are the types of actions that the Comptroller's Office has long urged the City to pursue. The Comptroller's Office has been a particular advocate of establishing a Rainy Day Fund. The Health Benefits Fund, though not expressly created for that purpose, could function as a Rainy Day Fund, although in a limited fashion. However, if the City chooses to use the Fund in this way, it would raise concerns about transparency. As long as the City continues its "pay-as-you-go" payments to the RHBTF, retiree health costs would be clearly expressed in the budget. If the City should choose to forego such a payment and draw down on the funds assets to pay insurers, a portion of the City's true obligations would be moved "off-budget."

While these measures serve to benefit the budget after FY 2007, they are small relative to the large budget gaps of \$3.447 billion, \$3.5 billion, and \$2.711 billion which emerge in FYs 2008-2010. The gaps open because the City relies on large non-recurring actions to balance FY 2007, chief among which is the use of the entire BSA. Our review shows that these gaps should be somewhat less because revenues are likely to be higher than the City's projections, offsetting risks and lowering the gaps by \$335 million in FY 2008, \$60 million in FY 2009, and \$120 million in FY 2010.

Although recent experience might lead one to assume that FY 2007 will follow recent trends of substantial surpluses, our review suggests that much of the good fortune experienced by the City in recent years is unlikely to continue. The housing market is in fact slowing, as is the overall economy; financial markets are facing uncertainty due to rising interest rates and high debt levels; and additional extraordinary expense savings of the magnitude of this year's lower pension costs and the benefits from the State Medicaid cap are unlikely. Indeed, despite the magnitude of this year's revenue increases and expense savings, the City is adding only about \$700 million to its rolling surplus, after accounting for the \$3.5 billion brought forward from FY 2005 and the \$1 billion deposit to the RHBTF.

Our review considers a number of other issues. Of the set of budgetary items that have been termed "uncontrollable," debt service is expected to continue to grow strongly over the Plan period at a 9.8 percent annual pace, well in excess of its average growth of 6.2 percent annually over the past ten years. This growth is fueled in part by the largest-ever capital commitment four-year plan. While growth in local Medicaid costs has been capped by the State, efforts by the State and Federal governments to contain Medicaid costs are expected to have negative impacts on the already-weakening financial condition of the Health and Hospitals Corporation (HHC). The City may find that its subsidy to HHC, which is in the \$150 million range throughout FYs 2007-2010, will need to increase to strengthen the Corporation. Other health costs—notably employee health insurance—are projected to grow rapidly and consume more than 7.0 percent of revenues by FY 2010.

On the other hand, pension costs appear to be near the end of a cyclical increase, as losses from the severe Wall Street downturn in 2001 and 2002 are phased in. Pension cost increases are expected to abate over the Plan period and costs will remain at a level comparable to that reached in the mid-1980s, when considered as a percentage of general fund revenues.

The Department of Education's budget is slated to grow from \$14.73 billion in FY 2006 to \$15.12 billion in FY 2010, fueled mainly by increases in special education spending and fringe benefit expenditures. The Department has increased instructional spending about 30 percent, after adjusting for inflation, over the past ten years. Unfortunately, further improvements, as mandated by the Court ruling in the Campaign for Fiscal Equity lawsuit, have been stymied by the State's failure to provide the City with sufficient additional resources. The State's share of City education funding has declined from about 48 percent in FY 1995 to 45 percent in FYs 2005 and 2006.

**Table 1. FY 2006–FY 2010 Financial Plan**

(\$ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY 2006 – 2010	
						Dollar	Percent
<b>Revenues</b>							
Taxes:							
General Property Tax	\$12,599	\$12,948	\$13,854	\$14,529	\$15,207	\$2,608	20.7%
Other Taxes	\$20,129	\$19,402	\$19,189	\$20,225	\$21,317	\$1,188	5.9%
Tax Audit Revenues	\$512	\$509	\$509	\$509	\$510	(\$2)	(0.4%)
Miscellaneous Revenues	\$5,034	\$4,646	\$5,031	\$4,621	\$4,641	(\$393)	(7.8%)
Unrestricted Intergovernmental Aid	\$490	\$340	\$340	\$340	\$340	(\$150)	(30.6%)
Anticipated State & Federal Actions	\$0	\$350	\$250	\$250	\$250	\$250	N/A
Less: Intra-City Revenues	(\$1,428)	(\$1,284)	(\$1,282)	(\$1,284)	(\$1,285)	\$143	(10.0%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$37,321	\$36,896	\$37,876	\$39,175	\$40,965	\$3,644	9.8%
Other Categorical Grants	\$947	\$915	\$926	\$941	\$945	(\$2)	(0.2%)
Inter-Fund Revenues	\$373	\$365	\$346	\$346	\$346	(\$27)	(7.2%)
Total City & Inter-Fund Revenues	\$38,641	\$38,176	\$39,148	\$40,462	\$42,256	\$3,615	9.4%
Federal Categorical Grants	\$5,608	\$4,911	\$4,900	\$4,899	\$4,902	(\$706)	(12.6%)
State Categorical Grants	\$9,559	\$9,822	\$9,937	\$9,965	\$10,001	\$442	4.6%
Total Revenues	\$53,808	\$52,909	\$53,985	\$55,326	\$57,159	\$3,351	6.2%
<b>Expenditures</b>							
Personal Service							
Salaries and Wages	\$18,804	\$18,955	\$19,166	\$19,308	\$19,522	\$718	3.8%
Pensions	\$4,017	\$4,886	\$5,610	\$5,846	\$5,712	\$1,695	42.2%
Fringe Benefits	\$6,655	\$6,928	\$6,270	\$6,592	\$6,854	\$199	3.0%
Subtotal-PS	\$29,476	\$30,769	\$31,046	\$31,746	\$32,088	\$2,612	8.9%
Other Than Personal Service							
Medical Assistance	\$4,463	\$4,950	\$5,097	\$5,236	\$5,413	\$950	21.3%
Public Assistance	\$2,446	\$2,441	\$2,445	\$2,445	\$2,445	(\$1)	0.0%
Pay-As-You-Go Capital	\$200	\$200	\$200	\$200	\$200	\$0	0.0%
All Other	\$14,596	\$14,076	\$14,182	\$14,357	\$14,543	(\$53)	(0.4%)
Subtotal-OTPS	\$21,705	\$21,667	\$21,924	\$22,238	\$22,601	\$896	4.1%
Debt Service							
Principal	\$1,436	\$1,708	\$1,770	\$1,791	\$1,802	\$366	25.5%
Interest & Offsets	\$1,837	\$2,289	\$2,683	\$3,049	\$3,379	\$1,542	83.9%
Total	\$3,273	\$3,997	\$4,453	\$4,840	\$5,181	\$1,908	58.3%
BSA	\$3,254	\$0	\$0	\$0	\$0	(\$3,254)	100.0%
Prepayments	(\$2,582)	(\$3,254)	\$0	\$0	\$0	\$2,582	(100.0%)
Transfer for NYCTFA Debt Service	(\$947)	(\$200)	\$0	\$0	\$0	\$947	100.0%
NYCTFA Debt Service							
Principal	\$373	\$369	\$443	\$439	\$461	\$88	23.6%
Interest & Offsets	\$574	\$535	\$538	\$547	\$524	(\$50)	(8.7%)
Total	\$947	\$904	\$981	\$986	\$985	\$38	4.0%
MAC Administrative Expenses	\$10	\$10	\$10	\$0	\$0	(\$10)	100.0%
General Reserve	\$100	\$300	\$300	\$300	\$300	\$200	200.0%
Total	\$55,236	\$54,193	\$58,714	\$60,110	\$61,155	\$5,919	10.7%
Less: Intra-City Expenses	(\$1,428)	(\$1,284)	(\$1,282)	(\$1,284)	(\$1,285)	\$143	(10.0%)
Total Expenditures	\$53,808	\$52,909	\$57,432	\$58,826	\$59,870	\$6,062	11.3%
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,447)</b>	<b>(\$3,500)</b>	<b>(\$2,711)</b>	<b>(\$2,711)</b>	<b>N/A</b>

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

**Table 2. Plan-to-Plan Changes  
January Plan vs. November Plan**

(\$ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
<b>Revenues</b>				
Taxes:				
General Property Tax	\$0	(\$283)	(\$293)	(\$252)
Other Taxes	\$941	\$837	\$355	\$336
Tax Audit Revenues	\$0	\$0	\$0	\$0
Miscellaneous Revenues	\$38	\$172	\$538	\$106
Unrestricted Intergovernmental Aid	(\$72)	(\$222)	(\$222)	(\$222)
Anticipated State & Federal Actions	\$0	\$350	\$250	\$250
Less: Intra-City Revenues	(\$98)	(\$9)	(\$8)	(\$9)
Disallowances Against Categorical Grants	\$0	\$0	\$0	\$0
Subtotal: City Funds	\$809	\$845	\$620	\$209
Other Categorical Grants	(\$18)	(\$9)	(\$4)	\$6
Inter-Fund Revenues	\$7	\$9	\$1	\$1
Total City & Inter-Fund Revenues	\$798	\$845	\$617	\$216
Federal Categorical Grants	\$135	\$56	\$55	\$54
State Categorical Grants	\$51	\$83	\$100	\$85
Total Revenues	\$984	\$984	\$772	\$355
<b>Expenditures</b>				
Personal Service				
Salaries and Wages	(\$199)	(\$381)	(\$442)	(\$516)
Pensions	(\$718)	(\$200)	\$631	\$995
Fringe Benefits	\$1,015	\$1,030	\$29	\$32
Subtotal-PS	\$98	\$449	\$218	\$511
Other Than Personal Service				
Medical Assistance	(\$111)	(\$222)	(\$222)	(\$222)
Public Assistance	(\$107)	(\$73)	(\$69)	(\$69)
Pay-As-You-Go Capital	\$0	\$0	\$0	\$0
All Other	(\$88)	\$186	\$186	\$179
Subtotal-OTPS	(\$306)	(\$109)	(\$105)	(\$112)
Debt Service				
Principal	\$0	\$0	\$0	\$0
Interest & Offsets	(\$31)	(\$82)	(\$6)	(\$1)
Total	(\$31)	(\$82)	(\$6)	(\$1)
BSA	\$1,511	\$0	\$0	\$0
Prepayments	\$0	(\$1,511)	\$0	\$0
Transfer for NYCTFA Debt Service	\$0	\$0	\$0	\$0
NYCTFA Debt Service				
Principal	\$32	\$85	\$0	\$0
Interest & Offsets	(\$32)	(\$89)	\$0	\$0
Total	\$0	(\$4)	\$0	\$0
MAC Administrative Expenses	\$0	\$0	\$0	\$0
General Reserve	(\$190)	\$0	\$0	\$0
Less: Intra-City Expenses	(\$98)	(\$9)	(\$8)	(\$9)
Total Expenditures	\$984	(\$1,266)	\$99	\$389
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>\$2,250</b>	<b>\$673</b>	<b>(\$34)</b>

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

As the November Plan did not contain a forecast for FY 2010 plan-to-to plan changes is unavailable for that fiscal year.



*Table 3. FYs 2006–2010 Risks and Offsets*

(\$ in millions)

	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>City Stated Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$3,447)</b>	<b>(\$3,500)</b>	<b>(\$2,711)</b>
<b>Tax Revenue Assumptions</b>					
Property Tax	\$30	\$105	\$150	\$305	\$535
Personal Income Tax	0	110	110	(200)	(200)
Business Taxes	40	20	90	(50)	(130)
Sales Tax	0	0	0	0	(75)
Real-Estate-Related Taxes	0	40	60	80	65
<b>Subtotal</b>	<b>\$70</b>	<b>\$275</b>	<b>\$410</b>	<b>\$135</b>	<b>\$195</b>
<b>Expenditure Projections</b>					
Overtime	0	(\$145)	(\$75)	(\$75)	(\$75)
Snow Budget	(\$10)	0	0	0	0
<b>Subtotal</b>	<b>(\$10)</b>	<b>(\$145)</b>	<b>(\$75)</b>	<b>(\$75)</b>	<b>(\$75)</b>
<b>Total Risk/Offsets</b>	<b>\$60</b>	<b>\$130</b>	<b>\$335</b>	<b>\$60</b>	<b>\$120</b>
<b>Restated (Gap)/Surplus</b>	<b>\$60</b>	<b>\$130</b>	<b>(\$3,112)</b>	<b>(\$3,440)</b>	<b>(\$2,591)</b>

## **II. The State of the City's Economy**

The national and City economies continued to grow in 2005, although national economic growth is battling a headwind of record trade and budget deficits, rising short-term interest rates, higher energy prices, and devastation caused by the hurricanes Katrina and Rita. These factors are expected to continue in 2006, pointing to slowing of the nation's economy and also leading to more muted economic growth in New York City.

Short- and long-term interest rates are expected to increase in 2006 as high U.S. budget and trade deficits are expected to continue breaking records. Higher energy prices will continue to place pressure on the economy and concerns about the impact of a less robust housing market are intensifying, pointing to a slower pace of growth in the national and local economies.

### **A. U.S. ECONOMY**

The U.S. economy slowed in 2005, with real chain-weighted gross domestic product (GDP) growing 3.5 percent compared with 4.2 percent in 2004. The year ended on a particularly weak note, with fourth-quarter 2005 GDP growth slowing to 1.6 percent. Consistent with the slowing trend, the Institute of Supply Management (ISM) index fell 8.3 percent from 60.5 in 2004 to 55.5 in 2005, and productivity growth slowed to 2.7 percent from 3.4 percent in 2004.

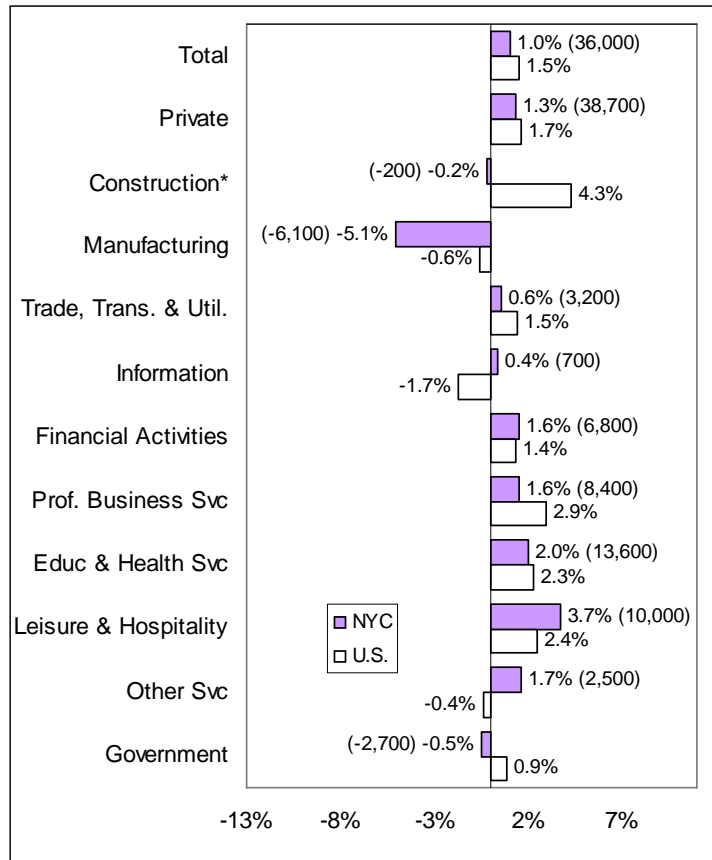
In contrast, the labor market gained momentum in 2005, with payroll jobs increasing by about two million, or 1.5 percent, the fastest annual growth since 2000. Nationwide, jobs increased in every industrial sector except manufacturing, information, and other services as shown in Chart 1. The unemployment rate fell to 5.1 percent, the lowest rate since 2001, reflecting a 558,000 decrease in the number of unemployed even as the labor force grew. But, mirroring the year-end slowdown in output, fourth quarter employment growth cooled, with the job count rising at a one percent pace.

The surge in energy prices has led to accelerated inflation, with the price level rising 3.4 percent in 2005, the highest rate since 2000. Energy prices rose 16.9 percent, also the highest increase since 2000. The core inflation rate, which includes all items except food and energy, was more subdued at 2.2 percent.

The economic outlook is for continued slower growth. Federal Open Market Committee actions to continue to raise interest rates and more borrowing by the U.S. Treasury will put upward pressure on long-term interest rates. Higher long-term rates will cool down the housing market. As the result of lower housing prices, higher energy prices, and record level of personal debt, consumer spending is likely to slow in 2006.

The economic projections of the Mayor and the Comptroller's Office differ with respect to the timing of slower growth, with the Comptroller's Office projecting a more pronounced slowdown in 2006 and a rebound in 2007, as shown in Table 4.

**Chart 1. NYC and U.S. Job Growth, Percent Change, 2005 vs. 2004**



SOURCE: NYS Department of Labor and U.S. Bureau of Labor Statistics. Number in parenthesis show job changes in thousands.

NOTE: Jobs are based on annual averages of monthly data. Differences between years are shown in thousands and in parenthesis the percentage changes.

\* Includes natural resources, mining and construction.

**Table 4. Selected U.S. Economic Indicators Annual Averages, Actual 2005 and Forecast 2006–2007**

	2005	2006 Forecast		2007 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GDP Change (%)	3.5	2.8	3.4	3.3	2.8
Jobs Change (Millions)	2.0	1.6	2.0	1.6	2.0
Inflation Rate (%)	3.4	3.3	2.8	2.8	2.2
Federal Funds Rate (%)	3.2	4.6	4.7	4.5	4.8
10-Year T-Notes (%)	4.3	5.1	5.3	5.4	5.5

SOURCE: Actual=preliminary U.S. data from Bureau of Economic Analysis, U.S. Department of Commerce, and Bureau of Labor Statistics, and Federal Reserve Board of Governors. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office.

## B. THE NEW YORK CITY ECONOMY

Continued strength on Wall Street has helped the City's economy gain momentum in 2005, although growth continues to lag the nation's. Real Gross City Product (GCP) grew 3.3 percent in 2005 compared with 2.4 percent in 2004. Yet GCP

was slightly below the GDP growth rate of 3.5 percent. Factors contributing to the City's growth were a stronger job market, higher wages, Wall Street profits, and a surge in tourism. However, the inflation rate soared to a 15-year high as energy prices rose to record levels.

The number of payroll jobs increased 36,000, or 1.0 percent in 2005, after gaining 10,000 in 2004. Gains were broad-based, with leisure and hospitality, education and health services, and professional and business services adding the most jobs, as shown in Chart 1. The critical financial activities sector added 6,800 jobs mostly because of 6,300 new jobs in securities. The City lost jobs in manufacturing, government, and construction. The faster pace of job growth was reflected in a decline in the NYC unemployment rate, which fell to 5.8 percent, the lowest rate since 2000.

Although Wall Street profits are expected to decline in 2005, Wall Street bonuses are expected to hit a record high. According to the Securities Industry Association, Wall Street profits for the NYSE member firms were \$7.1 billion in the first three quarters of 2005 compared with \$9 billion in the first three quarters of 2004. However, Wall Street bonuses are expected to be bolstered by high revenues as well as a stiffly competitive market for top talent, and may hit a record \$21.5 billion in 2005, according to the Office of the New York State Comptroller.

The tourism industry also had a strong year in 2005. New York City & Company estimates that the City hosted 6.7 million international and 34.8 million domestic visitors. Tourists are estimated to have contributed about \$22 billion in revenues, generated \$5 billion in taxes, and accounted for some 330,000 jobs. According to PKF consulting, the average hotel daily occupancy rate rose to a record high of 85.8 percent in 2005, and the average daily room rate increased to a record \$243 in 2005.

According to Cushman & Wakefield, the Manhattan commercial real estate market has tightened considerably. Overall vacancy rates in Manhattan fell to 8.4 percent in the fourth quarter of 2005 compared with 11 percent in the fourth quarter of 2004. Overall rental rates in Manhattan rose to \$40.58 in the fourth quarter of 2005, from \$39.55 in the fourth quarter of 2004.

The housing market, which has been a source of growth over the past several years, appears to have peaked. According to Prudential Douglas Elliman, the average price of an apartment in Manhattan rose 20.3 percent in the fourth quarter of 2005 over the prior year. However, listings and sales data suggest that unsold inventory is beginning to accumulate. There were 1,574 sales tracked in the fourth quarter of 2005, 27.2 percent less than the fourth quarter of 2004.

Although most indicators point to a more solid economic recovery, costs have been rising. The inflation rate jumped to 3.9 percent in 2005, the highest level since 1991, and the core inflation rate, which includes all items except food and energy, was 3.0 percent, the highest since 2002 and notably higher than the nation's core rate. Energy, transportation, housing, and services all contribute to high inflation.

To put these numbers in perspective, one can compare price increases with the growth in wage rates. Between 2004 and 2005, the overall wage rate in NYC is estimated to have increased 4.4 percent. However, most of this gain is attributed to the financial activities sector, which is expected to have a wage rate increase of 7.3 percent. Excluding the financial activities sector, overall wage in NYC rose only 2.8 percent between 2004 and 2005. This 2.9 percent increase in total wages (excluding the financial activities sector) lags local inflation, especially the 17.8 percent increase in gasoline prices and the more the 20 percent increase in housing prices.

### C. THE CITY'S ECONOMIC OUTLOOK

The City's leading economic indicators point to continued, but slower, economic growth in 2006 and 2007. On a year-over-year basis, two measures used to forecast the NYC economy improved in both the fourth quarter of 2005 and the full year 2005, as shown in Table 5.

According to the National Association of Purchasing Management's New York Report on Business (NAPM-NY), the composite gauge of current business conditions increased 15.6 percent in 2005 over 2004. However, the "current conditions" index declined 6.6 percent and another key component, the "six-month outlook" index, fell 8.8 percent.

The number of building permits authorized shows the level of construction in the pipeline. On a year-over-year basis, both the NAPM-NY and number of building permits increased in the fourth quarter of 2005, as shown in Table 5, although doubts about the outlook are raised by the negative current-conditions and six-month-outlook numbers in the NAPM-NY survey.

**Table 5. Two Leading Economic Indexes, NYC, 2005 over 2004 and 4Q05 over 4Q04**

	2005 over 2004	4Q05 over 4Q04
1. Business Conditions Index (1996=100)	15.6%	10.7%
Current Conditions	(6.6%)	(3.4%)
Six-Month Outlook Index	(8.8%)	11.5%
2. Number of Building Permits Authorized	7.1%	7.8%

SOURCE: National Association of Purchasing Management-New York (Business Conditions Index), NYC Dept. of Buildings (permits) and the Conference Board (help-wanted advertising).  
n/a= Data not available.

On balance, the Comptroller Office projects that the City's GCP will grow 2.7 percent in 2006—a slower rate than the 3.3 percent pace in 2005 but higher than the Mayor's forecast of 2.4 percent. The Comptroller's Office projects a rebound to 3.1 percent growth in 2007, while the Mayor forecasts a downturn. Table 6 provides a summary and comparison of selected economic forecasts by the Comptroller's Office and Mayor for the City for the years 2006 and 2007.

**Table 6. Selected NYC Economic Indicators Annual Averages, Actual 2005 and Forecast 2006–2007**

	2005	2006 Forecast		2007 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GCP Change (%)	3.3	2.7	2.4	3.1	(0.9)
Jobs Change (thousands)	36.0	28.0	35.2	35.8	26.0
Unemployment Rate (%)	5.8	5.9	n/a	5.7	n/a
Wage Rate Growth (%)	4.3*	4.3	4.7	4.1	2.4
Inflation Rate (%)	3.9	3.7	2.9	3.3	2.5

SOURCE: Actual=preliminary NYC data from NYS Department of Labor and U.S. Bureau of Labor Statistics.  
 Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office.

n/a=not available.

\* 2005 Wage Rate Growth is estimated.

### **III. Risks and Offsets**

As Table 3 on page 3 shows, the Comptroller's Office has identified additional resources in FYs 2006 through FY 2010 that range from \$60 million to \$335 million. The additional resources stem mainly from the Comptroller's tax revenue estimates which are higher than the City's in each of FY 2006 through FY 2010. In FY 2006 through FY 2008 the Comptroller's higher tax revenue estimates are driven by a more optimistic outlook for the local economy. In FY 2009 and FY 2010 the Comptroller's forecast of the local economy is less optimistic than the City's resulting in lower projections for PIT and business tax revenues. However, these lower projections are more than offset by a more favorable outlook for property taxes. As such, the Comptroller's Office projects additional tax revenues in each year of the financial plan.

Risks to the City's overtime and snow removal budget offset some of the gains from higher-than-anticipated revenues. As discussed in "Overtime" beginning on page 34, the Comptroller's Office's analysis of overtime spending indicates that actual FY 2007 overtime spending could be \$145 million more than the City had budgeted in the Preliminary Budget. The overtime risks continue into the outyears but at a smaller amount. In addition, the City's snow budget, which is based on the average of the snow removal expenses of FY 2001 through FY 2005, is skewed by an unusually mild winter in FY 2002. Snow removal expenses for FY 2002 were \$14 million while spending in other years exceeded \$40 million. As such, the Comptroller's Office estimates that the cost of snow removal in FY 2006 may be \$10 million above the City's estimate.

## IV. The FY 2006 Budget

The January Modification shows that the City expects to end FY 2006 with a projected surplus of \$3.3 billion. The City now expects revenue to be \$798 million higher than forecasted in the November Modification. The revision to the November Modification results from increased tax revenue forecasts of \$942 million, and revenue-enhancing gap-closing actions of \$96 million, offset by a decrease in non-tax revenue estimates. At the same time, the City has reduced its pension expense projection by \$925 million, recognized savings of \$400 million from prior-year-payables, and reduced its general reserve by \$190 million, while initiating expenditure-related gap-closing actions of \$133 million.<sup>1</sup> As shown in Table 7, these expenditure re-estimates and actions, together with the projected revenue increase, enable the City to increase its Budget Stabilization Account (BSA) by more than \$1.5 billion, and plan a \$1 billion deposit into a Retiree Health Benefits Trust Fund that the City intends to establish in FY 2006.

**Table 7. Changes to the FY 2006 Estimates  
January Modification Compared with November Modification**

(\$ in millions)

Revenues		Expenditures	
Tax Revenues	\$942	Pension Contribution Re-estimate	(\$925)
PEG	96	Prior Years' Expense	(400)
Non-Tax Revenues	(240)	General Reserve	(190)
		PEG	(133)
		Other	(27)
		Agency Spending	(38)
		Retiree Health Benefits Trust Fund	1,000
		BSA	1,511
<b>Total</b>	<b>\$798</b>	<b>Total</b>	<b>\$798</b>

SOURCE: NYC Office of Management and Budget

With a projected surplus of \$3.3 billion, the City will have no problem balancing the FY 2006 budget. The \$3.3 billion BSA together with the general reserve of \$100 million provides a comfortable cushion against any shortfalls in the budget. However, any drawdown on the BSA or general reserve will adversely affect FY 2007 to the extent that these accounts will be depleted, as the entire projected surplus is budgeted to prepay FY 2007 expenses.

### A. TAX REVENUES

FY 2006 tax revenues have been revised upward by \$942 million from the November forecast. Most of this increase in the City's estimates stems from improved

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<sup>1</sup> The November Modification projection for FY 2006 pension expenses totaled \$4.942 billion, of which \$206 million was held in the labor reserve. The January Modification revised the City's total FY 2006 pension expenses to \$4.017 billion, resulting in a net savings of \$925 million.



projections for personal income tax (PIT), and real-estate-related tax revenues as shown in Table 8.

**Table 8. Changes to the FY 2006 Revenue Estimate  
January Modification Compared with November Modification**

(\$ in millions)

	<b>November</b>	<b>January</b>	<b>Change</b>
Property Tax	\$12,600	\$12,600	\$0
Personal Income Tax	7,239	7,675	436
Real-Estate Related	2,188	2,424	236
Business Tax	3,857	3,985	128
Sales Tax	4,252	4,357	105
Other Taxes	2,163	2,200	37
<b>Total Tax Revenues</b>	<b>\$32,299</b>	<b>\$33,241</b>	<b>\$942</b>

SOURCE: NYC Office of Management and Budget

Property-tax collections for the first seven months of FY 2006 were \$20 million more than anticipated in the November Modification. However, the January Modification estimates remained unchanged from November, indicating that the City believes that the stronger collections are attributable to timing rather than to an underlying trend.

Personal income tax (PIT) estimates are \$436 million greater than in November. The increase reflects strong Wall Street profitability, expected record Wall Street bonuses and robust job gains in calendar year (CY) 2005. Over the first seven months of the fiscal year, PIT collections were \$205 million higher than the November Modification estimate and \$506 million higher than the same period of FY 2005.

Real estate-related tax revenues account for \$236 million of the increase in the tax revenue forecast. While residential real estate market activity has declined, commercial real estate activities remained strong in the first half of FY 2006. The City expects this trend to continue into the second half of the fiscal year and thus has revised its November estimate accordingly.

Business tax revenue estimates are revised upward by \$128 million. Forecasts for unincorporated business tax (UBT) and banking corporation tax (BCT) revenues increased \$73 million and \$55 million respectively, while the estimate for general corporation tax (GCT) revenues remains unchanged from November. GCT and UBT collections through January are 18 percent and 36.4 percent above collections for the first seven months of FY 2005, reflecting strong corporate profits and substantial professional and information services job gains in CY 2005. BCT revenues are expected to be flat in FY 2006. While year-over-year collections through December were 8.4 percent higher than FY 2005, collections are expected to slow in the second half of the year as real-estate activities continue to decline.

Sales tax revenue collections for the first seven months of FY 2006 were \$53 million more than the November Modification estimates and \$106 million higher

than the FY 2005 level. The City has increased its FY 2006 sales tax revenue estimate by \$105 million to \$4.4 billion, virtually the same level as FY 2005. The flat growth in FY 2006 reflects the expiration of the 0.125 percent rate increase and the reinstatement of the City's sales tax exemption for clothing and footwear purchases under \$110.

## **B. EXPENDITURES**

The City has increased its expenditure estimates for FY 2006 by \$798 million since the November Modification. A projected increase of \$1.5 billion to the BSA and \$1 billion in new spending to fund a Retiree Health Benefits Trust Fund are partially offset by savings of \$925 million in pension contributions, a reduction of \$190 million in the General Reserve, a reduction of \$400 million in prior-year-payables, expenditure related gap-closing actions of \$133 million, and a reduction in spending of \$38 million.

The City's decision to establish a Retiree Health Benefits Trust Fund is prompted in part by the requirements of the General Accounting Standards Board Statement 45, which are discussed in greater detail in "Health Insurance" beginning on page 30. The City has taken the prudent step of addressing the long-term cost of retirees' health benefits and we await specific details on the management and governance of the funds.

## V. The Preliminary FY 2007 Budget

The FY 2007 Preliminary Budget is balanced with the help of a significant increase of \$1.5 billion in prepayments that resulted in a \$52.9 billion budget that is \$1.3 billion smaller than estimated in November.<sup>2</sup> As table 9 below shows, the City has identified a total of \$3.4 billion of additional resources for FY 2007 since the November Modification. In addition to closing the gap projected in November, the additional resources will enable the City to add another \$1 billion to the Retiree Health Benefit Trust Fund the Mayor proposed establishing in FY 2006 and to fund agency spending increases of \$158 million.

**Table 9. Changes to the FY 2007 Estimates**

(\$ in millions)

<b>November Modification Gap</b>	<b>(\$2,250)</b>
<b>Additional Resources</b>	
Prepayments	\$1,511
Revenues	633
Delayed Pension Contributions	570
State and Federal Action	350
Agency Gap-Closing Actions	262
Debt Service	82
<b>Subtotal</b>	<b>\$3,408</b>
<b>Additional Obligations</b>	
Retiree Health Benefit Trust Fund	(\$1,000)
Agency Spending	(158)
<b>Subtotal</b>	<b>(1,158)</b>
<b>January Modification Gap</b>	<b>\$0</b>

SOURCE: NYC Office of Management and Budget

A significant portion of the additional resources results from a projected \$1.5 billion increase in prepayments of FY 2007 expenditures. The City has also raised its revenue forecast by \$633 million, with tax revenues accounting for \$558 million of the increase. The remaining additional resources stem from: changes to the actuarial assumptions and methodologies in computing pension contributions, which are expected to provide \$571 million of budgetary relief; anticipated State and Federal actions of \$350 million; agency gap-closing actions of \$262 million; and debt service savings of \$82 million.

### Program to Eliminate the Gaps (PEG)

The January Modification contains gap-closing initiatives that are expected to provide budgetary relief of \$229 million in FY 2006, \$612 million in FY 2007, and between \$201 million and \$205 million in the outyears. The decline in the benefits of the

<sup>2</sup> Our analysis includes New York City Transitional Financing Authority debt service.

gap-closing actions in the outyears stems mainly from a projected decline in anticipated State and Federal actions, from \$350 million in FY 2007 to \$250 million in each of the remaining outyears, and the extension of the \$400 property tax rebate, beginning in FY 2008 and extending through FY 2010, which is expected to cost the City \$256 million annually. To achieve these targets, the City has proposed a menu of State and Federal agenda totaling about \$1.5 billion, as discussed in “Federal and State Aid” beginning on page 24.

It is noteworthy that of the \$146 million in FY 2007 agency PEGs, only about \$29 million are non-recurring. The recurring FY 2007 gap-closing actions consist of \$35 million in revenue enhancement and \$82 million in cost savings, of which \$53 million stem from expected annual procurement savings. Reductions in adult and family shelter capacities to reflect decline in the adult and family population and anticipated state reimbursement for adult shelters account for another \$14 million of the recurring gap-closing actions. The remaining PEGs range from \$18,000 to approximately \$2 million and are spread across various agencies. In contrast, more than half the FY 2006 agency gap-closing actions do not yield any benefits beyond FY 2006, as shown in Table 10.

Expected one-time reimbursements for expenses and services account for approximately \$74 million of the non-recurring PEGs. The remaining non-recurring PEGs consist mainly of personal services (PS) accrual savings and other than personal services (OTPS) savings.

**Table 10. January Modification PEGs**

(\$ in millions)

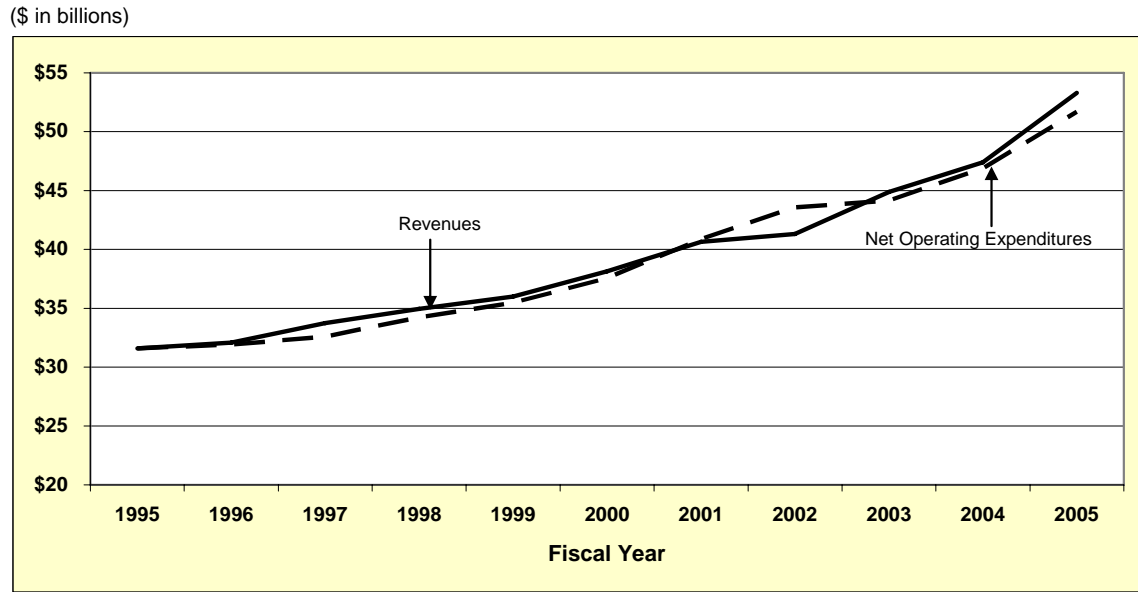
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
<b>Recurring</b>					
FY 2006 Agency PEGs	\$96,271	\$115,844	\$80,576	\$81,184	\$76,475
FY 2007 Agency PEGs	0	117,027	130,496	129,498	130,537
State and Federal Actions	0	350,000	250,000	250,000	250,000
Extension of \$400 Rebate	0	0	(256,000)	(256,000)	(256,000)
<b>Total Recurring</b>	<b>\$96,271</b>	<b>\$582,871</b>	<b>\$205,072</b>	<b>\$204,682</b>	<b>\$201,102</b>
<b>Non-Recurring</b>					
FY 2006 Agency PEGs	\$132,230	\$0	\$0	\$0	\$0
FY 2007 Agency PEGs	0	29,200	0	0	0
<b>Total Non-Recurring</b>	<b>\$132,230</b>	<b>\$29,200</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total PEGs</b>	<b>\$228,501</b>	<b>\$612,071</b>	<b>\$205,072</b>	<b>\$204,682</b>	<b>\$201,012</b>

### The City's Outyear Gaps

While the budget is balanced in FY 2007, the City has projected gaps of \$3.4 billion in FY 2008, \$3.5 billion in FY 2009 and \$2.7 billion FY 2010. This is because the benefit of recurring FY 2007 PEGs is far outweighed by the loss of one-time resources used to balance the FY 2007 budget, notably the \$3.3 billion in FY 2007 expenses prepaid in FY 2006.

Prepayments of expenses distort the City’s actual spending pattern. Expenses for a given fiscal year are artificially increased by that fiscal year’s prepayment of the following year’s expenditures. Similarly, expenditures for that fiscal year are artificially reduced by prepayments in a prior year. Chart 2 shows the City’s expenditures adjusted for net prepayments along with revenues for FYs 1995 through 2005. As the Chart shows, except for FYs 2001 and 2002, revenues exceeded expenditures during this period.

**Chart 2. Revenues and Net Operating Expenditures**



NOTE: Net operating expenditures reflect adjustments for net prepayments.  
SOURCE: Comprehensive Annual Financial Report of the Comptroller.

From FY 1996 to FY 2000, higher than anticipated tax revenues, driven by a booming stock market, enabled the City to end each fiscal year with surpluses that were used to prepay the following year’s expenses.<sup>3</sup> As tax revenues remained strong, the City was able to “roll” surpluses into subsequent fiscal years by increasing the level of prepayments in each successive year.

In FY 2001 and FY 2002, as the City’s economy was mired in the early stages of a recession that would last for 11 quarters, the City had to draw upon the accumulated surplus to balance its budget. As a result, prepayments decreased from \$3.2 billion in FY 2000 to \$2.9 billion in FY 2001 and \$681 million in FY 2002. However, the drop in prepayments in FY 2002 was mitigated by the issuance of \$500 million of New York City Transitional Finance Authority (NYCTFA) bonds for operating purposes.

Since FY 2002, the City has once again ended each fiscal year in FYs 2003 through 2005 with a growing surplus. Even though the City’s economy was still in the

<sup>3</sup> Except for FY 1995 when tax revenue was \$464 million below the Adopted Budget estimate, actual revenues in FYs 1996 through 2000 averaged \$1.3 billion more than the Adopted Budget estimate.

midst of a recession in FY 2003, the City ended the fiscal year with a surplus of \$741 million and increased its prepayment to \$1.4 billion, aided with the issuance of an additional \$1.5 billion in New York City Transitional Finance Authority debt for operating purposes and a mid-year 18.5 percent property tax increase. An improving economy and red-hot real estate market in FYs 2004 and 2005 boosted income tax and real-estate-related tax revenues, which enabled the City to end those fiscal years with surpluses of \$511 million and \$1.6 billion and increase prepayments to \$1.9 billion and \$3.5 billion respectively.

Going forward, the City may be limited in its ability to rely on the same resources it used to balance its budgets in the last ten years. The unprecedented stock market gains in the nineties may not be seen again for quite some time. The red-hot real estate market of the last few years is beginning to slow and the kind of growth it exhibited in an environment of historically low interest rate is not likely to repeat as long term rates continue to rise. Furthermore, the NYCTFA borrowing occurred under extraordinary circumstances and should not be repeated.

## **A. REVENUE OUTLOOK**

Total revenues for FY 2007 are expected to be less than FY 2006 by \$899 million, or 1.7 percent, as shown in Table 11. Tax revenues are projected to decline \$381 million, or 1.1 percent, and non-tax revenues by \$518 million, or 2.5 percent. The decline in tax revenues is due mainly to a projected drop of \$825 million, or 34 percent, in real-estate-related tax revenues as the slowdown in the real estate market is expected to continue. The softness in the real estate market and the attendant decline in capital gains realizations coupled with the expiration of the temporary tax increase enacted in CY 2003, are expected to lower FY 2007 PIT revenues by \$115 million, or 1.5 percent. Expected growth of \$559 million in remaining tax revenues offsets some of the declines in real-estate-related tax and PIT revenues. A projected increase of \$381 million in property tax revenues accounts for more than half of this growth. The growth in property tax revenue is based on an expected 4.0 percent growth in final billable assessed value, which reflects market value growth of 9.3 percent on the tentative roll.

Over the Financial Plan period, revenues are projected to grow 6.2 percent. This is 3.9 percentage points below the rate of inflation, which is projected to grow by 10.1 percent over this period. Tax revenues are projected to exhibit strong growth of 11.4 percent from FY 2006 to FY 2010, exceeding inflation by 1.3 percentage points. However, a decline of 2.2 percent in non-tax revenues over this period dampens overall revenue growth.

**Table 11. FY 2007 through FY 2010 Revenue Growth**

(\$ in millions)

	FY 2007	Annual Percentage Change				FY 2010
		FY 06-07	FY 07-08	FY 08-09	FY 09-10	
Property Tax	\$12,948	2.8%	5.0%	5.0%	4.8%	\$14,951
PIT	7,560	(1.5%)	1.2%	6.8%	5.3%	8,610
Other Non-Property Tax	12,350	(4.7%)	(0.4%)	4.2%	5.1%	13,473
<b>Total Tax Revenues</b>	<b>\$32,858</b>	<b>(1.1%)</b>	<b>2.1%</b>	<b>5.1%</b>	<b>5.0%</b>	<b>\$37,034</b>
Miscellaneous Revenue	\$3,362	(6.8%)	11.5%	(11.0%)	0.6%	\$3,356
Others	1,265	(3.1%)	(0.6%)	1.2%	0.3%	1,276
Unrestricted Intergovernmental Aid	340	(30.6%)	0.0%	0.0%	0.0%	340
Anticipated State & Federal Aid	350	N/A	(28.6%)	0.0%	0.0%	250
Federal Categorical Grant	4,911	(12.4%)	(0.2%)	(0.0%)	0.1%	4,902
State Categorical Grant	9,822	2.8%	1.2%	0.3%	0.4%	10,001
<b>Total Non-Tax Revenues</b>	<b>\$20,050</b>	<b>(2.5%)</b>	<b>1.9%</b>	<b>(1.8%)</b>	<b>0.3%</b>	<b>\$20,125</b>
<b>Total Revenue</b>	<b>\$52,908</b>	<b>(1.7%)</b>	<b>2.0%</b>	<b>2.5%</b>	<b>3.3%</b>	<b>\$57,159</b>
<b>Inflation</b>		<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	

SOURCE: NYC Office of the Comptroller.

NOTE: PIT revenues include PIT revenues retained for NYCTFA debt service.

## Tax Revenue Changes from the November Modification

Projected tax revenues for FY 2007 have increased \$554 million, or 1.7 percent, since the November Modification, with all of the increase attributable to non-property tax revenues.<sup>4</sup> The City has raised its FY 2007 personal income tax (PIT) revenue forecast by \$265 million, or 3.6 percent, over the November Modification, based on the continuation of positive economic trends.<sup>5</sup> On a year-to-year basis, PIT collections for FY 2007 are expected to decline 1.5 percent, as a result of the January 1, 2006 expiration of the temporary tax increase and a forecasted decline in CY 2006 capital gains.

Business taxes are projected to be \$117 million higher in FY 2007 than they were in the November Modification. This increase reflects the impact of additional growth of \$128 million in FY 2006. While the level of business tax revenues projected for FY 2007 is higher than estimated in the November Plan, growth over FY 2006 of 2.6 percent is 0.4 percent lower than the 3.0 percent projected in November.

Projected FY 2007 sales tax revenue of \$4.5 billion reflects an increase of \$85 million, or 1.9 percent, from the November Modification forecast. The growth of 2.7 percent in FY 2007 reflects a decline in Wall Street bonuses and a decline in consumer spending stemming from real-estate-related activities.

<sup>4</sup> Total tax revenues include the portion of PIT retained for NYCTFA debt service, STAR, and tax audit revenues.

<sup>5</sup> PIT revenues include NYCTFA and STAR.

Although residential real estate transactions have slowed, the commercial real estate market remained strong in the first half of FY 2006. As a result, the City has increased its projection for FY 2007 real-estate-related tax revenues by \$340 million to \$1.6 billion. This represents a more moderate drop of 34.1 percent from FY 2006, compared with the 42.6 percent drop projected in November.

In contrast to the non-property tax revenue projections, the City has lowered its estimate for FY 2007 real property tax revenue by \$283 million. This downward revision is based on the tentative roll, released by the Department of Finance on January 17, 2006, which reflected lower than expected growth of billable assessed value in Class 2 properties. However, the tentative roll has understated market values of certain small class 2 properties. As a result, the roll does not reflect accurately the true billable assessed values.

The City's tax revenue assumptions for FY 2007 are illustrated in Table 12.

**Table 12. Changes to the City's Tax Revenue Assumptions, FY 2007**

(\$ in millions)

	<b>Nov. Mod.</b>	<b>Prelim Budget</b>	<b>Change</b>
Property	\$13,231	\$12,948	(\$283)
PIT	7,295	7,560	265
Business	3,971	4,088	117
Sales	4,391	4,476	85
Real-Estate Transaction	1,257	1,598	341
All Other	<u>2,159</u>	<u>2,189</u>	<u>30</u>
<b>Total</b>	<b>\$32,304</b>	<b>\$32,859</b>	<b>\$555</b>

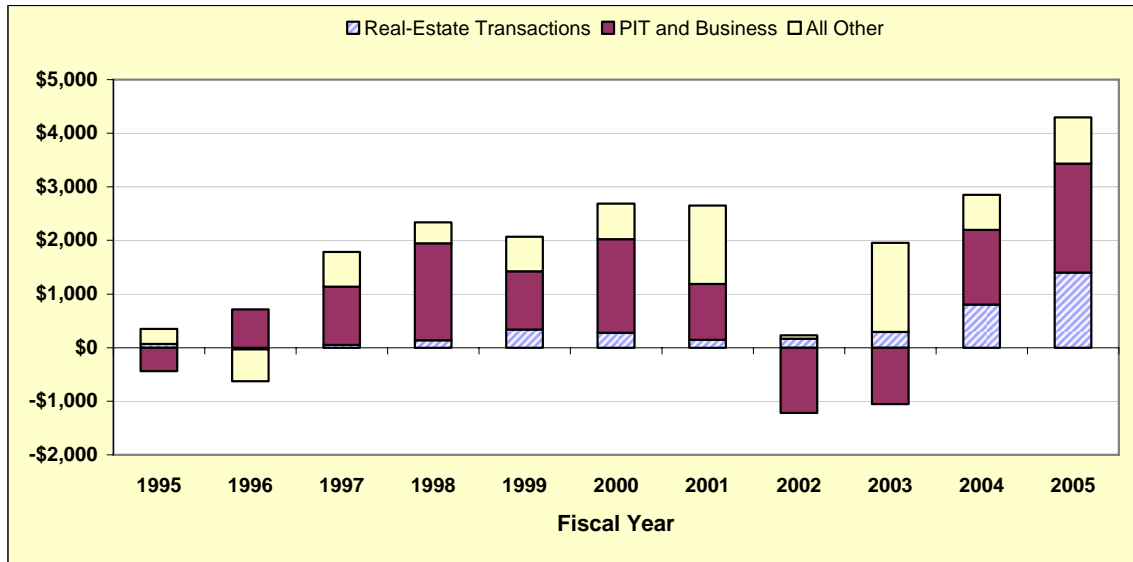
SOURCE: NYC Office of Management and Budget

Except for FY 1995 and FY 2002, actual tax revenues have exceeded the City's preliminary budget in each of the fiscal years between FY 1995 and FY 2005. On average, actual total tax revenues were \$1.7 billion above the Preliminary Budget estimates. Part of the discrepancy is attributable to unforeseen events that occur between the time of the preliminary budget and the end of the subsequent fiscal year. For example, the mid-year property tax increase in FY 2003 was not anticipated at the time of the preliminary budget. In addition, extraordinary events such as the stock market bubble of the late nineties and the 9/11 attacks made forecasting revenues more challenging. Nevertheless, the City's revenue forecasts in general tend to be conservative. The economically-sensitive personal income tax and business income taxes showed the largest divergences, with actual revenues exceeding projections an average of \$1.7 billion in FY 2004 and FY 2005. Real-estate transaction tax revenues were also significantly higher than forecasted, accounting for one-third of the unanticipated revenue in FY 2004 and FY 2005. The unexpected windfall was fueled by a booming real estate market and favorable interest rate environment, which increased both real-estate transaction and refinancing activities.



**Chart 3. Actual Tax Revenues Compared with Preliminary Budget Estimates, Constant 2005 Dollars**

(\$ in millions)



SOURCE: Actual and preliminary budget tax revenues from NYC Office of Management and Budget. Tax revenue in 2005 dollars calculated by NYC Comptroller Office.

However, the windfall in real-estate transaction tax revenues is not likely to continue as mortgage rates have begun to rise and there are indications that the real estate market is slowing down. For FY 2007, the Comptroller’s Office continues to expect revenues to exceed the Preliminary Budget estimates, but the gap between the Comptroller and City projections will narrow due to the drop in real-estate-related tax revenues.

**Tax Revenue Trends for FY 2008 to FY 2010**

The City’s forecasts of total tax collections have been revised upward by \$62 million in FY 2008, \$84 million in FY 2009, and \$30 million in FY 2010. Total tax revenue is estimated to grow 2.1 percent in FY 2008, 5.1 percent in FY 2009, and 5.0 percent in FY 2010.

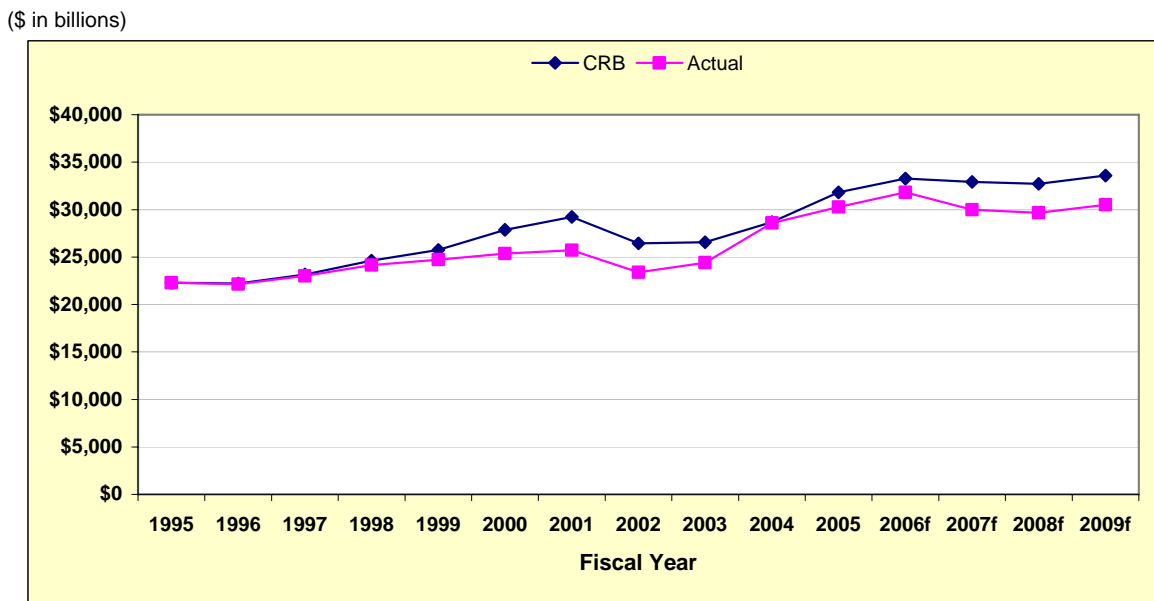
The pattern of more moderate growth in FY 2008 and stronger growth in subsequent years stems from a cooling real estate market and a projected Wall Street profit and bonus downturn in calendar year 2007. PIT collections are forecasted to grow at a moderate 1.2 percent in FY 2008, but to attain average growth of 6.1 percent in FYs 2009 and 2010, as Wall Street profits are expected to rebound. Business tax revenues are forecasted to grow at a moderate annual rate of 3.9 percent from FY 2008 to

FY 2010, and sales tax revenues are forecasted to grow 4.5 percent annually from FY 2008 to FY 2010. After a drop of 34 percent in FY 2007, the real-estate transaction tax revenues are expected to decline 6.3 percent in FY 2008 and 1.1 percent in FY 2009, and to grow 2.8 percent in FY 2010.

After adjusting for inflation, total tax revenues decrease 0.4 percent over the Financial Plan period. The real property tax, the PIT, the business tax, and the general sales tax revenues are expected to grow 2.4, 0.6, 1.1, and 1.6 percent, respectively. The real estate transaction taxes are projected to drop 13.1 percent annually from FY 2006 to FY 2010.

Inflation-adjusted projected tax revenue growth over the Financial Plan period is lower than the trend exhibited from FYs 1995 through 2005.<sup>6</sup> In that time span, inflation-adjusted total tax revenue increased at an annual average rate of 3.1 percent, from \$22.3 billion in FY 1995 to \$30.3 billion in FY 2005, in 2005 dollars. However, after discounting the effects of all tax programs implemented since FY 1996, growth over this period would have averaged 3.6 percent per year and revenues would have been \$32 billion in FY 2005, as Chart 4 shows. Thus, even with the implementation of temporary tax increases to address the City’s fiscal problems after FY 2002, tax revenues for FY 2003 through FY 2005 are below revenues computed on a common rate and base as a result of the 1990s tax cuts.

**Chart 4. Tax Revenue Trend, Actual vs. Common Rate and Base  
Constant 2005 Dollars, CRB Base=FY 1995**



SOURCE: Actual and CRB tax revenues from NYC Office of Management and Budget. Tax revenue in 2005 price calculated by NYC Comptroller’s Office.

<sup>6</sup> Inflation-adjusted revenues are expressed in FY 2005 dollars. Tax revenues in this discussion do not include tax audit revenues.

## Risks and Offsets

The Comptroller's projections of risks and offsets to the City's tax revenue assumptions are illustrated in Table 13. They are based on current year collections and economic growth projections. The Comptroller's Office projects GCP growth for the City that is higher than the City's projections for Calendar Year (CY) 2006, 2007, and 2008. However, the Comptroller's Office's projections are lower than the City's estimates for the remaining out-years.

The Comptroller's forecast of real property tax growth averages 5.7 percent growth on an annual basis, 0.8 percent higher than the City's, or 0.3 percent higher than the historical growth rate of 5.4 percent in the past quarter century. The Comptroller's Office projects that revenue will grow by 3.4 percent in FY 2007, followed by a surge to 7.3 percent in FY 2008, and decline to about 6.0 percent in each of the remaining out-years.

The Mayor has proposed a continuation of a discretionary \$400 property tax rebate to homeowners who utilize their properties as primary residences. Legislation for the City to administer these rebates for FY 2004 to FY 2006 was initially enacted by the State Legislature.<sup>7</sup> However, the successful passage of the proposal also requires annual approval by the City Council. The cost of the continuation of the rebates in FY 2007, valued at \$256 million, has been incorporated into the City's baseline revenue projections. Any extension of the initial 3-year rebate legislation beyond FY 2007 will require additional state legislation. As such, the costs of the extension have not been included in the baseline projections. However, the expected annual cost of \$256 million is shown as an offset to gap-closing actions beginning in FY 2008.

The Comptroller's Office expects tax revenues to exceed the City's forecast throughout the Plan period. For FY 2007, the Comptroller's Office is projecting additional revenues of \$275 million as a result of a higher forecast of property tax, PIT, business taxes and real-estate-related taxes. Greater revenue from the property tax and the real-estate-related taxes will continue to bolster collections throughout the Plan period, while the Comptroller's office expects the non-property taxes to fall short of City estimates in FY 2009 and FY 2010.

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<sup>7</sup> As the rebates for any given fiscal year are paid during the Fall of the succeeding fiscal year, the budgetary impact of the rebates for FYs 2004, 2005, and 2006, is recorded in FYs 2005, 2006, and FY 2007, respectively.

**Table 13. Tax Revenue Risks and Offsets**

(\$ in millions)

	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Property	\$30	\$105	\$150	\$305	\$535
PIT	0	110	110	(200)	(200)
Business	40	20	90	(50)	(130)
Sales	0	0	0	0	(75)
Real-Estate Related	0	40	60	80	65
All Other	0	0	0	0	0
<b>Total</b>	<b>\$70</b>	<b>\$275</b>	<b>\$410</b>	<b>\$135</b>	<b>\$195</b>

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

## Miscellaneous Revenues

Miscellaneous revenues include a variety of non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, interest income, water and sewer revenues, and asset sales. The City has increased the FY 2007 estimate of miscellaneous revenue by \$163 million since the November Modification. Most of this increase results from an upward revision of \$130 million in interest income due to higher cash balances and interest rates projections. Expected revenues from licenses, franchises, charges for services and fines and forfeitures are also higher throughout the Plan. Among the initiatives expected to generate significant revenues are the hiring of an additional one hundred traffic enforcement agents to improve enforcement of parking regulations. This initiative is expected to increase fine revenues by \$22 million in FY 2007 and \$25 million in the outyears of the Plan. Also, in the miscellaneous category, the City expects to realize \$65 million in FY 2007 from delaying the sales of taxi medallion previously expected to generate \$63 million in FY 2006.

Offsetting some of the increases is a downward revision to tobacco settlement revenues. The City is delaying the receipt of tobacco settlement revenues from FY 2006 and FY 2007 until FY 2008. This delay affects all FY 2007 tobacco settlement revenues, and all but \$5 million of FY 2006 tobacco settlement revenues, including the expected receipt in FY 2006 of the release of funds held in the trapping account.<sup>8</sup> As a result, FY 2007 tobacco settlement revenues are \$121 million below that estimated in November while the projected FY 2008 tobacco revenues have increased \$454 million to \$574 million.

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<sup>8</sup> "Trapping account" is a reserve account created to protect TSASC bondholders. TSASC and the City eliminated the trapping requirement by refinancing TSASC's outstanding bonds.

As Table 14 indicates, the FYs 2006-2010 Financial Plan shows miscellaneous revenue, excluding intra-City revenues, declining \$244 million, or 7.0 percent, in FY 2007. This decline reflects primarily the loss of one-time revenues such as asset sales, landfill reimbursement, and residual proceeds from the sale of the FY 2005 Escrow Securitization Corporation bonds. In FY 2008, miscellaneous revenues are projected to grow 11.5 percent. For the last two years of the Plan, the City expects miscellaneous revenues to approximate the FY 2007 level of \$3.3 billion.

**Table 14. City forecast of Miscellaneous Revenue**

(\$ in millions)

	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Licenses, Franchises, Permits	\$396	\$395	\$387	\$385	\$379
Interest Income	300	245	133	140	146
Charges for Services	574	539	528	528	528
Water and Sewer	1,007	996	1,009	1,031	1,048
Rental Income	183	181	180	172	171
Fines and Forfeitures	703	715	716	716	716
Other Miscellaneous	443	291	796	365	368
<b>Total Miscellaneous Revenue</b>	<b>\$3,606</b>	<b>\$3,362</b>	<b>\$3,749</b>	<b>\$3,337</b>	<b>\$3,356</b>

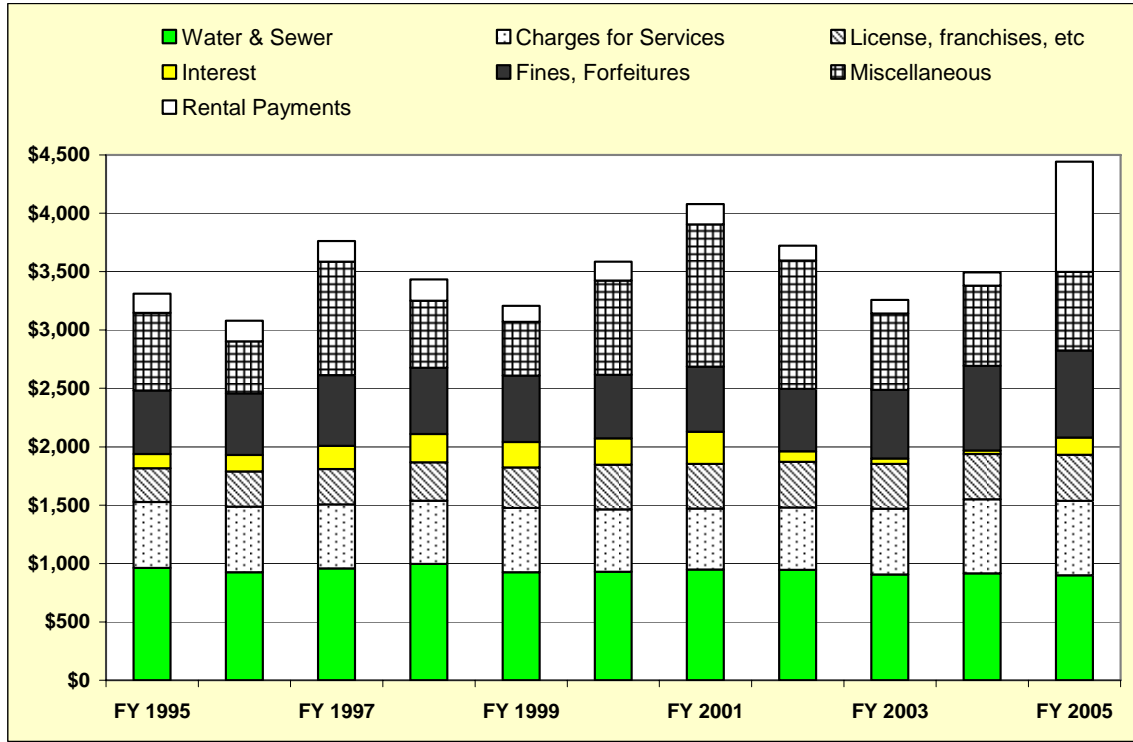
Note: Water & Sewer Revenues are not available for operating purposes because they are offset by expenditures related to providing water & sewer services

Source: NYC Office of Management and Budget.

Over the past decade with the exception of FY 2005, miscellaneous revenues have remained stable averaging about 9.0 percent of total City income. The shares of individual components that make up these revenues have changed over time. On an inflation-adjusted basis, most sub-categories of miscellaneous revenues are fairly stable, as Chart 5 shows. However, some sub-categories reflect the receipt of substantial non-recurring revenues in certain fiscal years. The miscellaneous revenue sub-category has the greatest variability. For example, in FY 1997 the miscellaneous revenue sub-category reflects a one-time receipt of \$450 million from the MTA and the sale of WNYC-TV Station while the FY 2001 receipt reflects \$340 million from the sale of the NYC Coliseum. In FY 2005 non-recurring revenues totaled more than \$1.5 billion and included non-recurring rental income of \$744 million from the Port Authority for retroactive rents and past underpayments for the JFK and LaGuardia airports.

**Chart 5. Share of Miscellaneous Revenue Components**

(\$ in thousands)



Source: Comprehensive Annual Financial Report of the Comptroller.

Proceeds from fines and forfeitures have grown 37 percent during the last decade due mainly to increases in fine and fee levels put into effect in the first half of FY 2003 and improvement in collections. In FY 2005 this category accounted for 17 percent of total miscellaneous revenue. By FY 2010 this category is expected to account for about 21 percent.

Overall, miscellaneous revenues are projected to decrease 6.9 percent from FY 2006 to FY 2010. Except for fines and forfeitures, and water and sewer charges which are projected to show moderate increases, all other categories of miscellaneous revenues are projected to decline over this period.

### Federal and State Aid

The January Plan contains estimates of \$5.61 billion in Federal grants and \$9.56 billion in State grants for FY 2006. The aggregate total of \$15.17 billion in Federal and State grants would constitute about 28 percent of the total budget in FY 2006. In the outyears, the assumptions of Federal and State aid become more conservative as many grant categories are held constant or at reduced levels. As a result, Federal and State grants are expected to drop to \$14.73 billion in FY 2007 and projected to grow modestly

to \$14.91 billion by FY 2010. The share of the total budget supported by Federal and State grants is expected decline to about 26 percent beginning in FY 2008.

Over the ten-year period from FY 1995 to FY 2005, Federal and State categorical grants also diminished as a share of the total budget, as growth in City funds outpaced the increase in these funding sources. Adjusted for FEMA reimbursement and debris insurance, Federal and State grants comprised about 28 percent of total spending in FY 2005, compared with a 33 percent share in FY 1995. Federal grants grew about 41 percent from \$4.01 billion to \$5.65 billion during this period. Meanwhile, State aid rose from \$6.43 billion to \$8.82 billion, reflecting growth of about 37 percent. Combined, Federal and State grants increased about 39 percent during this period to an aggregate total of \$14.48 billion in FY 2005. In comparison, the adjusted City funds budget experienced significantly greater growth of about 75 percent, almost twice the rate of increase for Federal and State grants. In real spending terms, Federal and State grants grew only 7.0 percent while City funds grew 35 percent.

The growth in Federal grants is most notable in education, showing a near two-fold increase from \$857 million to \$1.91 billion. The additional Federal assistance for education came mostly in the form of Title I funds and handicapped education grants. Federal support for welfare programs remained basically unchanged, rising only \$100 million primarily because Federal welfare block grant allocations to the states are tied to 1995 spending levels. Adjusted for inflation, education was the only major Federal aid category that grew, rising by 71 percent between FY 1995 and FY 2005.

For State grants, education aid has become the primary source of State assistance to the City. Education aid, which constituted about 59 percent of total State aid in FY 1995, represented about 70 percent of State support received by the City in FY 2005. Between FY 1995 and FY 2005, State education aid grew by 64 percent from \$3.77 billion to \$6.18 billion. Welfare grants, the other key component of State aid, showed a decline of 13 percent during this period, mainly a reflection of the welfare caseload decline. Adjusted for inflation, State grants for welfare fell at a much steeper rate of 33 percent, while education aid grew at a rate of 26 percent.

In addition to the baseline assumptions, the Preliminary Budget for FY 2007 includes anticipated Federal and State assistance of \$350 million that declines to \$250 million annually beginning in FY 2008. These assumptions are relatively modest by recent standards that have reached as high as \$750 million in assumed support annually. Actions in recent years that have resulted in additional assistance to the City include State takeover of Family Health Plus and a cap on local Medicaid expense growth. To achieve the FY 2007 assumptions, the City has put forth a list of potential actions in its Federal and State Agenda totaling about \$1.5 billion. Among the major actions, the City seeks additional State funding in anticipation of expanded work participation requirements from TANF reauthorization (\$185 million), higher reimbursement rates for State-ready prisoners (\$163 million), and increased Federal Title I funds to reflect full authorization levels under the No Child Left Behind Act (\$684 million).

The Governor released his proposed budget in January which, according to State estimates, could provide a net benefit of \$140 million to the City in FY 2007.<sup>9</sup> A significant portion of this estimate is in education funding, including a year-to-year increase of \$64 million in formula-based school aids and \$20 million in the education impact grant stemming from video lottery terminal revenues. In other areas, the State projects additional funding of about \$41 million in health and welfare that includes increases for public health works initiatives and a modest restoration for the Flex Funds for Family Services. In addition, the Governor's school aid proposal includes an unallocated reserve of \$375 million in Sound Basic Education (SBE) grants, which the State has yet to allocate on a district basis. The DOE receives 60 percent of statewide SBE funding in FY 2006, a similar split could provide the City with up to \$225 million in additional education aid.

In comparison, the City's analysis contains significantly less optimistic estimates, showing a net negative impact of about \$80 million on its financial plan in FY 2007. This impact excludes the school aid increase because the City views this as categorical funding that has no gap-closing benefit. The City is in agreement on the magnitude of the school aid increase while maintaining a conservative estimate of the SBE grant allocation (40 percent share), with an expected total of \$214 million. On the other hand, the estimated impact includes a potential revenue loss for HHC of \$150 million as a result of the Governor's Medicaid proposals. While the City provides significant financial support to HHC, it is unclear if the City's financial plan would have to absorb the full impact of the revenue loss.

Excluding the HHC revenue loss, the City's assumptions show a net benefit of \$70 million. A significant difference between City and State assumptions is the City's inclusion of the authorized cigarette tax increase from the Governor's budget amendments that could provide \$36 million in additional revenues. The City estimate also contains various mandate relief savings such as the allowance of collateral offsets in judgments and awards (\$30 million) and repeal of the Wick's Law (\$6 million). On the downside, the City assigns only a marginal savings of \$3 million to the Governor's health and welfare proposals and reflects a greater revenue loss of \$22 million from other State tax proposals.

## **B. EXPENDITURE ASSUMPTIONS**

The City's projected FY 2007 spending, after adjusting for net prepayment, is \$56.4 billion.<sup>10</sup> This is an increase of 4.2 percent from expected FY 2006 expenditures of \$54.1 billion. From 2006 to FY 2010, expenditures, after adjusting for pre-payments, are projected to grow by 10.7 percent, outpacing revenue growth by 4.5 percentage points. As Table 15 shows, spending increases in FY 2007 and the outyears of the Financial Plan

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<sup>9</sup> The State estimate is net of \$40 million in fiscal stabilization grants for education. The funding is used to support debt service payments for the Municipal Bond Bank borrowing and would not represent new aid to the City.

<sup>10</sup> Net prepayment for a given fiscal year is the prepayment of that fiscal year's expenditures minus the prepayment for the following year's expenditures.



are dominated by growth in pension contributions, health insurance costs, Medicaid spending, debt service, and judgments and claims (J&C) settlements.<sup>11</sup> The combined spending in these areas, which accounts for approximately 33 percent of FY 2007 spending, is projected to grow by 14.5 percent, or \$2.3 billion from FY 2006, and 36.2 percent over the Financial Plan period. All other expenditures including wages and salaries are expected to remain relatively flat with growth of 0.1 percent over the same period.

**Table 15. FY 2007 through FY 2010 Expenditure Growth**

(\$ in millions)

	FY 2007	Annual Percentage Change				FY 2010
		FY 06-07	FY 07-08	FY 08-09	FY 09-10	
Pensions	\$4,750	22.4%	15.2%	4.3%	(2.4%)	\$5,576
Health Insurance	3,176	8.8%	9.5%	8.2%	5.7%	3,977
Medicaid	4,950	10.9%	3.0%	2.7%	3.4%	5,413
Debt Service	4,911	16.1%	10.8%	7.2%	5.8%	6,176
J & C	647	7.6%	6.7%	7.7%	6.8%	793
Subtotal	\$18,434	14.5%	9.5%	5.5%	3.0%	\$21,935
Other Fringe Benefits	\$3,714	0.4%	(25.6%)	1.3%	1.8%	\$2,848
Salaries and Wages	18,765	0.8%	1.1%	0.7%	1.1%	19,322
Public Assistance	2,441	(0.2%)	0.2%	0.0%	0.0%	2,445
Other OTPS	13,010	(1.7%)	0.5%	0.9%	1.0%	13,319
Subtotal	\$37,930	(0.2%)	(1.8%)	0.8%	1.1%	\$37,935
<b>Total Expenditure</b>	<b>\$56,364</b>	<b>4.2%</b>	<b>1.9%</b>	<b>2.4%</b>	<b>1.8%</b>	<b>\$59,869</b>
<b>Inflation</b>		<b>2.5%</b>	<b>2.4%</b>	<b>2.4%</b>	<b>2.4%</b>	

SOURCE: NYC Office of the Comptroller

NOTE: Expenditures include NYCTFA debt service.

## Pensions

The January Modification projects that the City's pension contributions will grow from \$4 billion in FY 2006 to \$5.8 billion in FY 2009 before leveling off, as shown in Table 16 below. These projections include the impact of the changes to actuarial assumptions and methodologies as proposed by the Chief Actuary and adopted by the Boards of Trustees of the five actuarial pension systems in the current fiscal year.<sup>12</sup> They also include the cost of the World Trade Center Disability Law and recent union contract settlements.

<sup>11</sup> Health insurance costs in the growth analysis do not include the \$1 billion deposit in each of FY 2006 and FY 2007 into the Retiree Health Benefits Trust Fund.

<sup>12</sup> The changes to the actuarial assumptions and methodologies are discussed in greater detail in "Pensions" beginning on page 20 of the Comptroller's report on "The State of the City's Economy and Finances, 2005," December 15, 2005.

**Table 16. FY 2007 Preliminary Budget Projections of the City's Pension Expenditures**

(\$ in millions)

	<b>FY 2005 Actual</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
Five Actuarial Systems	\$ 3,284	\$ 3,919	\$ 4,786	\$ 5,504	\$ 5,739	\$ 5,605
Other Systems	86	98	100	106	107	107
<b>TOTAL</b>	<b>\$ 3,370</b>	<b>\$ 4,017</b>	<b>\$ 4,886</b>	<b>\$ 5,610</b>	<b>\$ 5,846</b>	<b>\$ 5,712</b>

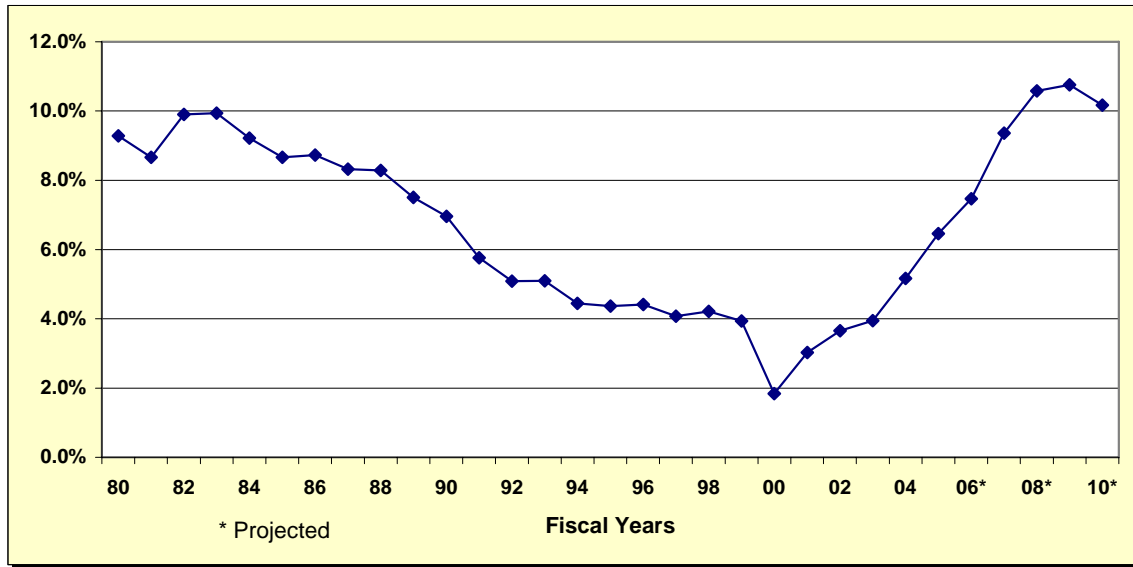
### **Long-Term Trends in the City's Pension Expenditures**

Pension costs, adjusted for inflation, remained fairly stable during the 80's and then started on a downward trend in FY 1990 that lasted into FY 2000, primarily because of extraordinary investment returns. After reaching a low of less than \$1 billion in FY 2000, pension contributions have increased sharply due to several factors:

- Over the last decade, several substantial pension benefit enhancements were enacted that have added over \$20 billion in liabilities.
- Pension liabilities have also grown due to changes in economic and demographic patterns such as larger merit pay increases, higher overtime, earlier retirement, improved mortality, and increases in the number of disability retirements.
- The stock markets declined earlier this decade after a run-up in the nineties. As a result, between June 30, 2000 and June 30, 2002, the City's pension fund assets declined by almost \$25 billion.

Pension costs in the January Plan are projected to keep growing until FY 2009. After benefiting from the extraordinary investment returns of the nineties, pension contributions, as a percentage of General Fund revenues, have returned to the levels of the eighties in recent years, and are projected to exceed the peak of the eighties by about one percentage point in FY 2009 before declining modestly in FY 2010, as shown in Chart 6 below.

**Chart 6. The City's Pension Expenditures as a Percent of General Fund Revenues**



**Long-Term Trends in Pension Fund Investment Earnings**

The City's pension expenses have climbed recently partly due to poor investment performance earlier this decade. But pension expenses would have been even higher without the investment gains in the eighties and nineties. In spite of the market-corrections in recent times, longer term investment returns through June 30, 2005 have been quite robust. Over the last twenty-five years, ending June 30, 2005, the actuarial pension funds have earned an average of about 10.8 percent annually.

**Table 17. Annual Average Pension Fund Investment Returns Through June 30, 2005**

Average Investment Return for the Last	Through June 30, 2005
25 years	10.8 %
20 years	10.4 %
15 years	9.9 %
10 years	9.0 %
5 years	2.3 %

The City Pension Funds' Chief Actuary has taken steps to reduce the volatility of the City's pension expenses by introducing new smoothing techniques. It is anticipated that henceforth pension costs will remain more stable as a percent of covered payroll.

## Health Insurance

The January Modification shows that the City’s spending for employee and retiree health insurance is projected to increase at an average annual rate of 9.1 percent between FY 2005 and FY 2010.<sup>13</sup> This reflects a rate increase of 8.75 percent in FY 2006, an expected rate increase of 8.64 percent in FY 2007, and assumed increases of 8.0 percent for the remaining outyears. In addition, the January Modification contains funding of \$1 billion in each of FY 2006 and FY 2007 into a Retiree Health Benefits Trust Fund that the City expects to establish in FY 2006 to pay for retiree health insurance.

**Table 18. The City’s Health Insurance Expenditures as per the January Modification**

(\$ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Pay-as-you-go Expense	\$2,575	\$2,919	\$3,176	\$3,478	\$3,764	\$3,977
Transfer to Retiree Health Benefits Trust Fund		\$1,000	\$1,000			
<b>Total</b>	<b>\$2,575</b>	<b>\$3,919</b>	<b>\$4,176</b>	<b>\$ 3,478</b>	<b>\$3,764</b>	<b>\$3,977</b>

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

## Liability for Post-Employment Healthcare for Employees

Beginning in FY 2008, the City will be required, under the Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, to account for and report the cost of post-retirement health benefits, along with other post-employment benefits, in the same manner as currently applies to pension liabilities. Statement 45, however, does not compel the City to fund this cost.

Even so, GASB Statement No. 45 has prompted the City to propose establishing the Retiree Health Benefits Trust Fund.<sup>14</sup> While the City has allocated \$2 billion over FY 2006 and FY 2007 for this fund, it has not yet provided details of how the fund will be structured or how the money will be invested.

## Long-Term Trends in the City’s Health Insurance Expenditures

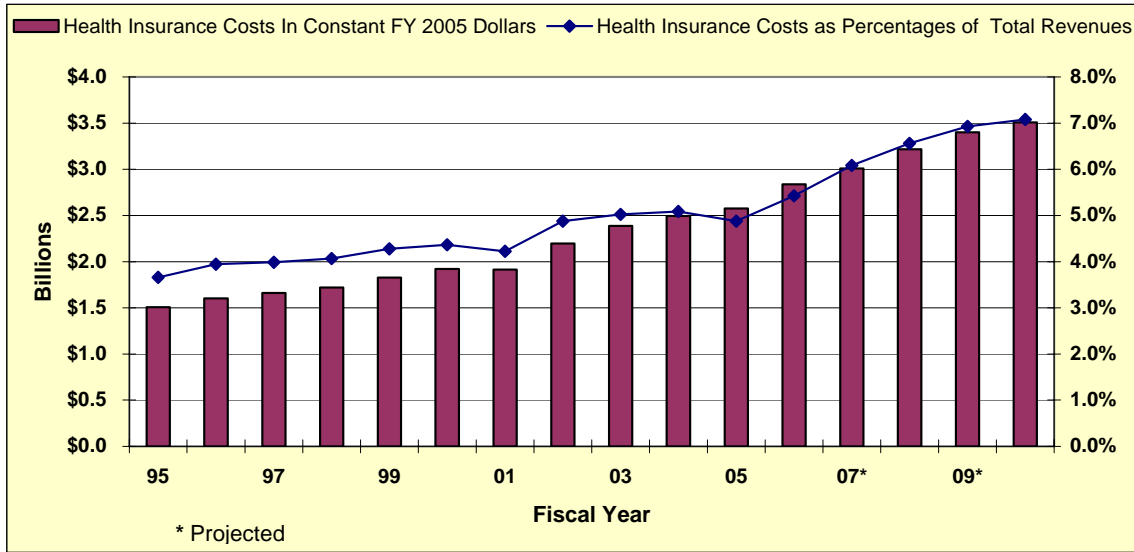
Chart 7 below shows the growth of the City’s health insurance expenditures in constant FY 2005 dollars and as a percentage of the City’s revenues. As the chart shows, the City’s health insurance costs have exhibited a steep and persistent trend over this

<sup>13</sup> The City currently funds its health insurance expenses on a pay-as-you-go basis.

<sup>14</sup> “Although the City will not be required to budget for or advance-fund this future obligation, the City intends to establish a statutory trust under Delaware law, for the benefit of its current and future retirees, to fund a portion of the OPEB liability.” *January 2006 Financial Plan – Fiscal Years 2006-2010*, January 31, 2006, p.62.

period. As a percent of total revenues, health insurance costs have grown from less than 4.0 percent in FY 1995 to more than 5.0 percent in FY 2005, as growth in health insurance expenses has outstripped that of revenues. In the outyears, health insurance is expected to exceed \$3.5 billion and consume more than 7.0 percent of revenues by FY 2010.

**Chart 7. The City’s Health Insurance Costs**



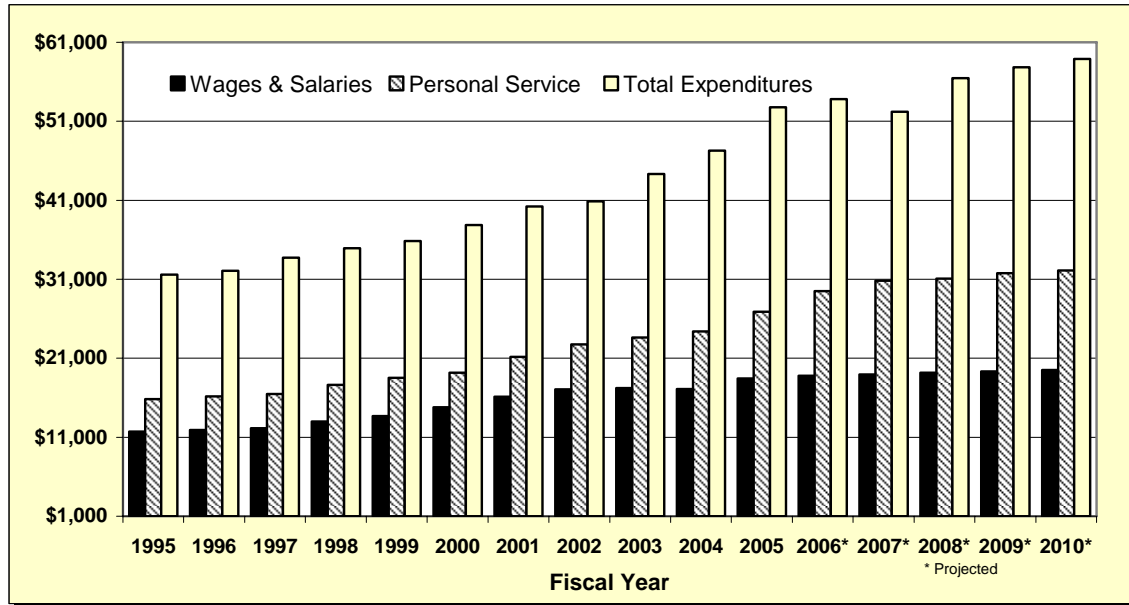
NOTE: FY 2006 and FY 2007 health insurance cost does not include the cost of funding the Retiree Health Benefits Trust Fund.

## Labor

The City’s wage and salary expenditures are expected to grow almost 4.0 percent from \$18.8 billion in FY 2007 to \$19.5 billion by FY 2010. These projections include funds in the labor reserve that are set aside to fund contract settlements. The labor reserve contains funding of \$596 million for FY 2007, \$853 million for FY 2008, \$1.034 billion for FY 2009, and \$1.278 billion for FY 2010. Expenditures for wages and salaries have grown at an annual rate of 4.6 percent from \$12 billion in FY 1995 to approximately \$18 billion in FY 2005, as shown in Chart 8. During that period, wages and salaries as a share of the budget increased to a high of 42 percent in FY 2002 from 37 percent in FY 1995. Since then, wages and salaries have continued to decrease as a share of the budget, reaching 35 percent in FY 2005. By 2010, wages and salaries are projected to account for 33 percent of total expenditures.

**Chart 8. Wages and Salaries and Personal Service Expenditures**

(\$ in millions)



City employees earned an average salary of \$69,832 in FY 2005, an increase of almost 40 percent from average earnings of \$49,900 in FY 1995 (\$64,870 in FY 2005 dollars). Over that same period, City employees received cumulative contractual wage increases (not adjusted for inflation) ranging from 39 percent to 52 percent. As an offset to wage increases, recent contract agreements allowed the City to hire new employees at lower starting salaries. This coupled with retirement incentives in FY 2002 and FY 2003, resulted in a lower growth in employees' average salary when compared to wage increases. Adjusted for inflation, average salary has increased 7.6 percent from FY 1995 to FY 2005, averaging 0.7 percent over the inflation rate annually.

The City's budget includes funding for wage increases averaging 1.2 percent annually, or half the expected inflation rate, for FYs 2007 through 2009. As a result, the City will need to fund only the incremental cost above this funding level for the next round of collective bargaining. For example, if all employees receive increases similar to proposed second and third year wage increases for transit employees the City would incur an additional cost of \$141 million in FY 2007, \$423 million in FY 2008, and just over \$1 billion in each of FYs 2009 and 2010.<sup>15</sup>

<sup>15</sup> The Metropolitan Transit Authority (MTA) employees voted to reject the recent proposed contract, which would have granted wage increases of 3 percent on December 16, 2005, 4 percent on December 16, 2006, and 3.5 percent on December 16, 2007.

## Headcount

The City-funded workforce is projected to be 225,407 by June 30, 2007, 528 employees more than the June 30, 2006 projection. Workforce levels are then expected to remain relatively constant, increasing to 225,502 by FY 2010. The number of City-funded employees has decreased from 204,499 in FY 1995 to 199,899 in FY 2003. Beginning in FY 2004, the City reclassified 18,576 former part-time workers as full-time employees. As a result, headcount jumped to 220,409 in FY 2004 and then to 221,247 in FY 2005. The City's workforce accounts for about 40 percent of an estimated 552,000 employees performing government jobs in New York City.

From FY 1995 to FY 1997, the City-funded workforce decreased by 3,835 to 200,664 before increasing to 215,133 by June 30, 2000. The decline in the City's workforce resulted from the severance programs implemented in FYs 1994 and 1995. In response to the financial difficulties facing the City in FY 1994, the City signed an agreement with the Municipal Assistance Corporation (MAC), whereby MAC would provide \$230 million to the City to invest in a workforce reduction program. A total of 13,834 employees participated in the severance programs, 11,654 of which were full-time employees and 2,180 were part-time employees.

The growth in the City's workforce that began in FY 1997 resulted mainly from a shift in budget priorities towards education and crime prevention. Pedagogical employees increased 31 percent from 67,453 as of June 30, 1997 to 88,082 as of June 30, 2005.<sup>16</sup> This growth is expected to continue, with the number of pedagogical employees projected to grow to 88,873 by June 30, 2010. Over the last several years, the DOE has undertaken a number of initiatives, such as Project Read, class size reduction, and pre-kindergarten expansion. These programs, coupled with enrollment growth and the reclassification of part-time workers led, to the increase in the pedagogical workforce. Pupil enrollment increased 2.0 percent from 1,087,760 in FY 1997 to 1,112,640 in FY 2001. At the same time, the number of pupils per pedagogical employee declined from 16 in FY 1997 to 14 in FY 2001. With the continued increase in the pedagogical workforce and the recent decline in pupil enrollment, which was 1,095,409 in FY 2005, the ratio of pupils per pedagogical employee is now 12.

Most of the increase in the police force, which began in FY 1997, was supported by funding made available through the COPS Universal Program as part of the Federal Crime Bill.<sup>17</sup> Under this program, the Federal government provided funding to add

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<sup>16</sup> Pedagogical employees include teachers and instructional support staff.

<sup>17</sup> The 1994 Federal Crime Bill provides \$25,000 per year for three years to localities for each police officer hired over and above the locality's regular officer strength. Localities are required to maintain the higher officer strength for one additional year beyond the Federally funded three-year period. Localities failing to meet the retention requirements can face sanctions, including the suspension or revocation of current funding, rejection of pending grant applications, and exposure to other legal remedies. The U.S. Department of Justice evaluates a locality's retention compliance on a case-by-case basis, and does not generally penalize grantees that have experienced natural disasters and/or severe and unforeseen fiscal conditions.

additional uniformed nationwide and civilian support personnel officers. Since its inception, this program has allowed the City to hire 7,404 police officers. The City has continued to seek Federal funds annually, which are used to partly fund new recruit classes. In recent years, the number of uniformed officers has declined from the peak level of 40,285 in FY 2000 to 35,489 in FY 2005.

The hiring of additional teachers and police officers eventually pushed City-funded headcount to 215,133 by June 30, 2000. The City implemented hiring freezes and a series of early retirement programs in FYs 2001 and 2002, which resulted in a downward trend in headcount levels. Altogether, 5,037 employees left active service through the retirement programs. By June 30, 2003, the City's workforce level had declined to 199,899. The reclassification of part-time employees to meet the needs of Department of Education and social services programs pushed the workforce levels to 221,247 by June 30, 2005.

City-funded part-time headcount is expected to total 31,662 full-time-equivalent (FTE) employees on June 30, 2007 and then remain at comparable levels, as shown in Table 19.

**Table 19. City-Funded Full-Time Equivalent Year-End Headcount**

	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Pedagogical FTEs:</b>						
Dept. of Education	1,072	952	952	952	952	952
City University	1,392	1,468	1,468	1,468	1,468	1,468
Sub-total	2,464	2,420	2,420	2,420	2,420	2,420
<b>Civilian FTEs:</b>						
Dept. of Education	14,715	14,619	14,619	14,619	14,619	14,619
City University	821	800	800	800	800	800
Police	5,542	5,430	6,106	6,106	6,106	6,106
Dept. of Parks & Rec.	5,371	4,250	3,631	3,615	3,615	3,615
Dept. of Health	1,761	1,915	2,142	2,160	2,178	2,178
Dept. of Social Services	104	0	0	0	0	0
All Other Civilian FTEs	2,084	2,092	1,944	1,944	1,945	1,945
Sub-total	30,398	29,106	29,242	29,244	29,263	29,263
<b>Total FTEs</b>	<b>32,862</b>	<b>31,526</b>	<b>31,662</b>	<b>31,664</b>	<b>31,683</b>	<b>31,683</b>

## Overtime

The FY 2007 Preliminary Budget allocates about \$596 million for overtime expenses. As shown in Table 20, actual overtime spending may be at least \$145 million higher than projected, if overtime spending mirrors recent trends. For FY 2006, the City is projecting overtime spending of \$725 million, \$129 million more than the FY 2007



forecast. FY 2006 overtime spending through January is \$472 million and includes about \$15 million in overtime expenses incurred from providing support to New Orleans in the aftermath of Hurricane Katrina, for which the City expects Federal reimbursement.

**Table 20. Projected Overtime Spending, FY 2007**

(\$ in millions)

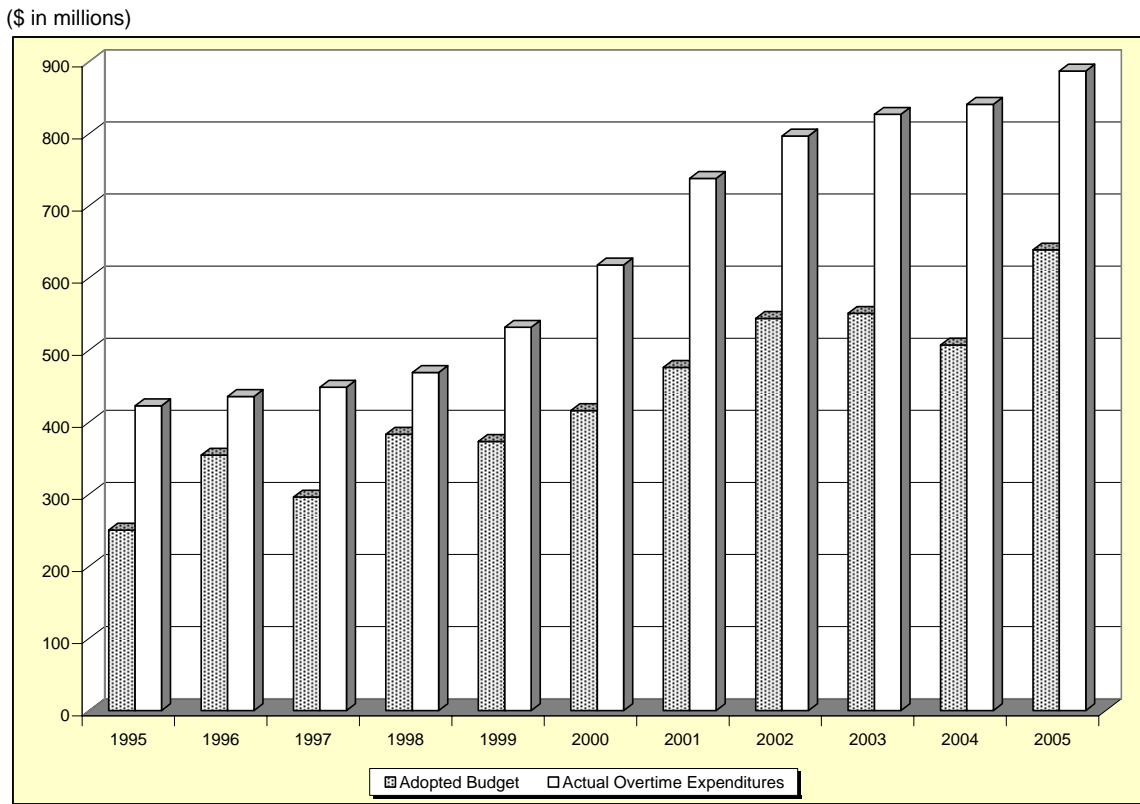
	<b>City Planned Overtime FY 2007</b>	<b>Comptroller's Projected Overtime FY 2007</b>	<b>FY 2007 Risk</b>
Uniform			
Police	\$247	\$350	(\$103)
Fire	95	95	(0)
Correction	46	55	(9)
Sanitation	<u>56</u>	<u>56</u>	<u>0</u>
Total Uniformed	\$444	\$556	(\$112)
Others			
Police-Civilian	\$7	\$40	(\$33)
Admin for Child Svcs	15	15	0
Environmental Protection	21	21	0
Transportation	31	31	0
All Other Agencies	<u>78</u>	<u>78</u>	<u>(0)</u>
Total Civilians	\$152	\$185	(\$33)
<b>Total City</b>	<b>\$596</b>	<b>\$741</b>	<b>(\$145)</b>

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

After adjusting for one-time events, actual overtime expenditures increased at an average annual rate of 7.7 percent from \$423 million in FY 1995 to \$886 million in FY 2005. During that period, actual overtime expenditures have been, on average, 46 percent more than the projections at the beginning of each fiscal year, as shown in Chart 9.

The City has taken steps since FY 1995 to address the higher cost of overtime. In September 1994, Mayoral Directive 94-3 was issued, requiring agencies with significant overtime spending to provide detailed monthly reports and analyses of overtime expenditures to the Mayor's Office of Operations and the Office of Management and Budget. In May of 1997, the Mayor's Office of Operations issued "Guidelines for Effective Management" to increase awareness among City managers about the use of overtime and to recommend actions for managing overtime expenses. Agencies were required to provide details of successful overtime management practices and submit compliance plans with the previously issued Mayoral Directive 94-3.

**Chart 9. Overtime Spending, Adopted vs. Actual, FY 1995–FY 2005**



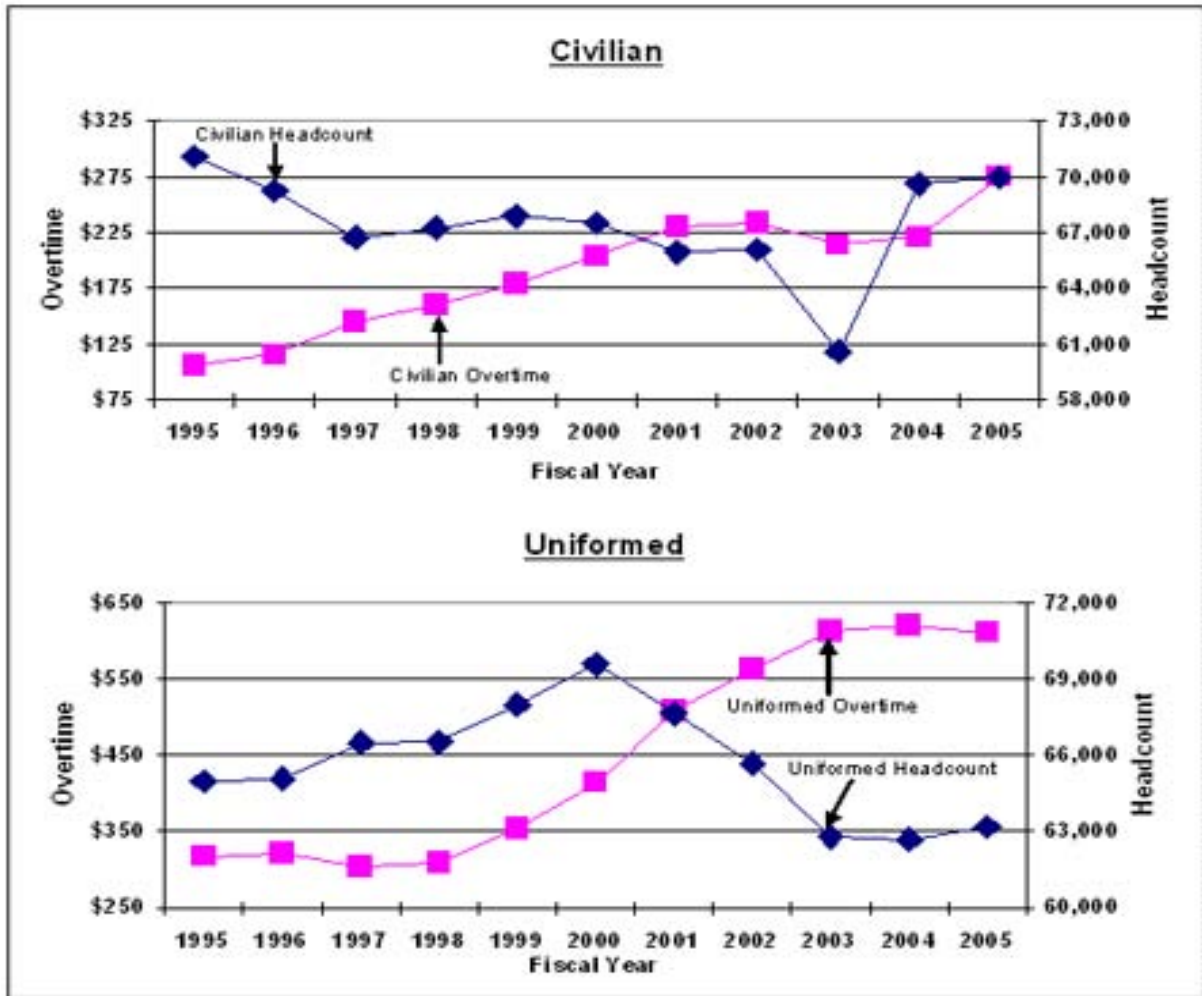
Note: Actual overtime excludes costs associated with the WTC disaster, the electrical blackout in FY 2004, and the RNC convention in FY 2005.

Despite these efforts, overtime expenditures as a share of wages and salaries have increased from about 4.0 percent in FY 1995 to about 5.0 percent in FY 2005. When compared with the level of City-funded employees, the average overtime cost per employee increased to \$6,660 in FY 2005 from \$3,107 in FY 1995. The average overtime cost for civilian employees increased from \$1,491 in FY 1995 to \$3,929 in FY 2005, growing at an average annual rate of 10 percent. Civilian headcount, however, has declined from 71,115 in FY 1995 to 69,988 in FY 2005, as shown in the first panel in Chart 10, indicating that the increase in overtime spending is partly attributable to the reduction in staffing level.

Over the same period, uniformed overtime cost grew at an annual average rate of 7.0 percent. The average cost per employee has increased to \$9,671 in FY 2005 from \$4,878 in FY 1995. From FY 1995 to FY 2000, overtime spending increased even as uniformed headcount was rising, as shown in the second panel in Chart 10. However, part of the increase in overtime reflects the City’s decision to operate certain anti-drug and quality-of-life initiatives with police overtime. While overtime spending continued to increase after FY 2000, the growth in spending in FYs 2001 through FY 2005 was less rapid and against a backdrop of declining headcount.

**Chart 10. Overtime Spending and Civilian Headcount, Excluding Pedagogical**

(\$ in millions)



Nevertheless, the annual overtime cost for uniformed employees continues to be a major driver in the continued growth in overtime expenditures. Uniformed overtime cost, which averaged \$448 million annually between FY 1995 and FY 2005, accounts for approximately 70 percent of total overtime expenditures. As shown in Table 21, uniformed overtime costs were \$611 million in FY 2005, 93 percent more than the \$317 million spent in FY 1995. The continued focus by the Police Department on terrorism, anti-crime, and quality-of-life initiatives has exerted upward pressure on the overtime usage by officers. Uniformed police overtime cost was \$350 million in FY 2005. In turn, the critical nature of these initiatives makes controlling the cost more challenging.

**Table 21. Uniformed Overtime Costs, FYs 1995–2005**

(\$ in millions)

	<b>Total Overtime</b>	<b>Uniformed Overtime</b>	<b>Uniformed as % of Total</b>	<b>Police Overtime</b>	<b>Police as % of Total</b>
2005	\$886	\$611	69%	\$350	40%
2004	\$841	\$620	74%	\$345	41%
2003	\$827	\$613	74%	\$336	41%
2002	\$797	\$563	71%	\$333	42%
2001	\$738	\$508	69%	\$317	43%
2000	\$618	\$414	67%	\$220	36%
1999	\$532	\$353	66%	\$151	28%
1998	\$469	\$309	66%	\$139	30%
1997	\$449	\$304	68%	\$111	25%
1996	\$436	\$321	74%	\$106	24%
1995	\$423	\$317	75%	\$93	22%

NOTE: Actual overtime excludes costs associated with the WTC disaster, the electrical blackout in FY 2004, and the RNC convention in FY 2005

## **Public Assistance**

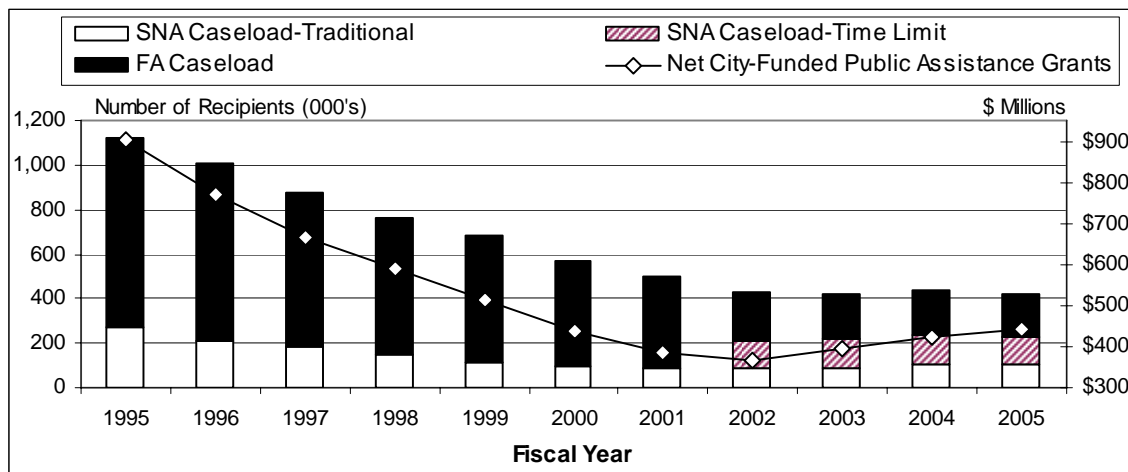
In the January Plan, the City has revised its public assistance caseload projections to more accurately reflect the trend in recent months. The Department of Social Services reports a caseload of 412,454 for January 2006, representing a decline of almost 1.0 percent from the FY 2005 year-end caseload of 416,164. The City projects that caseload will fall gradually through the remaining months of FY 2006 to a level of 411,120. In support of this assumption, the public assistance budget allocates about \$504 million in City funds for baseline grants expenditures. The City’s projection is in line with actual spending thus far in FY 2006, showing an average of slightly more than \$41 million for the City’s share of monthly grants expenditures. For the outyears, the welfare caseload projection is held constant at 411,120 in the January Plan, while City funding for baseline grants increases to about \$520 million in each of FYs 2007-2010. These projections appear reasonable, given that the City’s share of monthly grants has been range-bound at \$40 to \$42 million since FY 2004.

Over the past 10 years, the City’s welfare caseload fell by almost 63 percent from the FY 1995 year-end caseload of 1,119,448 to the FY 2005 year-end caseload of 416,164. The passage of Federal welfare reform legislation and the City’s own implementation of the NYC Work, Accountability and You (NYC WAY) program marked the beginning of a decline in caseload trend that persisted throughout this period.

The NYC WAY program, with its emphasis on placing able-bodied welfare recipients in workfare and other work-participation programs as a requirement for receiving income maintenance payments, was central to the initial phases of the caseload decline. In tandem with this strategy, programmatic spending for support services such as employment and day care services rose significantly. Combined, spending for these services more than doubled between FY 1995 and FY 2005, rising from about \$450 million to almost \$950 million.

As a result of the caseload decline, total spending for the Family Assistance (FA) and Safety Net Assistance (SNA) programs fell nearly 54 percent, from \$2.72 billion in FY 1995 to \$1.26 billion in FY 2005. Similarly, the City's net outlay for public assistance grants declined from \$903 million in FY 1995 to about \$441 million in FY 2005, as shown in Chart 11. At one point, City-funding for net public assistance grants actually dipped to \$367 million in FY 2002. However, because of the shift in caseload composition toward a heavier concentration of SNA recipients, both as a result of transfers of FA recipients who reached their five-year limit and underlying growth in the normal SNA population, City-funded spending for public assistance rose after FY 2002. The SNA program is a State program that requires localities to fund 50 percent of program costs, compared with the Federally mandated FA program that requires a local contribution of 25 percent.

**Chart 11. Trends in Public Assistance Caseload and Grants Expenditures  
FY 1995–FY 2005**



Even with this recent trend, City support for public assistance grants in FY 2005 still represents a 51 percent drop from the FY 1995 level. Adjusted for inflation, the reduction is even steeper at 62 percent, signifying an average annual decline of about 9.3 percent in real spending for these programs. Moreover, the burden that public assistance spending poses on the City's budget also declined. As a percentage of the total City funds budget, net public assistance grants constituted only 1.2 percent of total tax-levy spending in FY 2005, compared to 4.3 percent in FY 1995. This measure is expected to remain in relatively the same range for the January Plan.

### Medical Assistance

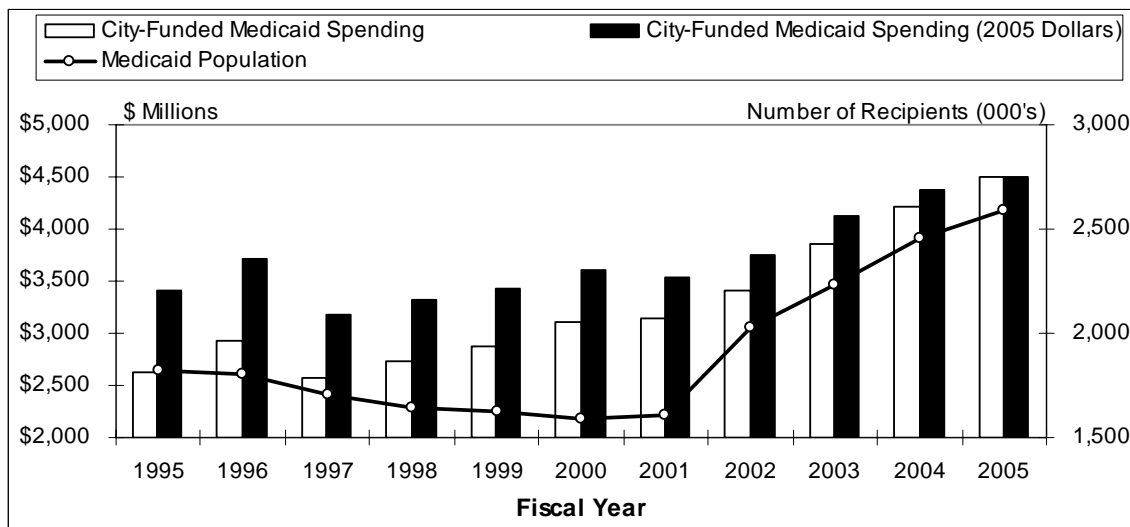
The January Plan shows declines in projected Medicaid spending of \$111 million in FY 2006 and \$223 million in each of FYs 2007-2010. The bulk of these changes represent technical adjustments related to the Medicaid cap provisions to reflect changes in certain State reimbursements. After the adjustments, net City-funded Medicaid

expenditures (including the Health and Hospitals Corporation) are projected at \$4.16 billion in FY 2006, and would range between \$4.80 billion and \$5.26 billion in FYs 2007-2010. The FY 2006 projection is significantly lower mainly because of a current year accrual benefit of \$450 million recognized from the implementation of the State Medicaid cap. Meanwhile, the outyear estimates reflect an average annual growth of 3.1 percent, consistent with the established Medicaid caps for local spending growth during these years.

In retrospect, the City’s Medicaid outlay grew by about \$1.86 billion, or 71 percent, in the past 10 years, from a base of \$2.63 billion in FY 1995 to \$4.49 billion in FY 2005. A significant portion of this growth occurred after FY 2001, as the size of the City’s Medicaid population began to expand.

For the most part, City-funded Medicaid spending grew in an uneven pattern between FY 1995 and FY 2001, culminating in aggregate growth of 19 percent over this 6-year period. However, in the following four fiscal years, the rate of growth for these expenditures accelerated considerably. From FY 2001 to FY 2005, City-funded Medicaid spending increased from \$3.14 billion to \$4.49 billion, or about 43 percent. A key factor is the rise in the City’s Medicaid population, which jumped from 1.61 million recipients at the end of FY 2001 to 2.59 million recipients by the end of FY 2005, an increase of almost a million people or 61 percent, as shown in Chart 12. Prior to FY 2001, the Medicaid population was experiencing consistent yearly declines from the FY 1995 year-end level of 1.82 million recipients.

**Chart 12. Medicaid Enrollment and Spending Trends, FY 1995–FY 2005**



The influx of Medicaid recipients is attributable mainly to the establishment of the Family Health Plus (FHP) program, providing health care coverage to low-income families and individuals who do not meet the eligibility requirements of the Medicaid program. The FHP program, implemented in early 2002, has since expanded to a membership of about 400,000 in New York City. In addition, the State’s Child Health

Plus program, the transitioning of disaster relief recipients after the World Trade Center disaster, and managed care enrollment increase (in part due to facilitated enrollment and program outreach) played a role in the rising Medicaid population over the past four years. At these levels, the number of Medicaid recipients constitutes about 30 percent of the City's population.

The increased utilization of services by this growing population was most notable in the prepaid care and pharmaceuticals categories. Spending for prepaid care, with its growth mainly attributable to enrollment of FHP and managed care clients in health maintenance organizations, approached \$1 billion in FY 2005. In comparison, prepaid care spending was less than \$200 million in FY 2001. Pharmaceuticals spending, similarly approaching the \$1 billion threshold, was slightly more than \$400 million in FY 2001.

The aggressive growth of Medicaid spending has placed a significant strain on the City's tax levy budget. From FY 1995 to FY 2005, Medicaid expenditures represented between 11 and 13.5 percent of the total City funds budget, ranking it among one of the costliest mandates in the City's expense budget. In the January Plan, Medicaid is projected to represent an average of about 12 percent of the City-funds spending since the capped growth rates will be similar to the growth of the overall City funds budget. Though, if not for the enactment of the State Medicaid cap, a greater portion of City funds would have been devoted to Medicaid because of its more rapid growth.

## **Health and Hospitals Corporation**

In the January Plan, the City projects a loss of \$573 million, on an accrual basis, for the Health and Hospitals Corporation (HHC) in FY 2006. For the FY 2007 Preliminary Budget, HHC's bottom-line improves modestly to an estimated loss of \$510 million. These projections have not changed significantly since the November Plan.

The negative outlook is a reflection of the Corporation's conservative baseline revenue assumptions that include estimates of \$4.57 billion for FY 2006 and \$4.76 billion for FY 2007. The FY 2006 estimate actually represents a decline of 2.7 percent from actual revenues in FY 2005. Meanwhile, the Corporation's expenses (including depreciation) are projected to be significantly higher, at \$5.14 billion in FY 2006 and \$5.27 billion in FY 2007. The overall financial picture is less alarming, however, once HHC's gap closing program is taken into account. For FY 2006 and FY 2007, the Corporation includes potential Federal and State revenues of \$510 million and \$382 million in its gap closing actions, respectively. These estimates, if realized, could provide an additional 8.0 to 11 percent boost to HHC's baseline revenues and would substantially reduce the projected deficits in these years. The total value of HHC's gap-closing program, which also contains a mix of productivity savings and other revenue actions, are projected at \$587 million in FY 2006 and \$524 million in FY 2007.

While the current outlook contains a fair degree of uncertainty, the Corporation has dealt with similar difficulties in previous years. A historical analysis of HHC's financial results between FY 1995 and FY 2005 shows a period of mixed performance. In

FY 1995, the Corporation reported a net loss of \$147 million, posting total revenues of \$3.68 billion against total expenses of \$3.83 billion. In the ensuing years, however, HHC reported net incomes of between \$143 million in FY 1996 to \$16 million in FY 1999. Surprisingly, HHC managed to achieve this turnaround in the face of declining revenues.

Third party revenues, comprising more than 90 percent of HHC revenues at the time, began to fall from of \$3.74 billion in FY 1996 to \$3.17 billion in FY 1999. The drop was most evident in Medicaid fee-for-service (FFS) revenue, falling by almost \$500 million over this span. The decline was attributable mainly to the new emphasis on primary care and reduced reliance on costlier hospital services. Federal provisions mandating the enrollment of eligible Medicaid recipients in managed care also reinforced this emphasis. Yet, HHC's initial efforts in entering the competition for managed care clients were hampered by repeated failure to achieve enrollment targets in the early stages of the mandatory managed care implementation. Thus, the increase in managed care revenues provided only a marginal offset to the FFS revenue loss. Total revenues at HHC, as a result, fell from \$3.93 billion in FY 1996 to \$3.53 billion in FY 1999.

HHC addressed the negative revenue trend by restructuring its expense budget. Through the consolidation of central administrative functions and by offering severance and early retirement programs, the Corporation was able to trim headcount from 43,915 full-time equivalent positions in FY 1995 to 35,747 by FY 1999. Also, in keeping with the emphasis on primary care, the Corporation moved to decertify over 2,000 acute care beds in its facilities, in addition to the reduction of about 2,200 beds already achieved between FY 1994 and FY 1998. These actions helped contain HHC's overall spending at \$3.52 billion in FY 1999, and, more importantly, reset the HHC expense budget at a more sustainable level in view of its revenue performance.

However, between FY 1999 and FY 2005, expense growth again outpaced revenue growth. During this period, HHC revenues rose by about 33 percent to \$4.69 billion, primarily through higher third party revenues and premium revenue. Combined, these two sources increased from \$3.17 billion in FY 1999 to \$3.93 billion in FY 2005, comprising the majority of the \$1.16 billion in additional revenue. Meanwhile, HHC expenses showed a more robust growth of 36 percent, reaching \$4.79 billion in FY 2005. The main components of the additional \$1.28 billion in spending were personal services and fringe benefits (\$703 million), other-than-personal services (\$384 million) and affiliation contracts (\$166 million).

The Corporation incurred losses of \$259 million and \$332 million in FY 2002 and FY 2003, respectively. The City responded by raising its subsidy to more than \$250 million annually in FY 2004 and FY 2005, compared to an average of less than \$100 million in each of the five previous fiscal years. The increased subsidies helped bolster the Corporation's revenues, reducing the deficit to \$63 million in FY 2004 and \$100 million in FY 2005.

Looking ahead, the Corporation faces similar challenges as expenses are expected to outpace revenues by a wide margin. Even if HHC manages to overcome the projected deficits in FY 2006 and FY 2007 without significant additional assistance from the City,



the mounting losses in the latter stages of the Plan still raise concerns. The January Plan projects deficits at a range of \$700-\$900 million annually in FYs 2007-2009. While revenue assumptions in HHC's gap-closing program could partially offset these deficits, their reliance on Federal and State actions poses an added uncertainty given that budget proposals at both levels contain cuts that could impact HHC's revenue outlook. The City currently estimates that Medicaid cost containment proposals in the FY 2007 State Executive Budget could reduce HHC revenues by \$150 million annually. The President's budget also calls for significant savings in the Medicare program over the next five years, though the direct impact on HHC is difficult to assess at this time. In the event that these revenues fall short of the projections, the City may need to provide greater subsidies to the Corporation. The January Plan reflects City subsidies of \$15 million in FY 2006 (adjusted for prepayment) and \$145-\$167 million in each of FYs 2007-2010.

## **Department of Education**

The January Plan increases funding to the Department of Education (DOE) by almost \$109 million in FY 2006, bringing the DOE budget to \$14.73 billion in the current year. The Plan contains a significant increase of \$84 million to reflect rising tuition costs for non-public special education programs and charter schools due to enrollment growth in these areas. The funding changes also include transfers of \$67 million into the DOE budget to cover energy costs and collective bargaining adjustments, offset by the recognition of a potential surplus of \$40 million in FY 2006.

In the outyears, the Department's budget is projected to rise from \$14.88 billion in FY 2007 to \$15.12 billion in FY 2010, after incorporating increases of \$83 million in FY 2007 and \$58 million in each of FYs 2008-2010. Aside from the additional support for non-public school payments, the FY 2007 Preliminary Budget also contains additional funding of \$11 million annually that would increase the number of school safety agents by 286 positions. As an offset to these needs, the Department reflects yearly savings of \$45 million in FYs 2007-2010 through administrative reductions and planned efficiencies. This initiative reduces the combined spending for regional and central administration to \$523 million in FY 2007, \$508 million in FY 2008 and \$511 million in both FY 2009 and FY 2010. In comparison, total spending for these functions is projected at \$582 million in FY 2006, about \$70 million higher than the annual average in FYs 2007-2010.

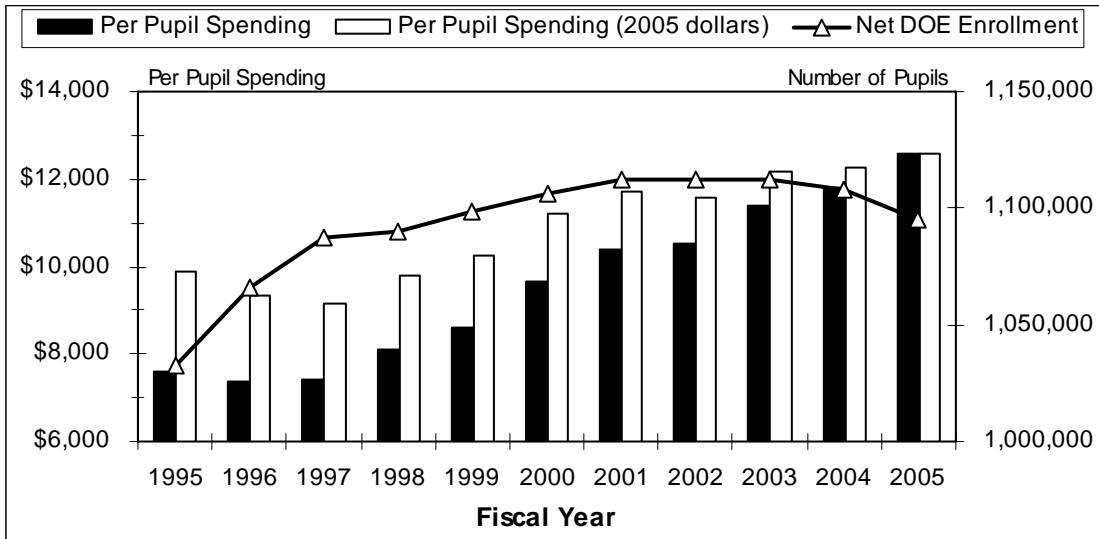
In addition, the DOE budget also reflects a reduction of \$55 million in its Medicaid revenue projections each year. This change has no net impact on overall funding because City funds have been raised by a corresponding amount to cover the revenue loss. An ongoing Federal audit has found that, between FY 1993 and FY 2001, over \$500 million in Federal Medicaid reimbursement, mainly for DOE speech therapy and transportation services, should be disallowed. While the dispute is being resolved, the Department has revised its Medicaid revenue assumptions in the January Plan to reflect corrective actions for future Medicaid claims.

Over the past ten years education spending, excluding pension and debt service, increased by about 75 percent, growing from \$7.86 billion in FY 1995 to \$13.78 billion

in FY 2005. Adjusted for inflation, the total DOE budget grew almost 35 percent from FY 1995 to FY 2005.

As shown in Chart 13, per pupil spending at the DOE jumped from \$7,618 to \$12,576 during this period, an increase of about 65 percent. These measures are based on enrollment that rose from 1,032,161 in FY 1995 to 1,112,640 in FY 2001, remained virtually flat through FY 2003, and then fell to 1,095,409 in FY 2005. Adjusted for inflation, spending on a per pupil basis increased about 27 percent during these years. Moreover, per pupil instructional spending rose from about \$4,300 in FY 1995 to almost \$7,300 in FY 2005, reflecting growth of about 70 percent. This estimate uses data from the DOE School Based Expenditure Reports as a proxy for funding share devoted to classroom instruction and instructional support services (excluding fringe benefits). Adjusted for inflation, this measure of instructional spending showed an increase of about 30 percent over this period.

**Chart 13. DOE Enrollment and Per Pupil Spending Trends, FY 1995–FY 2005**



During this period, the State’s share of total DOE spending has decreased while Federal education aid has grown. The City’s share of DOE funding was 41 percent in FY 2005, unchanged from FY 1995.

City-funded education spending grew \$2.4 billion, from \$3.21 billion in FY 1995 to \$5.62 billion in FY 2005. These figures reveal an inflation-adjusted growth of nearly 35 percent. A significant portion of the additional City support was provided to keep pace with growth of essential expenditures such as salary costs, fringe benefits, pupil transportation, and special education non-public school payments. Mayoral initiatives from past and current administrations also contributed to the rise in City support. The emphasis on raising academic standards, ending social promotions, and improving failing schools led to significant investments in the elementary and middle schools. This focus gave rise to a host of enhancement programs to help prepare students for standardized

tests, including after-school tutoring programs, extended school day, and summer remedial programs for poor-performing and failing students.

In dollar terms, the State provided a similar funding increase of about \$2.4 billion, from \$3.77 billion in FY 1995 to \$6.18 billion in FY 2005. Though, in percentage terms, State aid grew slower than City funds because of its higher base in FY 1995. Adjusted for inflation, the State aid increase lagged significantly behind the growth in City funds, rising only 26 percent over this period. State grants, as a share of the total DOE budget, fell accordingly from a norm of 47 to 48 percent during much of this period to 45 percent in FY 2005. The majority of grant increases were in the form of unrestricted school aid, support for special education programs, and transportation services. The State's LADDER proposals also produced significant new funding sources for early grade class size reduction and universal pre-kindergarten, complementing the City's effort of ending social promotions in elementary schools. Early grade class size reduction and universal pre-kindergarten funds now comprise annual support of over \$230 million dedicated specifically to early education programs. Federal grants, while not as significant a funding source to the DOE budget, more than doubled from \$857 million in FY 1995 to \$1.91 billion in FY 2005. The Federal aid increase in recent years was spurred by the No Child Left Behind Act that helped push Federal grants up from an 11-percent share of total DOE funding in FY 1995 to a 14-percent share in FY 2005.

The January Plan projections, in comparison, show an increase of only 2.7 percent for the DOE budget from FY 2006 to FY 2010. However, the final outcome of the Campaign for Fiscal Equity court case could have a profound impact on these estimates. Per pupil spending, because of the projected enrollment decline over the course of the Plan, would rise about 8.0 percent, from \$13,575 in FY 2006 to \$14,670 in FY 2010. There is early indication that enrollment levels may be below plan in FY 2006, which could further boost per pupil spending once enrollment projections are revised in the FY 2007 Executive Budget. In terms of funding shares, on average, both City and State funds show slight increases to 42 and 46 percent of the DOE budget, respectively. These increases are in part due to the assumption of no growth in the outyears for Federal grants, which make up most the remaining 12 percent share of the DOE budget.

## **Debt Service**

Debt service is defined as the required payments of both principal and interest that are payable on the City's outstanding bonds and notes. It is comprised of several subcategories. These categories include payments for General Obligation (GO) bonds, NYC Transitional Finance Authority bonds (NYCTFA), Tobacco revenue bonds (TSASC), lease-appropriation debt, Municipal Assistance Corporation (MAC) debt, and interest on short-term notes (RAN's & TAN's), which must be entirely paid for in the fiscal year of issuance.<sup>18</sup>

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<sup>18</sup> MAC debt was economically defeased by the issuance of Sales Tax Asset Receivable Corporation (STAR) bonds. STAR debt service is paid by a State revenue source separate and apart from the City of New York. In addition, RAN means Revenue Anticipation Note and TAN refers to Tax Anticipation Note.

As shown in Table 22, the January Financial Plan for FYs 2006-2010 projects debt service, including adjustments for prepayments, to increase from \$4.3 billion in FY 2006 to \$6.3 billion in FY 2010, slightly higher levels than in the November Plan. This represents decreases of \$31 million in FY 2006, \$82 million in FY 2007, \$6 million in FY 2008, and \$1 million in FY 2009 from the November Plan. Projected annual debt service growth over the Financial Plan period will average 9.8 percent per year.

This rate of growth exceeds the 6.2 percent compounded rate of debt service growth from 1995-2005. In addition, the debt service growth rate in the Plan exceeds that of tax-revenue growth by over seven percentage points per year. This difference in compounded growth rates explain the growing debt burden discussed in the next section.

**Table 22. Total Debt Service. FYs 2006–2010**

(\$ in millions)

Category	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
General Obligation	\$2,970	\$3,672	\$4,068	\$4,458	\$4,821
% Growth	1.1%	23.6%	10.8%	9.6%	8.1%
NYCTFA	946	917	981	986	985
% Growth	(0.1%)	(3.1%)	7.0%	0.5 %	0.1%
TSASC	92	92	99	100	100
% Growth	(1.1%)	0.0%	7.6%	1.0%	0.0%
Lease Debt	291	325	385	382	360
% Growth	54.0%	11.7%	18.5%	(0.8%)	(5.8%)
MAC	10	10	10	0	0
% Growth	(91.0%)	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>\$4,309</b>	<b>\$5,016</b>	<b>\$5,543</b>	<b>\$5,926</b>	<b>\$6,266</b>
<b>% Growth</b>	<b>0.8%</b>	<b>16.4 %</b>	<b>10.5%</b>	<b>6.9%</b>	<b>5.7%</b>

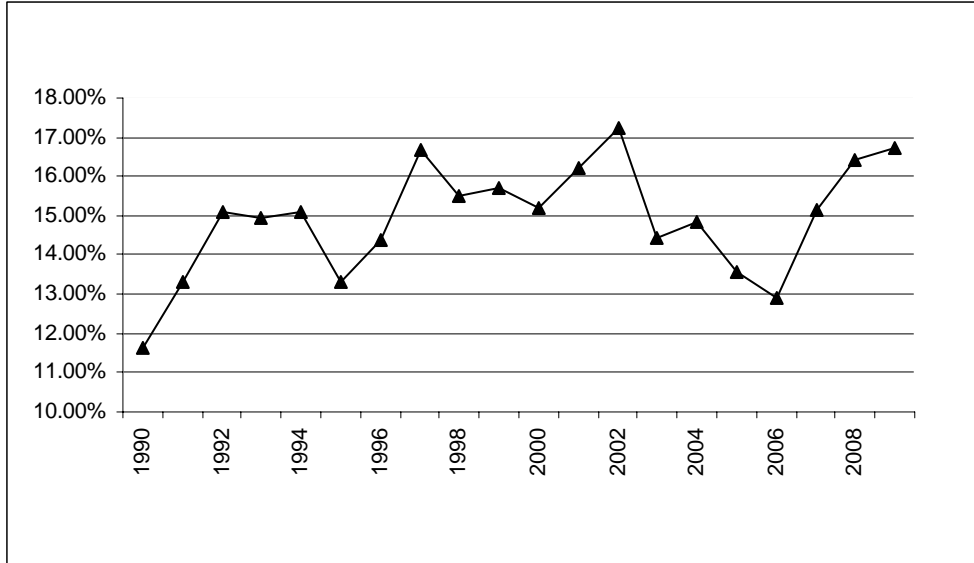
SOURCE: Office of Management and Budget, January Financial Plan, FYs 2006-2010

While historically, debt service has demonstrated a consistent rate of growth year over year, GO debt service has grown less rapidly than NYCTFA and TSASC debt service. NYCTFA and TSASC bonds were issued for capital purposes in place of GO bond issues. Lease appropriation debt service has also grown more rapidly than GO debt service.

The NYCTFA was created as a State Authority and its debt is not included in the City's debt outstanding under the general debt limit. NYCTFA began issuing debt in FY 1998 and its first debt service in FY 1999 totaled \$127.9 million. Since then, debt service has grown to \$947.2 million by FY 2005, an exceptional annual growth rate of about 40 percent per year. This rate of growth will not continue, however, because the NYCTFA was used to substitute for GO bonds and its debt service is forecast to remain relatively flat and eventually decline through FY 2035. Debt service for TSASC debt, also a substitute for GO bonds and first issued in FY 2000, grew from a modest \$27.7 million in FY 2000 to \$93 million by FY 2005. TSASC debt service, too, is

expected remain relatively flat for the next 30 years, subject to the magnitude of the Master Settlement Agreement revenue collections.<sup>19</sup>

**Chart 14. Debt Service as a Percentage of Tax Revenues, FYs 1990–2009**



SOURCE: January Financial Plan FY 2006-2010, January 2006, Office of Management & Budget.

### Debt Burden

A commonly accepted method of determining the weight and burden of debt on a municipality is the measure of annual debt service divided by local tax revenues. As shown on Chart 14, this ratio is expected to be 12.9 percent in FY 2006, and is projected to increase to 15.2 percent by FY 2007, and 16.9 percent by FY 2010. The overall debt service growth rate of 9.8 percent over the Financial Plan period far exceeds the local tax revenue average annual growth rate of 2.74 percent. With tax revenues expected to grow in absolute dollars by \$3.79 billion over the Plan period and debt service increasing by \$1.95 billion from FYs 2006-2010, only \$1.84 billion of incremental tax revenues would be available for other operating budget needs by FY 2010.

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<sup>19</sup> On February 8<sup>th</sup>, 2006, TSASC, Inc. issued refunding bonds in the amount of \$1.35 billion to restructure its outstanding indebtedness and to release certain revenues which had accumulated in a trapping account. The released trapping account funds totaled \$136.16 million. The debt service structure contains mandatory sinking fund installments to the extent of available collections through FY 2042 with a turbo redemption feature which would pay off the debt earlier if utilized. The faster debt service payment schedule would be used if there are surplus collections on an interest payment date.

## Capital Plan

The January Capital Commitment Plan sums to \$40.74 billion over FYs 2006-2009 in total funds and \$31.64 billion in City funds.<sup>20</sup> After adjusting for the reserve for unattained commitments of \$2.99 billion, the plan is reduced to \$37.75 billion in total commitments and \$28.65 billion in City commitments over the four-year period.<sup>21</sup>

Estimated Department of Environmental Protection (DEP) and Department of Education (DOE) total commitments continue to consume a large share of the Plan, accounting for \$7.9 billion and \$11.5 billion, respectively.<sup>22</sup> These two entities account for 48 percent of the total capital commitment plan. Other significant program areas for planned total capital commitments are: \$5.26 billion for transportation projects—including Mass Transit, \$4.06 billion for housing and economic development projects, \$3.2 billion for public buildings, \$2.84 billion for public safety projects, and \$2.67 billion for parks, cultural institutions and libraries. These latter five program areas account for an additional 44 percent of the total capital plan.

As shown in Chart 15, the January Plan for FYs 2006-2009 far exceeds any prior four-year City-funded actual capital commitments, topping the most recent FYs 2002-2005 period by 24 percent, or 10.8 percent on an inflation adjusted basis. The projected City-funded capital commitment level of \$7.16 billion exceeds the September Plan by about \$180 million per year, making it the largest four-year plan on record. This aggressive level of expected City-funded commitments translates to higher projected capital expenditure growth and thus capital borrowing.

The current Capital Commitment Plan along with existing contract liability serves as the driver of projected capital expenditures in the future. Estimated City-funded capital expenditures are \$6.10 billion in FY 2006, \$6.64 billion in FY 2007, \$7.03 billion in FY 2008, and \$6.76 billion in FY 2009 for a total of \$26.52 billion over the period. DEP is estimated to expend \$1.7 billion in FY 2006, \$1.7 billion in FY 2007, \$1.64 billion in FY 2008, and \$1.65 billion in FY 2009 for a total of \$6.70 billion over four years. Education capital expenditures are projected to average \$1.46 billion per year for a total of \$5.86 billion over the same period. Thus, DEP and Education related capital spending is projected to consume 47 percent of estimated capital expenditures.

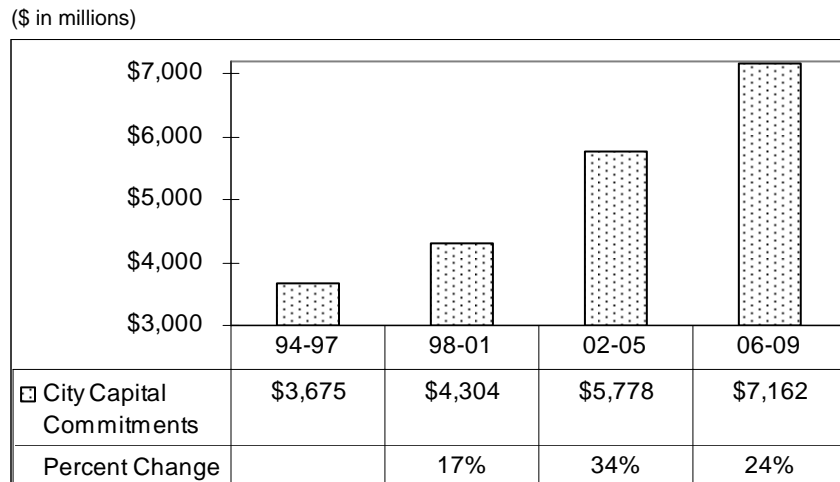
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<sup>20</sup> The January Commitment Plan contains projections through FY 2009 only.

<sup>21</sup> Not reflected in the Capital Plan is an estimated cost of about \$3 billion for the commercial and residential development of the West Side of Manhattan between 30<sup>th</sup> and 43<sup>rd</sup> streets and in part between 8<sup>th</sup> and 11<sup>th</sup> avenues. The Hudson Yards Infrastructure Corporation (HYIC), a local development corporation, was created to issue debt for this project. HYIC plans to issue \$3 billion over an approximate six-year period. The specific schedule of bond issuance is not known at this time. Monies have been appropriated in the City's debt service budget for the payment of interest during the potential construction and start-up phase of this capital project.

<sup>22</sup> Total Education capital commitments include \$6.5 billion of State funding which might not materialize over the next three years absent gubernatorial and State legislative action.

**Chart 15. City Capital Commitments, Four-Year Annual Averages from FYs 1994–2009**



SOURCE: January 2006-2009 Capital Commitment Plan, Office of Management & Budget, January 2006.

As shown in Chart 16, total capital expenditures were \$3.7 billion in FY 1995 growing to \$6.7 billion in FY 2005. Four program areas account for 69 percent of total expenditures. They include \$13.5 billion for education related projects, \$11.5 billion for DEP, \$9.7 billion for transportation services including mass transit, and housing related expenditures of \$3.5 billion.

The City spent \$55 billion for capital projects between FYs 1995 and FY 2005.<sup>23</sup> Excluding the Department of Environmental Protection's (DEP) capital expenditures of \$11.5 billion over the same period, the net capital expenditures for other City agencies was \$43.5 billion.<sup>24</sup> Thus GO, NYCTFA, TSASC, lease-appropriation debt, and State and Federal Grants, financed approximately \$43.5 billion of capital expenditures over the past eleven fiscal years.<sup>25</sup>

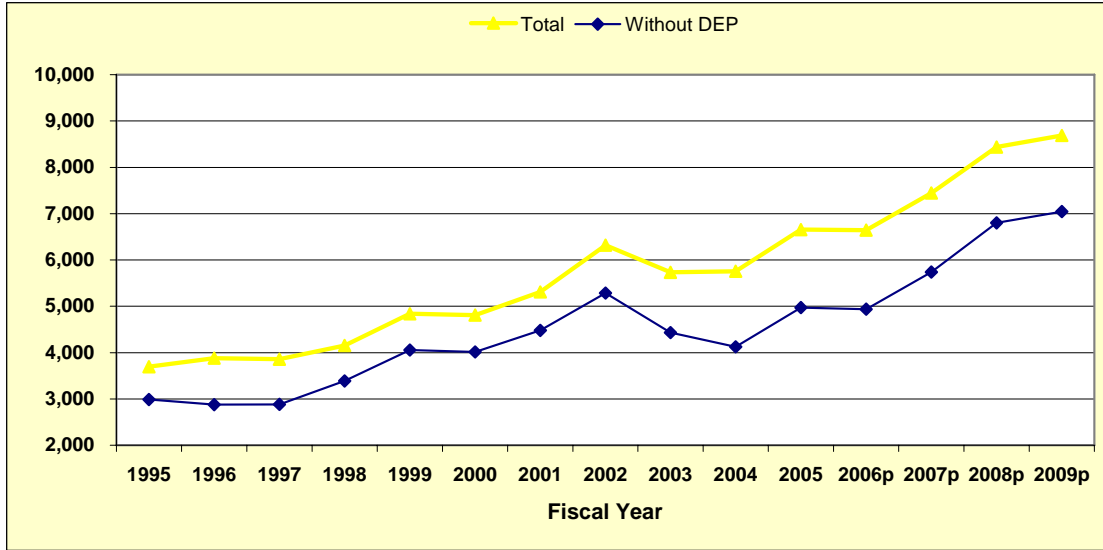
<sup>23</sup> Capital commitments, also known as contract registrations, drive capital *expenditures* and capital *expenditures* then drive the amount the City borrows through its financing vehicles.

<sup>24</sup> DEP capital expenditures are almost entirely funded with Water Finance Authority bonds. The debt-service for these bonds is paid for with water and sewer user fees.

<sup>25</sup> Sources of capital funds may be received in a different reporting period than actual capital expenditures.

**Chart 16. Historical & Projected Capital Expenditures, FYs 1995–2009**

(\$ in millions)



SOURCE: Comprehensive Annual Financial Reports, NYC Comptroller, October 2005 & October 1995; total funds

From FY 1998 to FY 2005, capital expenditures for education increased to an annual average of just less than \$1.4 billion per year from an average of \$771 million a year in FY 1995 through FY 1997. DEP capital expenditures averaged \$1.05 billion in FYs 1995-2005, but most recently averaged \$1.65 billion over FYs 2004 and 2005, reflecting DEP’s long-anticipated expectation of sharply increased capital expenditure growth. The current Capital Commitment Plan and resultant projected capital expenditures will continue this trend.



# Appendix — Revenue and Expenditure Details

**Table A1. FY 2006 Preliminary Budget Revenue Detail**

(\$ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2006-09	
						Percent	Dollar
<b>Taxes:</b>							
Real Property	\$12,600	\$12,948	\$13,598	\$14,273	\$14,951	18.7%	\$2,351
Personal Income Tax	\$7,675	\$7,560	\$7,651	\$8,175	\$8,610	12.2%	\$935
General Corporation Tax	\$2,143	\$2,264	\$2,272	\$2,393	\$2,575	20.2%	\$432
Banking Corporation Tax	\$598	\$525	\$508	\$537	\$566	(5.4%)	(\$32)
Unincorporated Business Tax	\$1,244	\$1,298	\$1,266	\$1,349	\$1,441	15.8%	\$197
Sale and Use	\$4,357	\$4,476	\$4,560	\$4,823	\$5,106	17.2%	\$749
Commercial Rent	\$473	\$497	\$515	\$531	\$548	15.8%	\$75
Real Property Transfer	\$1,197	\$775	\$727	\$720	\$740	(38.2%)	(\$457)
Mortgage Recording Tax	\$1,226	\$822	\$770	\$760	\$781	(36.3%)	(\$445)
Utility	\$387	\$348	\$343	\$342	\$331	(14.5%)	(\$56)
Cigarette	\$121	\$118	\$115	\$112	\$110	(9.1%)	(\$11)
Hotel	\$298	\$309	\$317	\$330	\$342	14.8%	\$44
All Other	\$409	\$409	\$400	\$409	\$423	3.4%	\$14
Tax Audit Revenue	\$512	\$509	\$509	\$509	\$510	(0.3%)	(\$2)
<b>Total Taxes</b>	<b>\$33,240</b>	<b>\$32,857</b>	<b>\$33,551</b>	<b>\$35,263</b>	<b>\$37,034</b>	<b>11.4%</b>	<b>\$3,794</b>
<b>Miscellaneous Revenue:</b>							
Licenses, Franchises, Etc.	\$396	\$395	\$387	\$385	\$379	(4.3%)	(\$17)
Interest Income	\$300	\$245	\$133	\$140	\$146	(51.3%)	(\$154)
Charges for Services	\$574	\$539	\$528	\$528	\$528	(8.0%)	(\$46)
Water and Sewer Charges	\$1,007	\$996	\$1,009	\$1,031	\$1,048	4.1%	\$41
Rental Income	\$183	\$181	\$180	\$172	\$171	(6.6%)	(\$12)
Fines and Forfeitures	\$703	\$715	\$716	\$716	\$716	1.8%	\$13
Miscellaneous	\$443	\$291	\$796	\$365	\$368	(16.9%)	(\$75)
Intra-City Revenue	\$1,428	\$1,284	\$1,282	\$1,284	\$1,285	(10.0%)	(\$143)
<b>Total Miscellaneous</b>	<b>\$5,034</b>	<b>\$4,646</b>	<b>\$5,031</b>	<b>\$4,621</b>	<b>\$4,641</b>	<b>(7.8%)</b>	<b>(\$393)</b>
<b>Unrestricted Intergovernmental Aid:</b>							
N.Y. State Per Capital Aid	\$327	\$327	\$327	\$327	\$327	0.0%	\$0
Other Federal and State Aid	\$163	\$13	\$13	\$13	\$13	(92.0%)	(\$150)
<b>Total Unrestricted Intergovernmental Aid</b>	<b>\$490</b>	<b>\$340</b>	<b>\$340</b>	<b>\$340</b>	<b>\$340</b>	<b>(30.6%)</b>	<b>(\$150)</b>
Anticipated State and Federal Aid:							
Anticipated State Aid	\$0	\$100	\$0	\$0	\$0	N/A	\$0
Anticipated Federal Aid	\$0	\$250	\$250	\$250	\$250	N/A	\$250
Total Anticipated Aid	\$0	\$350	\$250	\$250	\$250	N/A	\$250
Other Categorical Grants	\$947	\$915	\$926	\$941	\$945	(0.2%)	(\$2)
Inter Fund Agreements	\$373	\$365	\$346	\$346	\$346	(7.2%)	(\$27)
Reserve for Disallowance of Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	0.0%	\$0
Less: Intra-City Revenue	(\$1,428)	(\$1,284)	(\$1,282)	(\$1,284)	(\$1,285)	(10.0%)	\$143
<b>TOTAL CITY FUNDS</b>	<b>\$38,641</b>	<b>\$38,174</b>	<b>\$39,147</b>	<b>\$40,462</b>	<b>\$42,256</b>	<b>9.4%</b>	<b>\$3,615</b>

**Table A1 (Con't). FY 2006 Preliminary Revenue Detail**

(\$ in millions)

	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>Percent</b>	<b>Dollar</b>
<b>Federal Categorical Grants:</b>							
Community Development	\$281	\$245	\$245	\$245	\$245	(12.8%)	(\$36)
Welfare	\$2,244	\$2,110	\$2,109	\$2,110	\$2,110	(6.0%)	(\$134)
Education	\$1,848	\$1,753	\$1,753	\$1,753	\$1,753	(5.1%)	(\$95)
Other	\$1,235	\$803	\$793	\$791	\$794	(35.7%)	(\$441)
<b>Total Federal Grants</b>	<b>\$5,608</b>	<b>\$4,911</b>	<b>\$4,900</b>	<b>\$4,899</b>	<b>\$4,902</b>	<b>(12.6%)</b>	<b>(\$706)</b>
<b>State Categorical Grants</b>							
Welfare	\$1,858	\$1,931	\$1,933	\$1,923	\$1,923	3.5%	\$65
Education	\$6,641	\$6,942	\$7,068	\$7,104	\$7,144	7.6%	\$503
Higher Education	\$188	\$188	\$188	\$188	\$188	0.0%	\$0
Department of Health and Mental Hygiene	\$445	\$415	\$415	\$414	\$409	(8.1%)	(\$36)
Other	\$427	\$346	\$333	\$336	\$337	(21.1%)	(\$90)
<b>Total State Grants</b>	<b>\$9,559</b>	<b>\$9,822</b>	<b>\$9,937</b>	<b>\$9,965</b>	<b>\$10,001</b>	<b>4.6%</b>	<b>\$442</b>
<b>TOTAL REVENUES</b>	<b>\$53,808</b>	<b>\$52,907</b>	<b>\$53,984</b>	<b>\$55,326</b>	<b>\$57,159</b>	<b>6.2%</b>	<b>\$3,351</b>

**Table A2. FY 2006 Preliminary Budget Expenditure Detail**

(\$ in thousands)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2006-2010	
						Percent	Dollar
Mayorality	\$78,474	\$75,232	\$74,753	\$74,753	\$74,709	(4.8%)	(\$3,765)
Board of Elections	\$77,994	\$68,955	\$68,955	\$68,955	\$68,955	(11.6%)	(\$9,039)
Campaign Finance Board	\$42,903	\$8,147	\$8,147	\$8,147	\$8,147	(81.0%)	(\$34,756)
Office of the Actuary	\$5,126	\$5,303	\$5,103	\$5,103	\$5,103	(0.4%)	(\$23)
President, Borough of Manh.	\$4,368	\$3,189	\$3,189	\$3,189	\$3,189	(27.0%)	(\$1,179)
President, Borough of Bronx	\$5,936	\$4,747	\$4,572	\$4,572	\$4,572	(23.0%)	(\$1,364)
President, Borough of B'klyn	\$5,555	\$3,992	\$3,992	\$3,992	\$3,992	(28.1%)	(\$1,563)
President, Borough of Qns	\$4,952	\$3,698	\$3,698	\$3,698	\$3,698	(25.3%)	(\$1,254)
President, Borough of S.I.	\$4,026	\$3,198	\$3,198	\$3,198	\$3,198	(20.6%)	(\$828)
Office of the Comptroller	\$62,099	\$61,615	\$61,315	\$61,523	\$61,523	(0.9%)	(\$576)
Dept. of Emergency Mgm't	\$28,048	\$5,843	\$5,843	\$5,843	\$5,843	(79.2%)	(\$22,205)
Tax Commission	\$2,384	\$2,441	\$2,441	\$2,441	\$2,441	2.4%	\$57
Law Dept.	\$122,066	\$108,766	\$108,616	\$108,616	\$108,616	(11.0%)	(\$13,450)
Dept. of City Planning	\$24,402	\$20,341	\$20,324	\$20,324	\$20,324	(16.7%)	(\$4,078)
Dept. of Investigation	\$17,558	\$17,153	\$17,153	\$17,153	\$17,153	(2.3%)	(\$405)
NY Public Library - Research	\$4,525	\$15,407	\$15,409	\$15,409	\$15,409	240.5%	\$10,884
New York Public Library	\$13,862	\$81,813	\$81,852	\$81,852	\$81,852	490.5%	\$67,990
Brooklyn Public Library	\$8,437	\$61,236	\$61,270	\$61,270	\$61,270	626.2%	\$52,833
Qns Borough Public Library	\$7,951	\$58,921	\$59,004	\$59,004	\$59,004	642.1%	\$51,053
Dept. of Education	\$14,720,618	\$14,868,850	\$14,951,668	\$15,061,017	\$15,113,579	2.7%	\$392,961
City University	\$589,183	\$528,644	\$528,442	\$528,474	\$528,490	(10.3%)	(\$60,693)
Civilian Complaint Review Bd.	\$10,211	\$8,960	\$8,960	\$8,960	\$8,960	(12.3%)	(\$1,251)
Police Dept.	\$3,742,488	\$3,571,249	\$3,554,034	\$3,533,196	\$3,507,988	(6.3%)	(\$234,500)
Fire Dept.	\$1,354,131	\$1,272,421	\$1,270,795	\$1,262,525	\$1,256,207	(7.2%)	(\$97,924)
Admin. for Children Services	\$2,220,011	\$2,123,669	\$2,123,307	\$2,123,307	\$2,123,307	(4.4%)	(\$96,704)
Dept. of Social Services	\$6,769,207	\$7,214,983	\$7,372,390	\$7,519,307	\$7,655,198	13.1%	\$885,991
Dept. of Homeless Services	\$717,538	\$673,769	\$675,900	\$670,900	\$670,900	(6.5%)	(\$46,638)
Dept. of Correction	\$886,186	\$845,058	\$840,625	\$837,959	\$833,568	(5.9%)	(\$52,618)
Board of Correction	\$939	\$866	\$866	\$866	\$866	(7.8%)	(\$73)
Dept. of Employment	\$0	\$0	\$0	\$0	\$0	4.0%	\$0
Citywide Pension Contribution	\$3,880,905	\$4,750,296	\$5,473,805	\$5,710,102	\$5,575,827	43.7%	\$1,694,922
Miscellaneous	\$6,229,219	\$6,871,312	\$6,440,121	\$6,946,352	\$7,544,917	21.1%	\$1,315,698
Debt Service	\$4,590,110	\$743,233	\$4,452,906	\$4,839,623	\$5,181,277	12.9%	\$591,167
M.A.C. Debt Service	\$10,000	\$10,000	\$10,000	\$0	\$0	(100.0%)	(\$10,000)
N.Y.C.T.F.A. Debt Service	\$947,000	\$903,899	\$980,765	\$986,008	\$984,981		\$37,981
Transfer for N.Y.C.T.F.A. D.S.	(\$947,000)	(\$200,000)	\$0	\$0	\$0	(100.0%)	\$947,000
Public Advocate	\$2,972	\$1,958	\$1,958	\$1,958	\$1,958	(34.1%)	(\$1,014)
City Council	\$49,551	\$47,424	\$47,424	\$47,424	\$47,424	(4.3%)	(\$2,127)
City Clerk	\$3,119	\$3,086	\$3,086	\$3,086	\$3,086	(1.1%)	(\$33)
Dept. for the Aging	\$263,307	\$225,327	\$224,155	\$224,155	\$224,155	(14.9%)	(\$39,152)
Dept. of Cultural Affairs	\$138,018	\$101,978	\$101,978	\$101,978	\$101,978	(26.1%)	(\$36,040)
Financial Info. Svc.. Agency	\$47,090	\$49,733	\$44,049	\$44,049	\$44,049	(6.5%)	(\$3,041)
Dept. of Juvenile Justice	\$106,624	\$103,534	\$103,534	\$103,534	\$103,534	(2.9%)	(\$3,090)
Office of Payroll Admin.	\$10,846	\$11,994	\$10,780	\$10,780	\$10,780	(0.6%)	(\$66)
Independent Budget Office	\$2,899	\$2,937	\$2,907	\$2,907	\$2,907	0.3%	\$8

**Table A2 (Con't). FY 2006 Preliminary Budget Expenditure Detail**

(\$ in thousands)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2006-2010	
						Percent	Dollar
Equal Employm't Practices Comm.	\$764	\$717	\$717	\$717	\$717	(6.2%)	(\$47)
Civil Service Commission	\$590	\$569	\$610	\$610	\$610	3.4%	\$20
Landmarks Preservation Comm.	\$4,303	\$3,751	\$3,751	\$3,751	\$3,751	(12.8%)	(\$552)
Districting Commission	\$0	\$0	\$0	\$0	\$0	N/A	\$0
Taxi & Limousine Commission	\$29,164	\$26,535	\$25,710	\$25,710	\$25,710	(11.8%)	(\$3,454)
Commission on Human Rights	\$6,920	\$6,861	\$6,861	\$6,861	\$6,861	(0.9%)	(\$59)
Youth & Community Development	\$293,448	\$217,152	\$217,426	\$217,426	\$217,426	(25.9%)	(\$76,022)
Conflicts of Interest Board	\$1,516	\$1,573	\$1,573	\$1,573	\$1,573	3.8%	\$57
Office of Collective Bargain	\$1,709	\$1,737	\$1,737	\$1,737	\$1,737	1.6%	\$28
Community Boards (All)	\$13,330	\$12,965	\$12,965	\$12,965	\$12,965	(2.7%)	(\$365)
Dept. of Probation	\$77,507	\$74,366	\$74,366	\$74,366	\$74,366	(4.1%)	(\$3,141)
Dept. Small Business Services	\$131,795	\$95,132	\$88,918	\$88,908	\$88,379	(32.9%)	(\$43,416)
Housing Preserv'n & Developm't	\$516,872	\$478,164	\$477,968	\$476,150	\$476,043	(7.9%)	(\$40,829)
Dept. of Buildings	\$84,010	\$74,307	\$71,667	\$70,096	\$69,992	(16.7%)	(\$14,018)
Dept. of Health & Mental Hygiene	\$1,557,719	\$1,483,315	\$1,495,677	\$1,509,746	\$1,508,679	(3.1%)	(\$49,040)
Health and Hospitals Corp.	\$728,200	\$955,418	\$937,576	\$923,891	\$941,854	29.3%	\$213,654
Dept. of Environmental Protection	\$827,017	\$793,608	\$788,772	\$788,832	\$788,832	(4.6%)	(\$38,185)
Dept. of Sanitation	\$1,136,190	\$1,176,009	\$1,187,575	\$1,183,415	\$1,179,137	3.8%	\$42,947
Business Integrity Commission	\$5,366	\$5,366	\$5,366	\$5,366	\$5,366	0.0%	\$0
Dept. of Finance	\$201,090	\$200,065	\$200,134	\$200,134	\$200,134	(0.5%)	(\$956)
Dept. of Transportation	\$561,067	\$501,666	\$499,789	\$499,789	\$499,789	(10.9%)	(\$61,278)
Dept. of Parks and Recreation	\$261,505	\$225,629	\$220,611	\$220,611	\$220,611	(15.6%)	(\$40,894)
Dept. of Design & Construction	\$100,453	\$98,889	\$94,889	\$88,889	\$88,889	(11.5%)	(\$11,564)
Dept. of Citywide Admin. Services	\$286,937	\$261,948	\$260,889	\$260,881	\$260,881	(9.1%)	(\$26,056)
D.O.I.T.T.	\$128,833	\$186,169	\$186,910	\$186,845	\$186,845	45.0%	\$58,012
Dept. of Record & Info. Services	\$4,379	\$3,824	\$3,824	\$3,824	\$3,824	(12.7%)	(\$555)
Dept. of Consumer Affairs	\$13,390	\$13,476	\$13,476	\$13,476	\$13,359	(0.2%)	(\$31)
District Attorney - N.Y.	\$83,652	\$65,304	\$65,304	\$65,304	\$65,304	(21.9%)	(\$18,348)
District Attorney - Bronx	\$44,219	\$38,389	\$38,389	\$38,389	\$38,389	(13.2%)	(\$5,830)
District Attorney - Kings	\$73,871	\$65,894	\$65,894	\$65,894	\$65,894	(10.8%)	(\$7,977)
District Attorney - Queens	\$40,493	\$34,378	\$38,878	\$38,878	\$38,878	(4.0%)	(\$1,615)
District Attorney - Richmond	\$6,943	\$5,868	\$5,868	\$5,868	\$5,868	(15.5%)	(\$1,075)
Office of Prosec. & Spec. Narc.	\$16,048	\$13,996	\$13,996	\$13,996	\$13,996	(12.8%)	(\$2,052)
Public Administrator - N.Y.	\$1,134	\$1,070	\$1,070	\$1,070	\$1,070	(5.6%)	(\$64)
Public Administrator - Bronx	\$398	\$345	\$345	\$345	\$345	(13.3%)	(\$53)
Public Administrator - Brooklyn	\$526	\$473	\$473	\$473	\$473	(10.1%)	(\$53)
Public Administrator - Queens	\$424	\$371	\$371	\$371	\$371	(12.5%)	(\$53)
Public Administrator - Richmond	\$345	\$292	\$292	\$292	\$292		(\$53)
Prior Payable Adjustment	(\$400,000)	\$0	\$0	\$0	\$0	(100.0%)	\$400,000
General Reserve	\$100,000	\$300,000	\$300,000	\$300,000	\$300,000	200.0%	\$200,000
Energy Adjustment	\$0	\$112,855	\$90,019	\$80,216	\$80,216	N/A!	\$80,216
Lease Adjustment	\$0	\$25,669	\$43,331	\$61,476	\$80,299	N/A	\$80,299
OTPS Inflation Adjustment	\$0	\$0	\$54,165	\$109,684	\$165,203	N/A	\$165,203
	<b>\$53,807,965</b>	<b>\$52,909,292</b>	<b>\$57,431,441</b>	<b>\$58,826,334</b>	<b>\$59,869,862</b>	<b>11.3%</b>	<b>\$6,061,897</b>

# **Glossary of Acronyms**

<b>BSA</b>	Budget Stabilization Account
<b>COPS</b>	Community Oriented Policing Services
<b>CY</b>	Calendar Year
<b>DEP</b>	Department of Environmental Protection
<b>DOE</b>	Department of Education
<b>FA</b>	Family Assistance
<b>FEMA</b>	Federal Emergency Management Agency
<b>FFS</b>	Fee-for-Service
<b>FHP</b>	Family Health Plus
<b>FTE</b>	Full-Time Equivalent
<b>FY</b>	Fiscal Year
<b>GASB</b>	Governmental Accounting Standards Board
<b>GCP</b>	Gross City Product
<b>GCT</b>	General Corporation Tax
<b>GDP</b>	Gross Domestic Product
<b>GO Debt</b>	General Obligation Debt

<b>HHC</b>	Health and Hospitals Corporation
<b>HYIC</b>	Hudson Yards Infrastructure Corporation
<b>ISM</b>	Institute of Supply Management
<b>J&amp;C</b>	Judgments and Claims
<b>MAC</b>	Municipal Assistance Corporation
<b>MTA</b>	Metropolitan Transportation Authority
<b>NAPM-NY</b>	National Association of Purchasing Management
<b>NYC</b>	New York City
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYS</b>	New York State
<b>OMB</b>	Office of Management and Budget
<b>OTPS</b>	Other than Personal Services
<b>PEG</b>	Program to Eliminate the Gap
<b>PIT</b>	Personal Income Tax
<b>PS</b>	Personal Services
<b>RAN</b>	Revenue Anticipation Notes
<b>RHBTF</b>	Retiree Health Benefit Trust Fund

<b>RNC</b>	Republican National Convention
<b>SBE</b>	Sound Basic Education Grant
<b>SNA</b>	Safety Net Assistance
<b>STAR, Corp.</b>	Sales Tax Asset Receivable Corporation
<b>STAR</b>	School Tax Relief Program
<b>TAN</b>	Tax Anticipation Notes
<b>TSASC</b>	Tobacco Settlement Asset Securitization Corporation
<b>U.S.</b>	United States