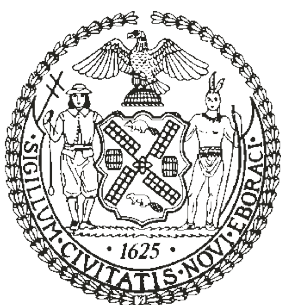


The Comptroller's Comments on the Adopted Budget for Fiscal Year 2007 and The Financial Plan for Fiscal Years 2007-2010



The City of New York
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I. Executive Summary

The City of New York has easily balanced its FY 2007 budget, which totals \$53.6 billion before adjustment for prepayments. However, the four-year Financial Plan for Fiscal Years 2008 to 2010 shows expenses rising to \$61.3 billion by FY 2010, and budget gaps of \$3.8 billion in FY 2008, \$4.6 billion in FY 2009 and \$4.1 billion in FY 2010.

Near-term budget balance was made possible by an extraordinary turn of good fortune that enabled the City to accumulate resources of \$5.7 billion in excess of those needed to maintain a balanced budget in FY 2006. At the time of FY 2006 budget adoption, the City's economy was widely expected to cool during the fiscal year as rising interest rates and higher energy prices took a toll on investment spending, housing purchases, mortgage refinancing, and consumer spending. However, the City's economy proved more resilient than anticipated, and real estate market activity continued to generate an unusually high level of revenues throughout FY 2006. Consequently, tax revenues in FY 2006 exceeded initial projections by nearly \$4 billion. Furthermore, changes in actuarial assumptions and methods used to calculate pension contributions as well as a State cap on Medicaid spending growth helped reduced expenditures.

The City used some of these additional resources to prepay \$3.7 billion of certain FY 2007 expenses, (a figure that is \$312 million greater than projected at the time of the Executive Budget in May); to delay recognition of TSASC revenue until FY 2008; to defease \$350 million in NYCTFA bonds ahead of schedule; and, to undertake a transaction that will bring the Health and Hospitals Corporation (HHC) \$1.27 billion in third-party assistance. In a significant action that will strengthen the City's overall balance sheet, it has also deposited \$1 billion in a Retiree Health Benefits Trust Fund (RHTBF). The assets accumulated in the RHTBF will partially offset the liabilities related to post-employment benefits, such as retiree health insurance coverage, which governments will be required to compute and disclose on their entity-wide financial statements beginning in FY 2008.

Despite the resilience shown by the real estate market and the overall economy in FY 2006, rising interest rates and high energy prices do pose underlying constraints to economic expansion that will end this period of extraordinary tax revenue growth. The City is projecting an economic slowdown and sharp fall-off of real-estate-related transactions beginning in FY 2007. Combined with the non-recurring nature of expense-side savings—such as the FY 2006 savings in pension contributions—this will produce large budget gaps in the outyears, beginning with a gap of \$3.8 billion in FY 2008. Moreover, a tentative collective bargaining agreement with DC 37 could set a pattern that would push the FY 2009 gap to \$5.1 billion and the FY 2010 gap to \$4.6 billion.

Pension contributions will continue to rise significantly in FYs 2008 and 2009 before stabilizing in FY 2010. Health insurance and debt service, after adjusting for prepayments, will each increase by nearly 25 percent over the Financial Plan period. Medicaid costs, which have propelled spending for several years, are now capped under a

State program to relieve localities of some of the burdens of this mandate and will grow roughly 9 percent from FY 2007 to FY 2010. The City has partly offset the impacts of these “uncontrollable” expenditures by containing costs elsewhere in the budget. However, the recent agreement with DC 37 could set a collective bargaining pattern that would lead total spending to grow 7.5 percent, slightly faster than the inflation rate.

Controlling the costs of pensions, health insurance, and debt service remains the City’s biggest challenge. Driven by the City’s four-year capital program, debt service will comprise the largest share of these costs by FY 2010. The City-funded portion of the capital program totals \$38.1 billion. The size is daunting, yet the City must replace outdated infrastructure while preparing for future needs in a high-cost environment. A case in point is the water system, where an ambitious capital program—some of which stems from federal mandates—will drive the NYC Municipal Water Authority’s debt service up 42 percent over the Plan period, resulting in near-double-digit annual water rate increases in several years of the Plan.

As a matter of policy, reducing the size of the capital program is difficult and often counterproductive. It is incumbent upon the City to contain its costs. The City should decrease its reliance upon construction management/build contracts and be vigilant with respect to the tendency for construction projects to grow in scope. This would serve to increase competition and contain the cost of contract change orders. The City should also closely review its information technology and monitor information technology contracts. Use of more pay-as-you-go financing would also reduce the long-term costs of the capital program.

While the out-year gaps continue to be troubling, the City has taken prudent steps to begin to address them through the use of surplus funds and controlling costs in several expenditure categories. The City has taken additional actions that will provide long-term benefits to the budget. For example, 400 civilians are being hired to staff positions in the Police Department that had previously been occupied by more expensive uniformed personnel, an action advocated by the Comptroller’s Office.

Because the current fiscal year is comfortably balanced, the City has a planning window to address the outyear gaps. This task is complicated by the volatility of the City’s tax revenues and the existence of unresolved issues that could affect the fiscal outlook. The most significant of these is a State plan to address fully the CFE Court decision, which could require the expenditure of considerable resources by the City. However, such a plan is unlikely to be adopted until the 2007 Legislative session, at the earliest. The fiscal outlook for HHC also suggests that the City may need to increase subsidies to the Corporation in future years to address budget deficits approaching \$1 billion annually.

The Mayor has agreed to a pilot program providing more meaningful budget categories so that New Yorkers can better understand how their tax dollars are being spent. The City should move quickly to expand this effort to include more agencies, especially the Department of Education.

Table 1. FYs 2007-2010 Financial Plan

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FYs 2007-10	
					Dollar	Percent
Revenues						
Taxes:						
General Property Tax	\$13,140	\$13,750	\$14,407	\$15,085	\$1,945	14.8%
Other Taxes	\$19,560	\$19,410	\$20,332	\$21,266	\$1,706	8.7%
Tax Audit Revenues	\$509	\$509	\$509	\$510	\$1	0.2%
Miscellaneous Revenues	\$5,155	\$5,195	\$4,782	\$4,809	(\$346)	(6.7%)
Unrestricted Intergovernmental Aid	\$340	\$340	\$340	\$340	\$0	0.0%
Anticipated State & Federal Actions	\$0	\$0	\$0	\$0	\$0	0.0%
Less: Intra-City Revenues	(\$1,355)	(\$1,333)	(\$1,335)	(\$1,335)	\$20	(1.5%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$37,334	\$37,856	\$39,020	\$40,660	\$3,326	8.9%
Other Categorical Grants	\$967	\$982	\$995	\$1,000	\$33	3.4%
Inter-Fund Revenues	\$395	\$373	\$365	\$365	(\$30)	(7.6%)
Total City & Inter-Fund Revenues	\$38,696	\$39,211	\$40,380	\$42,025	\$3,329	8.6%
Federal Categorical Grants	\$5,063	\$5,057	\$5,055	\$5,057	(\$6)	(0.1%)
State Categorical Grants	\$9,869	\$9,952	\$10,048	\$10,162	\$293	3.0%
Total Revenues	\$53,628	\$54,220	\$55,483	\$57,244	\$3,616	6.7%
Expenditures						
Personal Service						
Salaries and Wages	\$19,248	\$19,499	\$19,747	\$20,042	\$794	4.1%
Pensions	\$4,891	\$5,614	\$5,859	\$5,724	\$833	17.0%
Fringe Benefits	\$6,920	\$6,253	\$6,557	\$6,804	(\$116)	(1.7%)
Subtotal-PS	\$31,059	\$31,366	\$32,163	\$32,570	\$1,511	4.9%
Other Than Personal Service						
Medical Assistance	\$4,935	\$5,083	\$5,222	\$5,376	\$441	8.9%
Public Assistance	\$2,199	\$2,202	\$2,202	\$2,202	\$3	0.1%
Pay-As-You-Go Capital	\$200	\$200	\$200	\$200	\$0	0.0%
All Other	\$15,410	\$15,257	\$15,635	\$15,948	\$538	3.5%
Subtotal-OTPS	\$22,744	\$22,742	\$23,259	\$23,726	\$982	4.3%
Debt Service						
Principal	\$1,633	\$1,766	\$1,800	\$1,811	\$178	10.9%
Interest & Offsets	\$2,300	\$2,548	\$2,894	\$3,256	\$956	41.6%
Total	\$3,933	\$4,314	\$4,694	\$5,067	\$1,134	28.8%
BSA	\$0	\$0	\$0	\$0	\$0	0.0%
Prepayments	(\$3,751)	\$0	\$0	\$0	\$3,751	(100.0%)
Transfer for NYCTFA Debt Service	(\$200)	\$0	\$0	\$0	\$200	(100.0%)
Defeasance of certain NYCTFA Debt	(\$16)	(\$350)	\$0	\$0	\$16	(100.0%)
NYCTFA						
Principal	\$369	\$443	\$439	\$461	\$92	24.9%
Interest & Offsets	\$535	\$538	\$547	\$524	(\$11)	(2.1%)
Total	\$904	\$981	\$986	\$985	\$81	9.0%
MAC Administrative Expenses	\$10	\$10	\$0	\$0	(\$10)	(100.0%)
General Reserve	\$300	\$300	\$300	\$300	\$0	0.0%
Less: Intra-City Expenses	(\$1,355)	(\$1,333)	(\$1,335)	(\$1,335)	\$20	(1.5%)
Total Expenditures	\$53,628	\$58,030	\$60,067	\$61,313	\$7,685	14.3%
Gap To Be Closed	\$0	(\$3,810)	(\$4,584)	(\$4,069)	(\$4,069)	N/A

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

SOURCE: NYC Office of Management and Budget.

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

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Revenues				
Taxes:				
General Property Tax	\$0	\$6	\$7	\$8
Other Taxes	\$97	\$76	\$88	\$90
Tax Audit Revenues	\$0	\$0	\$0	\$0
Miscellaneous Revenues	\$348	\$48	\$47	\$52
Unrestricted Intergovernmental Aid	\$0	\$0	\$0	\$0
Anticipated State & Federal Actions	(\$50)	\$0	\$0	\$0
Less: Intra-City Revenues	(\$48)	(\$28)	(\$28)	(\$28)
Disallowances Against Categorical Grants	\$0	\$0	\$0	\$0
Subtotal: City Funds	\$347	\$102	\$114	\$122
Other Categorical Grants	(\$144)	\$10	\$8	\$8
Inter-Fund Revenues	\$0	\$0	\$0	\$0
Total City & Inter-Fund Revenues	\$203	\$112	\$122	\$130
Federal Categorical Grants	(\$32)	(\$37)	(\$35)	(\$33)
State Categorical Grants	\$65	(\$17)	(\$18)	(\$20)
Total Revenues	\$236	\$58	\$69	\$77
Expenditures				
Personal Service				
Salaries and Wages	\$150	\$260	\$415	\$531
Pensions	\$0	\$0	\$0	\$0
Fringe Benefits	(\$17)	(\$18)	(\$25)	(\$31)
Subtotal-PS	\$133	\$242	\$390	\$500
Other Than Personal Service				
Medical Assistance	\$0	\$0	\$0	\$0
Public Assistance	\$1	\$0	\$0	\$0
Pay-As-You-Go Capital	\$0	\$0	\$0	\$0
All Other	\$494	\$89	\$88	\$85
Subtotal-OTPS	\$495	\$89	\$88	\$85
Debt Service				
Principal	\$0	\$0	\$0	\$0
Interest & Offsets	(\$32)	(\$14)	\$1	\$1
Total	(\$32)	(\$14)	\$1	\$1
BSA	\$0	\$0	\$0	\$0
Prepayments	(\$312)	\$0	\$0	\$0
Transfer for NYCTFA Debt Service	\$0	\$0	\$0	\$0
Defeasance of certain NYCTFA Debt	\$0	\$0	\$0	\$0
NYCTFA				
Principal	\$0	\$0	\$0	\$0
Interest & Offsets	\$0	\$0	\$0	\$0
Total	\$0	\$0	\$0	\$0
MAC Debt Service/Administrative Expenses	\$0	\$0	\$0	\$0
General Reserve	\$0	\$0	\$0	\$0
Subtotal	\$284	\$317	\$479	\$586
Less: Intra-City Expenses	(\$48)	(\$28)	(\$28)	(\$28)
Total Expenditures	\$236	\$289	\$451	\$558
Gap To Be Closed	\$0	(\$231)	(\$382)	(\$481)

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

SOURCE: NYC Office of Management and Budget

Table 3. FYs 2007-2010 Risks and Offsets

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
City Stated Gap	(\$0)	(\$3,810)	(\$4,584)	(\$4,069)
Tax Revenue Assumptions				
Property Tax	\$10	\$30	\$120	\$250
Personal Income Tax	120	110	(80)	(100)
Business Taxes	60	50	0	(20)
Sales Tax	60	80	0	(10)
Real-Estate-Related Taxes	110	150	150	150
Subtotal	\$360	\$420	\$190	\$270
Expenditure Projections				
Collective Bargaining	(\$254)	(\$463)	(\$782)	(\$853)
Overtime	(103)	(75)	(75)	(75)
Medicaid Savings	125	125	125	125
Subtotal	(\$232)	(\$413)	(\$732)	(\$803)
Total (Risk)/Offsets	\$128	\$7	(\$542)	(\$533)
Restated (Gap)/Surplus	\$128	(\$3,803)	(\$5,126)	(\$4,602)

II. The FY 2007 to FY 2010 Financial Plan

The City's FYs 2007-10 Financial Plan shows that while the City has adopted a balanced FY 2007 budget, it expects to face multi-billion dollar gaps in the outyears. As Table 1 on page 1 shows, the City projects gaps of \$3.8 billion in FY 2008, \$4.6 billion in FY 2009, and \$4.1 billion in FY 2010.¹

The FY 2007 budget is balanced only because of an expected surplus of \$3.8 billion in the current fiscal year, which will be used to prepay certain FY 2007 expenses. As a result, the \$53.6 billion FY 2007 Adopted Budget is \$1.7 billion less than the modified FY 2006 budget. After netting out the effect of prepayments, however, the FY 2007 Adopted Budget expenditures total \$57.6 billion, \$2.5 billion more than the adjusted FY 2006 budget expenditures of \$55.1 billion.

The record surplus reflects the City's continuing economic strength in FY 2006. Tax revenues in the modified FY 2006 budget are about \$4 billion above the FY 2006 Adopted Budget projection mainly as a result of strong Wall Street profits and bonuses and a robust real-estate market. At the same time, baseline expenditure estimates have been lowered by approximately \$1 billion, due mainly to reductions in pension contributions from the adoption of new actuarial assumptions and methodologies. The higher revenue projections along with the lower expenditure estimates enable the City not only to project a record surplus for FY 2006, but also to fund a \$1 billion deposit to a Retiree Health Benefits Trust Fund and defease \$350 million of New York City Transitional Finance Authority (NYCTFA) bonds maturing in FY 2008, as shown in Table 4.

Table 4. Changes to the FY 2006 Estimates since Budget Adoption

(\$ in millions)

Revenues	
Tax Revenue	\$3,960
Non-Tax Revenue	110
Total Revenue	4,070
Expenditures	
Baseline City-Fund Expenditure	(\$1,031)
Defeasance of certain NYCTFA bonds	350
Retiree Health Benefits Trust Fund	1,000
Total expenditure	\$319
Surplus	\$3,751

With the NYCTFA bond defeasance and the contribution to the Retiree Health Benefits Trust Fund, the City is in fact rolling more than the stated surplus of \$3.7 billion

¹ Revenues in this report include personal income tax revenues retained for New York City Transitional Finance Authority (NYCTFA) debt service and expenditures include NYCTFA debt service.

out of FY 2006. As Table 5 shows, these actions combined with an increased contribution to the Health and Hospitals Corporation and the delay, until FY 2008, of the recognition of TSACS revenues result in the City utilizing \$5.7 billion of FY 2006 resources to provide budget relief in the outyears.²

Table 5. Use of FY 2006 Surplus Funds

(\$ in millions)

	Use of FY 2006 Funds	Deferred Benefits from FY 2006 Funds	
	FY 2006	FY 2007	FY 2008
Prepayment	(\$3,751)	\$3,751	\$0
NYCTFA Defeasance	(350)	16*	350
Net Contribution to HHC	(377)	287	90
Delayed Recognition of TSASC revenue	(233)	0	233
Subtotal	(\$4,711)	\$4,054	\$673
Deposit to Retiree Health Benefits Trust Fund	(\$1,000)	？**	？**
Total	(\$5,711)		

Note: Positive numbers indicate reduction in expenditures or increase in revenues while negative numbers show increase in expenditures or reduction in revenues.

* The defeasance of NYCTFA bonds maturing in FY 2008 will result in some interest savings in FY 2007.

** While the contribution to the Retiree Health Benefits Trust Fund has outyear benefit implications it is not possible to determine the timing and amount of benefits ahead of time.

Lacking the benefits of significant prepayments, FY 2008 expenditures are projected to rise to \$58 billion, an increase of more than 8.0 percent from FY 2007. Revenues are projected to grow only 1.1 percent to \$54.2 billion, giving rise to a gap of \$3.8 billion. From FY 2008 to FY 2010, expenditures are projected to grow 5.6 percent, slightly above projected revenue growth of 5.5 percent. Over the Financial Plan period, the City expects expenditure growth to outpace revenue growth by 7.6 percentage points.

However, expenditure growth in the Financial Plan is distorted by prepayments, which lower projected FY 2007 and FY 2008 spending and inflate expenditure growth for FY 2008 and FY 2009. After adjusting for the effect of prepayments, expenditures are expected to increase at a slightly slower pace than revenues over the Plan period. As Table 6 shows, expenditures are projected to rise 6.5 percent over the Plan period while revenues are projected to increase 6.7 percent. However, gaps persist in the outyears because adjusted FY 2007 expenditures are approximately \$4 billion higher than projected revenues. The comparable projected growth rates in revenue and expenditure merely maintain this gap.

² See "The FY 2006 Surplus," beginning on page 5 in "The Comptroller's Comments on The Fiscal Year 2007 Executive Budget", June 2006 for a detailed discussion on the use of FY 2006 surplus funds.

Table 6. Revenue and Expenditure Growth Over the Financial Plan Period

(\$ in millions)

	FY 2007	Annual Percentage Change			FY 07- 10	FY 2010
		FY 07- 08	FY 08-09	FY 09-10		
Revenues						
Tax Revenues	\$33,209	1.4%	4.7%	4.6%	11.0%	\$36,861
Non-Tax Revenues	5,487	1.0%	(7.4%)	0.6%	(5.9%)	5,164
Fed & State Categorical Grants	14,932	0.5%	0.6%	0.8%	1.9%	15,219
Total Revenues	\$53,628	1.1%	2.3%	3.2%	6.7%	\$57,244
Expenditures						
Pensions	\$4,755	15.2%	4.5%	(2.4%)	17.5%	\$5,588
Health Insurance	3,167	9.4%	8.1%	5.5%	24.8%	3,952
Medicaid	4,935	3.0%	2.7%	2.9%	8.9%	5,376
Debt Service	4,847	9.2%	7.3%	6.5%	24.9%	6,052
Judgments & Claims	602	7.2%	8.2%	7.2%	24.4%	748
Subtotal	\$18,336	9.0%	5.5%	3.1%	18.6%	\$21,716
Other Fringe Benefits*	3,715	(25.7%)	0.9%	1.4%	(24.0%)	\$2,828
Salaries and Wages	19,052	1.3%	1.3%	1.5%	4.1%	19,837
Public Assistance	2,199	0.1%	0.0%	0.0%	0.1%	2,202
Other OTPS	14,294	(1.1%)	2.2%	1.8%	2.9%	14,736
Subtotal	\$39,260	(2.2%)	1.5%	1.5%	0.8%	\$39,597
Total Expenditures	\$57,596	1.4%	2.9%	2.1%	6.5%	\$61,313
Inflation		2.4%	2.4%	2.4%	7.4%	

* Other fringe benefits in FY 2007 include the \$1 billion deposit into the Retiree Health Benefits Trust Fund.

NOTE: Expenditures are adjusted to net out the effects of prepayments. Individual expenditures items are net of estimated intra-City expenses. Growth in salaries and wages does not reflect the DC 37 tentative agreement.

Tax revenues, which account for almost 62 percent of FY 2007 revenues, are the main engine of revenue growth. Over the Plan period, tax revenues are projected to grow from \$33.2 billion in FY 2007 to \$36.9 billion in FY 2010, a growth of 11 percent. Federal and State categorical grants are projected to increase a modest 1.9 percent. In contrast, non-tax revenues are projected to decline 5.9 percent, reflecting the loss of non-recurring revenues in the outyears of the Plan. The non-recurring revenues include a reimbursement of \$153 million for Health and Hospitals Corporation's (HHC) debt service and \$137 million from the sale of taxi medallions in FY 2007, and \$144 million in FY 2008 from the delayed recognition of prior years' tobacco settlement revenues.

Growth in expenditures over the Financial Plan period is driven by pension contributions, health insurance costs, Medicaid spending, debt service, and judgments and claims (J & C). As Table 6 shows, the combined spending in these areas, which accounts for approximately 32 percent of FY 2007 expenditures, is projected to grow by 18.6 percent from FY 2007 to FY 2010, significantly outpacing tax revenue growth of 11 percent. The remaining expenditures are expected to remain relatively flat with

projected growth of 0.8 percent from FY 2007 to FY 2010. This growth however, does not reflect the recent tentative agreement with District Council 37 (DC 37).³ Should the other unions reach agreements with the City similar to the terms of the DC 37 agreement, wages and salaries would grow by 7.7 percent from FY 2007 to FY 2010 and total expenditures would increase by 7.6 percent over this period, just slightly more than the rate of inflation. The decline in other fringe benefits reflects the City's contribution of \$1 billion to the Retiree Health Benefits Trust Fund (RHBTF) in each of FY 2006 and FY 2007 that is not expected to be maintained in FY 2008 and FY 2009. Without these contributions to the RHBTF, other fringe benefits would show a growth of 3.4 percent from FY 2007 to FY 2010 and total expenditures would show an increase of 8.3 percent over this period.

A. RISKS AND OFFSETS

Analysis of the FYs 2007 – 10 Financial Plan indicates that the City could end FY 2007 with a modest surplus of \$128 million, but could face larger gaps of \$5.1 billion in FY 2009 and \$4.6 billion in FY 2010, as shown in Table 3 on page 3. The larger gaps stem mainly from the additional cost for the next round of collective bargaining for all unions patterned after the tentative agreement with District Council 37 (DC 37). As discussed in “Labor” beginning on page 25, the City reached a tentative agreement with DC 37 that provided for wage increases above those assumed in the City's collective bargaining cost projections. Should the tentative agreement form the basis of all remaining settlements, it would increase the City's collective bargaining expenditures by \$254 million in FY 2007, \$463 million in FY 2008, \$782 million in FY 2009, and \$853 million in FY 2010.

The additional labor costs are likely to be offset partially by additional revenues. The Comptroller's Office projects that revenues could exceed the City's projections by \$360 million in FY 2007, \$420 million in FY 2008, \$190 million in FY 2009 and \$270 million in FY 2010. As discussed in “Tax Revenues” beginning on page 12, the Comptroller's Office expects a less severe slowdown of the economy in FY 2007 and FY 2008. As a result, our projections for non-property tax revenues for FYs 2007 and 2008 are \$350 million and \$390 million, respectively, above the City's, accounting for most of the difference in the projections. The Comptroller's Office outlook for economic growth is more moderate than the City's in FY 2009 through FY 2010 resulting in lower personal income and business tax projections than the City's. However, the shortfalls in these projections are more than offset by a higher forecast for property and real-estate-related tax revenues. The Comptroller's Office expects both a softer landing for the real estate market and a more moderate increase in interest rates. As a result, the Office's forecast for property tax revenues is \$120 million and \$250 million higher than the City's for FY 2009 and FY 2010, respectively, and our forecasts for real estate-related taxes are \$150 million higher in each of FY 2009 and FY 2010.

³ The tentative agreement is discussed in greater detail in “Labor” beginning on page 25.

In addition, our analysis indicates that the City could realize Medicaid savings of \$125 million in each of FYs 2007 through 2010, as discussed in “Medical Assistance” beginning on page 28. The Medicaid savings more than offset overtime risks of \$103 million in FY 2007 and \$75 million in each of the outyears.

III. The State of the Economy

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2006-2010

The Comptroller's Office projects that the City's economy will grow more slowly in the second half of 2006 and into 2007, as a result of higher interest rates and a weaker housing market. The City's economy should pick up again in 2008 and continue to grow at a healthy pace through the remainder of the Plan period.

The City's economy has remained resilient despite higher interest rates and higher oil prices. The City's gross product grew at an annual rate of 4.3 percent in the first quarter of 2006, maintaining the healthy growth that was exhibited in 2005. Payroll jobs grew at a seasonally adjusted annual rate of 2.7 percent during the quarter, and by May 2006 the job count was 58,000 more than a year earlier. The size of the City's labor force, the labor force participation rate, the number of employed residents, and the employment-population ratio are all at record highs.

Personal income taxes withheld from paychecks, a good indicator of trends in resident earnings, increased 5.1 percent in the first half of 2006 compared to a year earlier. That indicates strong earnings growth, especially after adjusting for scheduled decreases in tax rates. Furthermore, the largest publicly-held financial institutions in the City reported substantial earnings increases in the first quarter of 2006, portending a solid year for Wall Street salaries and bonuses.

The real estate industry, an important element of the local economy, continued to show strength during the first half of 2006. The number of new housing units authorized through May rose 3.0 percent on a year-over-year basis, after increasing 25 percent in 2005 to 31,600, the highest number since the early 1970s.

The National Association of Purchasing Managers composite gauge of current business conditions in New York City increased 13.6 percent in the first quarter, on a year-over-year basis. Two key components of this index, the "current conditions" index and the "six-month outlook" index, increased 16.1 percent and 1.6 percent respectively, in the first quarter.

Overall, New York City's economy is fundamentally sound and the Comptroller anticipates steady economic growth through the plan period. Although, the rate of growth of Gross City Product is expected to slow down in 2006 and 2007, it will increase by about 3.0 percent annually between 2008 and 2010. Also, the City's job base should grow by about 1 percent per year, as shown in Table 7.

Table 7. Forecasts of NYC GCP and Payroll Jobs, Percent Change, 2005-2009

Forecast by	Forecast of	2006	2007	2008	2009	2010
Comptroller	GCP	2.9%	2.1%	2.8%	3.4%	3.5%
	Payroll Jobs	1.2%	0.7%	1.1%	1.1%	1.2%
City	GCP	2.2%	(0.7%)	3.3%	3.8%	3.9%
	Payroll Jobs	1.3%	0.6%	0.8%	1.1%	1.0%

Source: Comptroller=Forecast by the NYC Comptroller's Office. City=Forecast by the Mayor (Office of Management and Budget) in the Adopted Budget.

Note: Payroll Job changes are in thousands and GCP changes are in percent.

B. UNDERLYING FACTORS AFFECTING THE FORECAST

The principal risks to the City's short-term economic growth are excessive increases in interest rates, deflation in the housing market, and higher energy costs.

Since June 2004, the federal funds rate has increased 4.25 percentage points and the prime lending rate has doubled, from about 4.0 percent to 8.0 percent. Those interest rate increases will contribute to a slowing of national and regional economic growth in the months ahead.

The higher rates could have an adverse impact on the activities of the City's securities and banking firms, limiting employment gains in the financial and associated sectors. The stock market's decline following the Federal Reserve's May rate increase indicated that investors were concerned that further interest rate hikes could seriously curtail economic growth. The market's rally after a subsequent increase on June 29 suggests that analysts read the Fed's accompanying statement as a signal that it does not intend to push rates significantly higher.

Even if interest rates stabilize near their current levels, it is likely that the housing boom that has fueled consumer spending will taper off. While selling prices of existing homes nationwide were 12.5 percent higher in the first quarter of 2006 than a year earlier, the annual rate of increase for the quarter slowed to 8.1 percent, according to the Office of Federal Housing Enterprise Oversight (OFHEO). Furthermore, the Census Bureau reports that the vacancy rate for ownership units hit 2.1 percent in the first quarter of 2006, and new residential building permits were running 3.0 percent lower through the first five months of 2006 as compared to the previous year.

The City's housing market has remained remarkably strong. Existing home prices in New York City and the northern suburbs were 16 percent higher in the first quarter of 2006 than they were a year earlier, according to the OFHEO index. Price appreciation in Nassau-Suffolk eased, however, perhaps signaling a regional cooling. That pattern is consistent with trade reports. According to Prudential Douglas Elliman Real Estate, first quarter prices in Nassau and Suffolk were up 6.5 percent and 7.3 percent, respectively, over the prior year, while average sales prices in Queens rose by 18 percent. In the

Manhattan condominium market, the firm reports that the average selling price per square foot during the first quarter was up about 3.0 percent from the previous year. Halstead Property reports a slight decrease in Manhattan condominium prices from May 2005 to May 2006, although the firm notes a decline in the inventory of available Manhattan apartments. The Corcoran Group reports stronger price growth during the first quarter of 2006, with condominium prices 9.0 percent higher than in same quarter of the previous year on a square foot basis.

The Comptroller's Office is not expecting a significant decline in New York City home prices. The more likely scenario is that prices would gradually stabilize, with little real appreciation through the remainder of the decade. Nevertheless, flat prices and higher interest rates will take a toll on new construction activity and real estate transactions volume. The higher rates also portend reduced home refinancing and home equity lending, which have supported consumer spending even as wage growth in many industries stagnated.

During the past year the price of crude oil has increased 28.1 percent and the price of gasoline at the pump rose 64.5 percent. The sustained rise in energy prices has begun to erode consumer confidence and will constrain household spending on other goods and services. Recent inflation figures also indicate that the steep rise in oil prices is starting to affect the price of other commodities, heightening fears of inflation and further monetary tightening by the Federal Reserve. Moreover, higher energy costs will divert consumer spending from activities with high local multipliers, slowing regional economic growth.

The following table shows the City's and Comptroller's forecasts of national GDP and job growth through 2010.

Table 8. Forecasts of Real GDP and Payroll Jobs, Percent Change, 2006-2010

Forecasts by	Forecasts of	2006	2007	2008	2009	2010
Comptroller	GDP	3.4%	2.6%	3.2%	3.6%	3.7%
	Payroll Jobs	1.3%	1.2%	1.7%	1.8%	1.0%
City	GDP	3.3%	2.5%	3.0%	3.1%	3.0%
	Payroll Jobs	1.4%	1.1%	1.1%	1.1%	0.9%

Source: Comptroller=Forecast by the NYC Comptroller's Office. City=Forecast by the NYC Office of Management and Budget.

IV. Revenue Assumptions

The FY 2007 Adopted Budget anticipates total revenues of \$53.6 billion in FY 2007, a 2.9 percent decrease from the FY 2006 total as estimated in the Modified Budget. The Financial Plan forecasts revenue growth to resume in FY 2008, with year-over-year revenue growth of 1.1 percent, 2.3 percent and 3.2 percent in FYs 2008, 2009 and 2010, respectively.

Tax revenues are expected to be the largest source of revenues over the course of the Financial Plan, growing from 62.0 percent of total revenues in FY 2006 to 64.4 percent of total revenues in FY 2010. However, the City expects tax revenues to drop in FY 2007 as the economy weakens, with total tax revenues declining to \$33.2 billion from \$34.3 billion in FY 2006. The City then expects total tax revenue to increase at an average annual rate of 3.6 percent from FY 2007 to FY 2010. Non-tax revenues are expected to decline in both relative and dollar terms during the period covered by the Financial Plan. Federal and State categorical grants are expected to grow slightly in dollar terms, but to fall from 28 percent of the City's total revenues in FY 2006 to 26.6 percent in FY 2010.

The Comptroller's Office expects revenue growth to be slightly stronger than projected in the Adopted Budget. Our Office expects the slowdown of the national and local economies to be less severe than the City forecasts, resulting in more personal income, business, and sales tax revenue in FY 2007 and FY 2008, but possibly less than the Adopted Budget anticipates in FY 2009 and FY 2010. The Comptroller's Office projects more real property and real estate transfer tax revenues than anticipated in the Adopted Budget throughout the Financial Plan period.

Tax Revenues

After a strong recovery from FY 2002 to FY 2006, the City's economic and tax revenue growth is expected to revert to long-term trends in FYs 2007 through 2010. In the FY 2007 Adopted Budget and Financial Plan, tax revenues are forecasted at \$33.2 billion in FY 2007, \$33.7 billion in FY 2008, \$35.3 billion in FY 2009, and \$36.9 billion in FY 2010.⁴ As a result of sustained moderate growth in taxable billable assessed value throughout the Plan period, a slow but steady rise in real property tax revenue is expected. Non-property tax revenues are projected to decline in FY 2007 and FY 2008, reflecting the City's anticipation of slower growth in the local economy and the expiration of temporary tax rate increases. The City expects a rebound in the local economy and non-property tax revenues in FY 2009 and FY 2010.

⁴ The definition of individual tax revenues used in this section includes State reimbursement for the School Tax Relief (STAR) Program, personal income tax (PIT) revenues retained for NYCTFA debt service, and is net of lien sales of property.

The Comptroller's Office forecasts of income, business and sales tax revenues are higher than the City's through FY 2008 and are slightly lower than the City's for FY 2009 and FY 2010, reflecting differences in economic assumptions for the local economy. The risks and offsets noted by the Comptroller's Office are shown in Table 10 on page 16.

City's Forecast of Tax Revenues

The City expects total tax revenues to increase \$3.7 billion throughout the plan period, or 3.5 percent annually. Real property tax revenues will be the main driver of tax-revenue growth, increasing 4.7 percent annually, while non-property tax revenues are expected to grow 2.8 percent annually, as shown in Table 9.

Table 9. Changes in NYC Tax Revenues, City Forecast, FYs 2007-2010

(\$ in millions)

	Annual Change in Revenues			Change	Average Annual Growth (%)
	FYs 2007-08	FYs 2008-09	FYs 2009-10	FYs 2007-10	FYs 2007-10
Property	\$610	\$656	\$678	\$1,945	4.7%
Non-Property	(150)	923	935	1,707	2.8%
PIT	38	529	435	1,002	4.3%
Business	(76)	145	192	262	2.1%
Sales	62	227	235	524	3.7%
Real-Estate-Related	(196)	(4)	49	(151)	(3.0%)
All Other	21	25	24	70	1.1%
Total Change	\$460	\$1,579	\$1,613	\$3,652	3.5%

SOURCE: NYC Office of Management and Budget.

NOTE: The revenue changes include the impact of both economic conditions and tax policy changes.

Property tax, personal income tax (PIT) and sales tax revenues are expected to exhibit the most rapid growth, with annual rates of increase exceeding 3.0 percent. The City forecasts that real-estate-related tax revenues will decrease \$151 million in the plan period, or 3.0 percent annually, after plunging \$937 million, or 34.9 percent, in FY 2007. Business tax revenues are expected to increase 1.7 percent in FY 2007 and then to drop 1.8 percent in FY 2008, due to an expected decline in New York Stock Exchange member-firm profits in calendar year 2007.

The City has raised its FYs 2007-2010 baseline tax revenue projection by \$530 million, or 0.4 percent, from the amount projected in the Executive Budget. PIT and business tax revenue projections have been raised a cumulative \$418 million and \$123 million above the Executive Budget estimates, respectively. Those increases are offset by declines in revenue from other taxes and New York State tax reduction actions. As a result, total tax revenues over the Financial Plan period are expected to increase by \$374 million more than assumed in the Executive Budget.

Several tax law changes impact the City's tax revenue forecasts in the Adopted Budget, including:

- Standard deduction increases for married filers which are projected to reduce PIT revenues by \$8 million annually.
- PIT and STAR administration increases which are expected to lower PIT by \$1.4 million annually.
- A renewed Empire State Film Production Credit which is estimated to reduce tax revenues by \$30 million.

City Forecast of the PIT

The City forecasts that PIT revenues, including revenues earmarked for NYCTFA debt service, will decline 5.4 percent in FY 2007. For FY 2008, the City projects a moderate increase of \$38 million, or 0.5 percent, and for FY 2009 and 2010, an average increase of \$482 million, or 6.2 percent.

The expected fall in PIT revenues in FY 2007 reflects a projected forecast decline in Wall Street bonuses in calendar year 2006 and the phase-out of the temporary tax increase effective January 1, 2006. PIT revenues are expected to be flat in FY 2008 before rebounding and returning to trend in FY 2009 and FY 2010. Overall, the City's expected average annual growth in PIT revenues between FY 2007 and FY 2010 is 4.3 percent, less than the average growth rate of 5.3 percent from FY 1995 to FY 2005. After accounting for legislative changes, common-rate-and-base (CRB) PIT revenues are projected to grow 4.7 percent annually between FY 2007 and FY 2010, which is also less than the average CRB-adjusted growth from FY 1995 to FY 2005.

City Forecast of Real Estate-Related Taxes

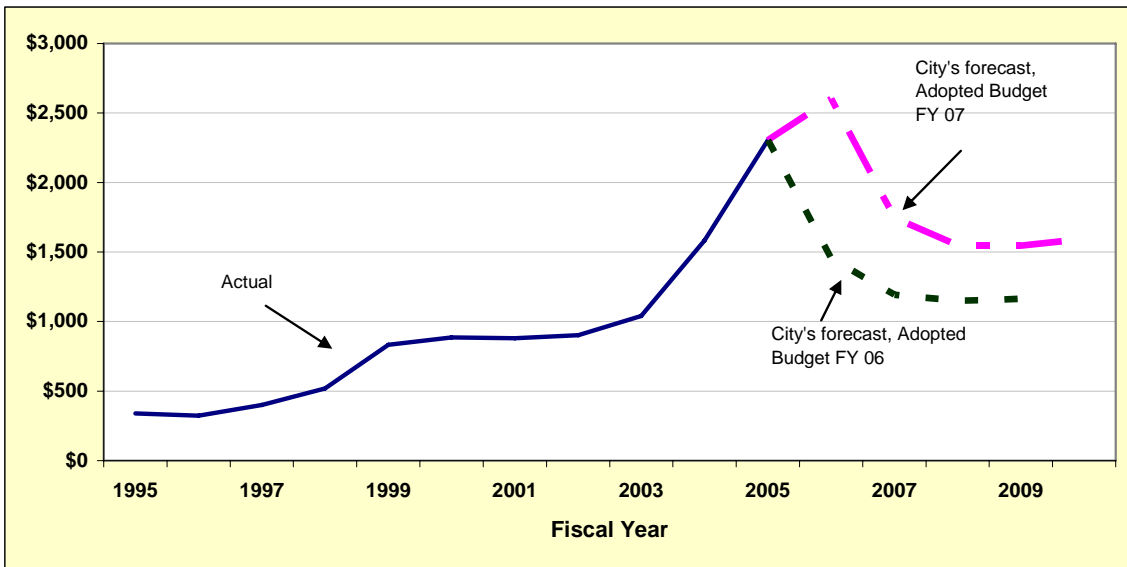
Real estate-related tax revenues increased 52.5 percent in FY 2004, 45.5 percent in FY 2005, and 16.4 percent in FY 2006, as a result of a real estate boom triggered primarily by record-low mortgage interest rates. Mortgage rates already have increased about 120 basis points from their low in April 2004 and the City expects long-term interest rates to rise through 2009. The higher rates will contribute to a weakening of residential and commercial property markets and a subsequent reduction in real estate-related tax revenues, from \$2.7 billion in FY 2006 to \$1.7 billion in FY 2007, a drop of \$937 million. After a decline of 11.2 percent in FY 2008 and another decline of 0.3 percent in FY 2009, the growth of real estate-related taxes is expected to revert to the long-term trend, with an increase of 3.2 percent in FY 2010.

In the FY 2006 Adopted Budget, the City projected a sharp decline in real estate-related taxes in FY 2006 and FY 2007. However, year-to-date collections indicate an increase in real estate-related tax revenues in FY 2006 as the housing market remained unexpectedly strong. Consequently, the City has revised upward its forecasts since the November budget modification, as shown in Chart 1. The City's current forecast for real estate-related tax revenues assumes a continued rise in interest rates, a slowdown in the local and national economies in CY 2007, and a weakening of real estate values. A larger decline from commercial collections than from residential collections is expected.

Collections from the residential mortgage recording tax are expected to decline 29 percent and 18 percent, in FY 2007 and FY 2008, respectively, while revenues from commercial activities are forecast to drop 44 percent in FY 2007. The residential component of real property transfer tax revenues is expected to decline 12.2 percent in FY 2007, 7.9 percent in FY 2008, and 3.4 percent in FY 2009, while revenues from commercial transactions are forecast to decline 47.9 percent in FY 2007.

Chart 1. Real-Estate-Related Tax Revenues, Actual and Forecast, FYs 1995-2010

(\$ in millions)



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

City Forecast of Property Tax

According to the FY 2007 final assessment roll, the billable taxable assessed value of real properties totals \$155 billion, a 4.6 percent increase from the previous year and slightly above the historical rate of increase. Class 1 properties account for 11.1 percent of the incremental value, with Classes 2, 3 and 4 accounting for 37.2 percent, 11.3 percent, and 40.5 percent, respectively. The class distribution of incremental value is close to the fraction of total billable taxable assessed value associated with each of the Classes.⁵

The FY 2007 Adopted Budget and Financial Plan includes a discretionary \$400 property tax rebate to homeowners who utilize their properties as a primary

⁵ Although there is a rather small difference between the share of aggregate growth in assessed value and the share of aggregate nominal assessed value for each class during the current fiscal year, that has not been generally the case since the inception of the four-class system in FY 1983. In the past, on average, Classes 2 and 4 properties contributed more to the growth in assessed value than their shares of assessed value among the four classes, resulting in their increased importance to the City's property tax base.

residence. If the annual cost of the rebate program is incorporated into the baseline revenue projections, as is the case for FY 2006 and FY 2007, the City's projection of growth in real property tax revenue would average 4.6 percent from FY 2007 to FY 2010.

Comptroller's Forecast of Tax Revenues

Based on economic and housing market forecasts discussed in the "State of the Economy" beginning on page 9, the Comptroller's Office estimate of total tax revenues for FY 2007 and the outyears exceeds the City's by approximately \$1.2 billion, or about 0.9 percent. Although residential and commercial property values are expected to level off in the near future, the pipeline of assessment changes, with its buildup of robust increases in recent years, is expected to help sustain growth in revenues over the Financial Plan period. Adjusted for tax rebates on owner-occupied residential properties, the Comptroller is forecasting 5.3 percent average annual growth in real property tax revenues from FY 2008 to FY 2010, in contrast to the City's estimate of 4.7 percent. The difference in growth estimates for FY 2007 is negligible.

Increases in non-property tax revenues are a function of growth in the local economy. The Comptroller's Office forecasts of PIT, business, and sales tax revenues for FYs 2007 and 2008 reflect projections of the local economy that are slightly more positive than the City's. In FYs 2009-2010, the Comptroller does not expect the economy to grow as rapidly as the City projects. The Comptroller forecasts that PIT, business, and sales tax revenues over the Plan period will be cumulatively \$270 million higher than the City estimates (about \$480 million over the first two years, with an offset of \$210 million in the third and fourth years). (See Table 10.)

Table 10. Comptroller's Risks and Offsets to the City's Tax Revenues, FYs 2007-2010

(\$ in millions)

Tax	FY 2007	FY 2008	FY 2009	FY 2010
Property	\$10	\$30	\$120	\$250
PIT	120	110	(80)	(100)
Business	60	50	0	(20)
Sales	60	80	0	(10)
Real Estate-Related	110	150	150	150
Total	\$360	\$420	\$190	\$270

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

In light of continued upward pressure on long-term interest rates, the Comptroller's Office, like the City, is expecting a softening in real estate prices and an associated decrease in the volume of real estate transactions. However, the Comptroller is projecting a less severe decline in real estate transaction activities and little or no decline in nominal housing prices. The Comptroller's Office forecast of real estate-related tax revenues in FY 2007 is therefore \$110 million above the City's. In each of the outyears, the Comptroller's Office forecasts are \$150 million higher than the City's.

The Comptroller's forecasts of PIT and business tax revenues for FY 2007 and FY 2008 are higher than the City's. This is based on the long-term trend of personal

income and job growth, adjusted for the effects of an expected slowdown in the pace of local economic growth. The Comptroller expects the national and local economies to weaken during 2006 as they adjust to higher interest rates and energy costs, but not to the extent that either of these economies lapses into recession. In the outyears, the Comptroller's forecasts of PIT and business taxes are slightly lower than the City's, due to the assumption of a more moderate level of economic growth.

Miscellaneous Revenues

Miscellaneous revenues consist of locally-raised non-tax revenues, including fees charged for licenses, franchises and permits, charges for municipal services, fines, rental income, interest income, water and sewer revenues and other miscellaneous sources of funds. In the FY 2007 Adopted Budget and Financial Plan, the City projects miscellaneous revenues to total \$3.8 billion in FY 2007, \$300 million higher than the Executive Budget estimate. This is due primarily to a reallocation of \$153 million in HHC debt service payments from other categorical grants to the miscellaneous revenue budget. Also, the City expects an additional \$72 million in taxi medallion sales and \$68 million in additional interest income. For the outyears, miscellaneous revenue estimates are virtually unchanged from the May Plan. As Table 11 shows, miscellaneous revenues are expected to reach \$3.9 billion in FY 2008, and then to drop to \$3.4 billion in the remaining two years of the financial plan.

In FY 2008, the "other miscellaneous" category grows 48 percent, or \$261 million. This increase reflects the delayed recognition of tobacco settlement revenues from FY 2006 and FY 2007 to FY 2008, when the City anticipates it will receive nearly \$574 million in tobacco revenues. These revenues are expected to decline substantially in FY 2009, to less than \$144 million. Thus, in FYs 2009-2010, projections of other miscellaneous revenues fall sharply, to approximately \$375 million annually. In addition in FY 2008 interest income is expected to drop 56 percent, reflecting the City's expectation of lower cash balances. The City also anticipates short-term interest rates to decline in CY 2007.

Table 11. City Forecast of Miscellaneous Revenues

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Licenses, Franchises, Permits	\$395	\$396	\$402	\$405
Interest Income	313	136	137	144
Charges for Services	551	532	533	533
Water and Sewer	1,087	1,081	1,093	1,109
Rental Income	181	174	172	171
Fines and Forfeitures	728	737	735	736
Other Miscellaneous	545	806	375	376
Total Miscellaneous Revenue	\$3,800	\$3,862	\$3,447	\$3,474

Source: NYC Office of Management and Budget

In the current financial plan, water and sewer revenues represent the largest component of miscellaneous revenues. The bulk of these revenues, however, are not available for general operating purposes. Water and sewer revenues of the City consist of

two parts: reimbursement for operation and maintenance (O&M) of the water delivery and wastewater treatment systems, and rental payments. Rental payments are equal to the greater of debt service payments for outstanding water and sewer related general obligation debt, or 15 percent of Water Authority debt service.⁶ In FY 2007, water and sewer revenues are estimated at \$1.1 billion. Less than \$138 million of this amount is available for the general fund while the remaining amount is the estimated reimbursement for expenses related to the operation and maintenance of the system incurred by the NYC Department of Environmental Protection (DEP).

Overview of the New York City Water and Sewer System

The NYC Water and Sewer System consists of two separate and independent corporations: The New York City Municipal Water Finance Authority (the “Authority”) and the New York City Water Board (“the Board”). The system is operated and maintained by the DEP. Water and sewer fees paid by users fund the system. The Board leases the system from the City and its primary responsibility is to set the rates for water and sewer use sufficient to ensure adequate funds to pay for debt service of the Authority and to compensate the City, primarily the DEP, for the costs of operating and maintaining the system. To set rates, the Board relies on estimates by the Authority of debt service on revenue bonds issued to finance the system’s capital projects and DEP estimates of the system’s operating and maintenance expenses. Sewer charges are set as a percentage of water charges. In addition, the Board pays the City rent.⁷

The Authority’s primary responsibility is to finance, through the issuance of bonds and other obligations, the capital projects required for the system. These capital projects are managed by the DEP and constitute most of the Department’s capital projects. DEP assigns approximately 90 percent of its staff to the system, and therefore, most of its operating expenses are reimbursed by the Board. However, only the rental payment and the DEP reimbursement for the maintenance and operation of the system are reflected in the miscellaneous revenue budget.

Over the past decade, water and sewer rates have increased 56 percent. Capital expenses related to upgrading the infrastructure of the system continue to escalate, with capital improvements estimated at \$16 billion over the next decade.⁸

In order to fund the system’s rising costs, the Board proposed water and sewer rate increases of 9.4 percent for FY 2007. Over the next four years the Board estimates water and sewer rates will grow by 42 percent. As discussed in “Financing Program”

⁶ Since FY 2005 rental payments have equaled 15 percent of Water Authority debt service as outstanding water and sewer related G.O. debt has declined.

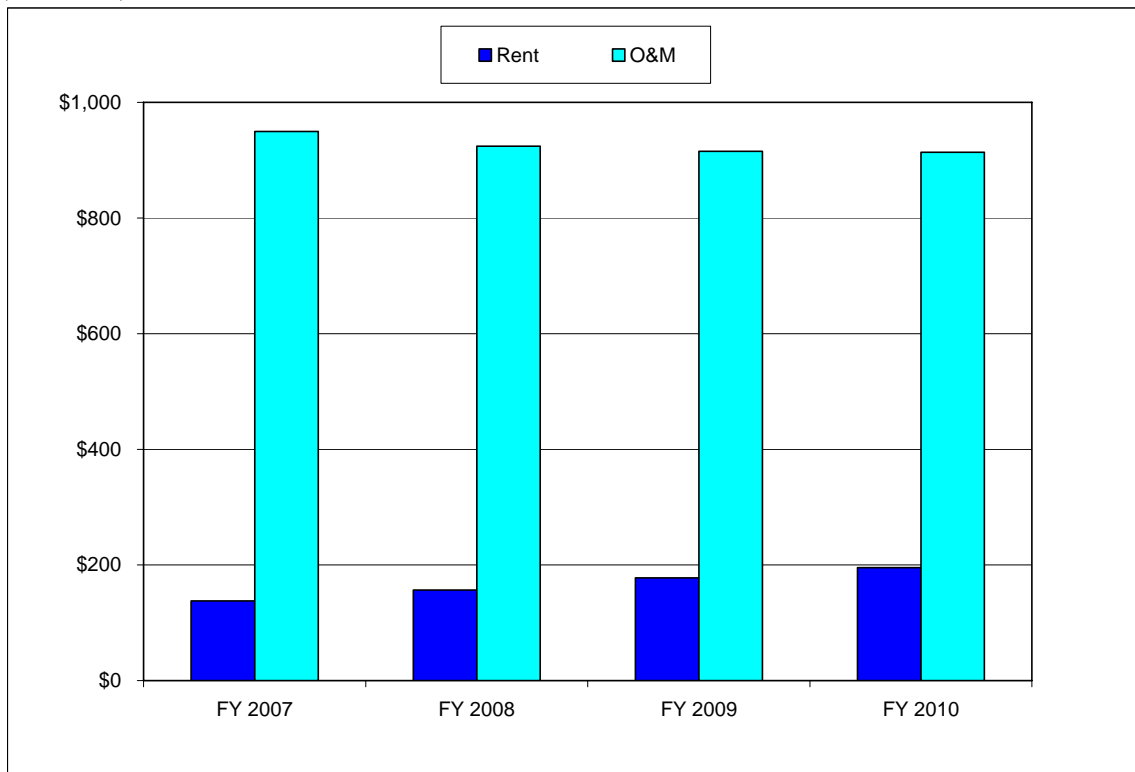
⁷ The Board must also pay Citywide indirect expenses such as pensions and fringe benefits, system related tort claims and Board and Authority expenses.

⁸ Many of the upgrades are mandated by the Federal and State governments.

beginning on page 33 these increases primarily fund escalating debt service expenses. Rental payments to the City, which are directly related to debt service, are projected to grow 42 percent from \$138 million in FY 2007 to \$196 million in FY 2010, mirroring the water rate increase. However, O & M payments to the City, which comprise more than 80 percent of water and sewer payments, are projected to decline slightly from \$950 million to \$914 million over the Plan period, as shown in Chart 2. As a result, water and sewer payments to the City are expected to increase only two percent, from \$1.087 billion in FY 2007 to \$1.109 billion in FY 2010.

Chart 2. Water and Sewer Payments to the City

(\$ in millions)



Federal and State Aid

Federal and State aid comprises about \$14.93 billion or 28 percent of total projected revenues in the City's adopted budget for FY 2007. State grants would provide about \$9.87 billion in support of total spending, with Federal grants contributing an additional \$5.06 billion. The largest areas of assistance are education and welfare, which together represent over 80 percent of total Federal and State aid receipts assumed by the City. Federal and State grants are projected to increase modestly in each of the outyears, ranging from \$15.01 billion in FY 2008 to \$15.22 billion in FY 2010. This growth stems mainly from the City's expectation of additional State education aid.

In the latest development regarding the State budget, the Legislature and the Governor reached a budget agreement before the end of the legislative session in June. Among the items resolved in the budget agreement that would have a potential impact on the City's budget, the Legislature restored most of the Medicaid cuts that the Governor vetoed, removing a risk to HHC's revenue budget previously estimated at up to \$150 million annually.

The June Plan also reflects negative impacts of \$23 million to \$28 million annually from other actions that were approved in the State budget, dominated by the loss of certain tax revenues. The City projects that tax revenues would be reduced by almost \$40 million each year mainly from the enactment of the Empire State Film Production tax credit (\$30 million) and increased standard deductions for married income tax filers (\$8 million). The reduced tax revenues would be partly offset by a variety of other actions, including revenues from the authorization of additional red light cameras, enhanced reimbursement for housing State-ready prisoners, increased grants for public health services, and greater support for transportation programs. In addition, the City has removed its assumption of additional Federal assistance, which was previously estimated at \$50 million for FY 2007.

V. Expenditure Analysis

City-funded FY 2007 expenditures are projected to total \$38.7 billion, an increase of approximately \$200 million from the Executive Budget estimates. This increase represents additional spending of \$516 million, offset by an increase in prepayments of \$312 million. Highlights of the changes in estimates include \$233 million in City Council restoration and initiatives, and an additional \$125 million funding for collective bargaining. As discussed in “Labor” beginning on page 25 the additional collective bargaining funding reflects the increase in the City’s assumption of wage increases in the first two years of the next round of collective bargaining from 1.25 percent to 2.0 percent. Increases in expenditures estimates in the outyears reflect mainly the additional funding for collective bargaining.

In response to rising energy costs, the City has increased its FY 2007 budget for energy by \$196 million, or 26.5 percent, since June 2005. Spending on energy, which includes fuel oil, gasoline, and heat, light and power is now projected to total \$916 million in FY 2007, \$926 million in FY 2008, \$912 million in FY 2009, and \$910 million in FY 2010. The outyear estimates are, on average, approximately 30 percent above the June 2005 estimates.

Overtime

The FY 2007 Adopted Budget includes \$693 million for overtime expenditures, \$10 million more than was projected in the FY 2007 Executive Budget. The increase reflects mainly an adjustment of \$7 million for collective bargaining increases in the Fire Department’s uniformed overtime estimate. The current projection is about \$90 million lower than the estimated spending for FY 2006. The Comptroller’s Office estimates that FY 2007 overtime expenditures are approximately \$796 million or \$103 million more than the City’s projection, as shown in Table 12.

Table 12. Projected Overtime Spending, FY 2007

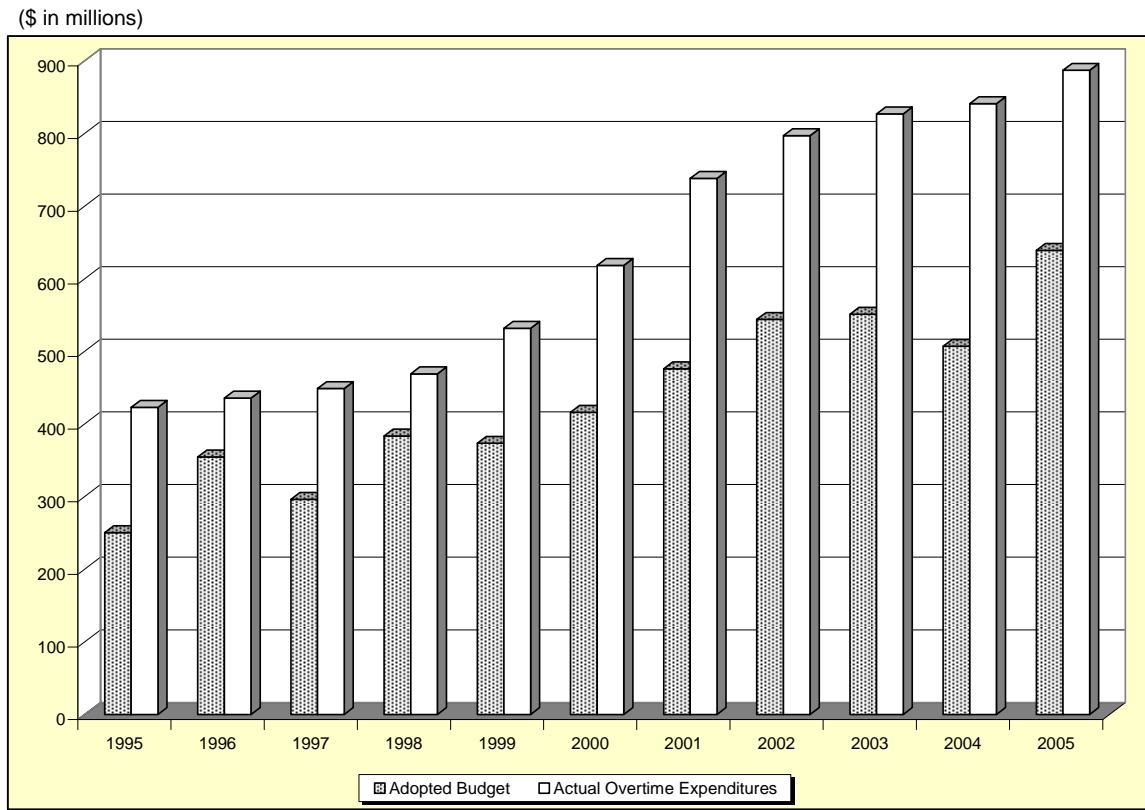
(\$ in millions)

	City Planned Overtime FY 2007	Comptroller's Projected Overtime FY 2007	FY 2007 Risk
Uniformed			
Police	\$279	\$350	(\$71)
Fire	117	125	(8)
Correction	55	55	0
Sanitation	<u>64</u>	<u>64</u>	<u>0</u>
Total Uniformed	\$515	\$594	(\$79)
Others			
Police-Civilian	\$16	\$40	(\$24)
Admin for Child Svcs	17	17	0
Environmental Protection	23	23	0
Transportation	28	28	0
All Other Agencies	<u>94</u>	<u>94</u>	<u>(0)</u>
Total Civilians	\$178	\$202	(\$24)
Total City	\$693	\$796	(\$103)

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

Given the trend of overtime spending in recent years, the City's projection for overtime expenditures once again appears underbudgeted. As Chart 3 shows, the City consistently under-budgets overtime expenditures at the beginning of the fiscal year in an effort to control spending. This strategy has not been successful. In FY 2005, actual overtime spending was \$248 million above the \$639 million budgeted at adoption. Overtime spending for FY 2006 is likely to exceed the Adopted Budget plan of \$617 million by a similar margin.

**Chart 3. Adopted Overtime Projections and Actual Overtime Spending,
FYs 1995 to 2007**



Headcount

Full-time City-funded headcount is expected to reach 228,560 by June 30, 2007, a net increase of 5,304 employees from the actual number on payroll as of May 31, 2006. As shown in Table 13, the City is projecting higher headcount levels mainly for the Departments of Parks and Recreation, Social Services (DSS), Administration for Children's Services (ACS), Police civilians, and Department of Education (DOE) pedagogical employees. The increase in headcount in the Department of Parks and Recreation is due primarily to the reclassification of 894 per diems and 52 seasonal employees as full-time workers. The Police Department increase reflects the hiring of 400 civilians to replace officers who are now performing desk duties. At ACS, DSS, and the DOE, new hires will support and enhance new and ongoing programs. In the outyears, headcount levels are expected to decline to 227,592 by June 20, 2008, to 226,695 by June 30, 2009, and to 225,853 by June 30, 2010. This is due mainly to a decrease of 2,857 in projected Department of Education pedagogical staff from 88,548 for FY 2007 to 85,691 by June 30, FY 2010, reflecting an expected decrease in pupil enrollment.

Table 13. City-Funded Full-Time Year-End Headcount

	May 31, 2006	FY 2007	FY 2008	FY 2009	FY 2010
Agency					
Uniformed:					
Police	35,928	35,624	35,624	35,624	35,624
Fire	11,505	11,212	11,212	11,212	11,212
Correction	8,516	8,734	8,668	8,668	8,668
Sanitation	7,632	7,623	7,623	7,623	7,623
Sub-total	63,581	63,193	63,127	63,127	63,127
Pedagogical:					
Dept. of Education	88,087	88,548	87,408	86,513	85,691
City University	2,727	2,706	2,700	2,700	2,700
Sub-total	90,814	91,254	90,108	89,213	88,391
Civilian:					
Police	9,155	9,845	9,845	9,845	9,845
Fire	4,452	4,555	4,627	4,627	4,627
DOE	8,471	7,961	7,961	7,961	7,961
Admin for Child Svcs.	6,256	6,864	6,864	6,864	6,864
Dept. of Health	2,704	3,035	3,186	3,191	3,174
Social Services	10,965	11,688	11,745	11,745	11,745
Parks and Recreation	1,544	2,611	2,609	2,609	2,608
All Other Civilians	25,314	27,554	27,520	27,513	27,511
Sub-total	68,861	74,113	74,357	74,355	74,335
Total	223,256	228,560	227,592	226,695	225,853

SOURCE: Office of Management and Budget, FY 2007 Adopted Budget.

City-funded part-time headcount is expected to total 30,940 full-time-equivalent (FTE) employees on June 30, 2007, about 5.0 percent lower than the actual 32,656 FTEs employed on May 31, 2006. FTE headcount is then projected to decline to 30,415 in FY 2008 and to remain at comparable level for the remaining Financial Plan period, as shown in Table 14. FTE headcount is expected to decline by 525 civilians between FY 2007 and FY 2008 due primarily to reductions in the Department of Parks and Recreation. Part-time pedagogical headcount is expected to remain at 2,370 over the Plan period.

Table 14. City-Funded Full-Time Equivalent (FTE) Year-End Headcount Projections

	May 31, 2006	FY 2007	FY 2008	FY 2009	FY 2010
Agency					
Pedagogical FTEs:					
Dept. of Education	830	902	902	902	902
City University	1,874	1,468	1,468	1,468	1,468
Sub-total	2,704	2,370	2,370	2,370	2,370
Civilian FTEs:					
Dept. of Education	15,115	14,784	14,784	14,784	14,784
City University	921	800	800	800	800
Police	6,000	5,940	5,956	5,956	5,956
Dept. of Parks & Rec.	4,492	3,363	2,823	2,803	2,777
Dept. of Health	1,760	1,726	1,740	1,755	1,755
All Other Civilian FTEs	1,664	1,957	1,942	1,942	1,942
Sub-total	29,952	28,570	28,045	28,040	28,014
Total FTEs	32,656	30,940	30,415	30,410	30,384

SOURCE: Office of Management and Budget, FY 2007 Adopted Budget.

Labor

The FY 2007-FY 2010 Financial Plan contains funding of approximately \$210 million in FY 2007, \$575 million in FY 2008, \$980 million in FY 2009, and \$1.4 billion in FY 2010 for the next round of collective bargaining. This funding reflects wage increases of 2.0 percent annually for the first two years of the next round of contracts and 1.25 percent annually thereafter. Previously, the City had budgeted funding for wage increases of 1.25 percent annually, or half the rate of projected inflation.

On July 6th, 2006, the City reached a tentative agreement with the NYPD Lieutenants Benevolent Association (LBA) granting wage increases of 17.1 percent over a 50-month, 16 day period from June 16, 2003 to August 31, 2007. The wage increases and productivity initiatives are similar to the pattern established by previously settled contracts for uniformed employees. However, in addition to the wage increases, beginning July 31, 2007, the City will contribute \$300 per year to the 457 Savings Plan of each member in the LBA who invests at least 1.0 percent of his or her annual salary in the Plan. The contribution to the Savings Plan as well as a \$120 increase to the Uniform allowance and a one-time lump sum payment of \$427 per active member to the Annuity Fund, are expected to be funded with savings generated by a contract extension of one month and one day. With this agreement, the City has reached settlements with all but six unions representing about 10,000 employees whose contracts expired in FY 2002.

On July 17, 2006, the City announced a tentative contract settlement with District Council 37 covering a 32-month period from July 1, 2005 to March 2, 2008. The tentative agreement provides for wage increases of 3.15 percent retroactive to

July 1, 2005, 2.0 percent effective August 1, 2006, and 4.0 percent effective February 1, 2007. The Financial Plan contains funding for the 3.15 percent increase in FY 2005 and the 2.0 percent increase in FY 2007. The 4.0 percent increase in FY 2007, which will cost the City approximately \$250 million is not funded. Beginning in FY 2008 the cost of this increase will be partially offset by the City's funding for a 2.0 percent increase. Should the other unions reach agreements similar to the pattern established by the tentative contract with DC 37, it would increase the City's collective bargaining expenditures by \$254 million in FY 2007, \$463 million in FY 2008, \$782 million in FY 2009, and \$853 million in FY 2010.

Health Insurance

The FY 2007 Adopted Budget and Financial Plan shows that the City's spending for employee and retiree health insurance is projected to increase at an average annual rate of 8.9 percent from FY 2005 to FY 2010.⁹ This mainly 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. The Adopted Budget also reflects an expected contribution by the City of an additional \$1 billion in FY 2007 into the New York City Retiree Health Benefits Trust Fund (RHBTF).

The Trust was established with an initial deposit of \$1 billion in FY 2006 to accumulate funds to pay for post-employment benefits (other than pensions) provided by the City. In addition to the \$1 billion deposit in FY 2007, every year's pay-as-you-go expenses for retirees' health, welfare benefit contributions, and Medicare Part B reimbursements, totaling approximately about \$1.4 billion in FY 2007, will be channeled through the Trust. Since all post-employment benefits will be disbursed from the Trust fund, the City will have the flexibility to finance the pay-as-you-go expenses from the Trust assets.

⁹ Through FY 2005, the City funded its health insurance expenses on a pay-as-you-go basis.

**Table 15. FYs 2006 – 2010 Health Insurance Expenditures
FY 2007 Adopted Budget**

(\$ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Pay-as-you-go Expense	\$2,575	\$2,888	\$3,167	\$3,464	\$3,744	\$3,952
Transfer to Retiree Health Benefits Trust Fund		\$1,000	\$1,000			
Total	\$2,575	\$3,888	\$4,167	\$3,464	\$3,744	\$3,952

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.

Pensions

Projections for the City's pension contributions remain unchanged from the Executive Budget. The City's contributions will grow from \$4 billion in FY 2006 to \$5.8 billion in FY 2009 before declining moderately to \$5.7 billion in FY 2010, as shown in Table 16. These projections include the impact of the changes to actuarial assumptions and methodologies as recommended by the Chief Actuary and adopted by the Boards of Trustees of the five actuarial pension systems in the current fiscal year.¹⁰

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

(\$ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Five Actuarial Systems	\$ 3,284	\$ 3,919	\$ 4,788	\$ 5,508	\$ 5,751	\$ 5,615
Other Systems	86	99	103	106	108	109
TOTAL	\$ 3,370	\$ 4,018	\$ 4,891	\$ 5,614	\$ 5,859	\$ 5,724

In accordance with the newly-adopted "one-year lag" actuarial funding methodology, FY 2007 City contributions to the five actuarial pension funds are considered to be final, absent new benefit enhancements or salary increases, as they are based on census data and actuarial asset values as of June 30, 2005. Projections for FY 2008 onwards, however, are estimates and are, therefore, subject to changes as census and investment data become available. For example, actual FY 2008 City contributions will be based on actual census data and actuarial asset values as of June 30, 2006.

¹⁰ The changes to the actuarial assumptions and methodologies are discussed 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.

Preliminary estimates indicate that earnings on investments during FY 2006 were very close to the actuarial assumption. The five actuarial pension funds earned an estimated 10.1 percent on market values during FY 2006, which works out – in actual dollar terms – to be close to the actuarially assumed return of 8.0 percent on the actuarial asset values. Hence, FY 2006 investment performance is not expected to have a significant impact on the City's projected pension contributions for the outyears of the Financial Plan.

Medical Assistance

In the Adopted Budget, City-funded Medicaid expenditures (including the Health and Hospitals Corporation) are projected at \$4.80 billion in the current year, representing a marginal change from the Executive Budget assumptions. The City's Medicaid projections in the outyears would correspond with Medicaid spending caps implemented by the State, which limit annual local Medicaid spending growth to no more than 3.5 percent in 2006, 3.25 percent in 2007 and 3.0 percent in 2008 and beyond. Consistent with these caps, the City's Medicaid spending is projected to rise to \$4.95 billion in FY 2008, \$5.09 billion in FY 2009 and \$5.24 billion in FY 2010. In total, the baseline Medicaid assumptions in the June Plan reflect savings in excess of \$3 billion from the implementation of both the Medicaid cap provisions and the State takeover of the Family Health Plus program.

In addition to these baseline savings, expenditure re-estimates could yield additional savings of at least \$125 million for the City in each of FYs 2007-10, which have not yet been reflected in the June Plan. In June 2006, the State released its final estimate of the local share of total 2005 Medicaid spending for the City, a determinant of Medicaid expenditures in ensuing years. Based on preliminary indications, the City's average weekly Medicaid payment to the State, before other adjustments, could be \$3 million lower than previous estimates.

Public Assistance

The City ended FY 2006 with a welfare caseload of 393,764, representing a drop of 22,400 recipients, or 5.0 percent, from the June 2005 caseload of 416,164. During FY 2006, the City's share of monthly grant spending averaged slightly more than \$41 million, a marginal increase from the FY 2005 average as welfare grants have remained steady within a range of \$40 million to \$42 million each month over the past 24 months.

In the June Plan, the City's public assistance budget maintains the same caseload and grants assumptions as in the May Plan. While the City may have overestimated the welfare caseload levels, exceeding the latest actuals by more than 17,000 recipients, or about 4.0 percent, its baseline grants projections are consistent with the recent trend. The City has provided about \$520 million for welfare grants expenditures annually in FYs 2007-10, which would accommodate average monthly grants spending of over \$43 million. Given that welfare grants have hovered at a monthly average of about

\$41 million over the past two years, the City appears to have adequately budgeted for these expenditures unless welfare grants rise significantly over the course of the plan.

In June, the U.S. Department of Health and Human Services issued interim final regulations defining eligible work activities and verification procedures under Temporary Assistance for Needy Families (TANF) reauthorization. The regulations would impose more restrictive standards than current definitions such as requiring employment education and training to be directly related to specific jobs and more rigorous review procedures to ensure State compliances. These changes would go into effect in Federal FY 2007, beginning in October 2006. The City indicates that the State could face a penalty of \$216 million for failing to meet the required overall work participation rate of 50 percent. If the City is held liable for a portion of the penalty commensurate with its 70 percent share of the statewide caseload, it could face an annual cost of \$150 million.

Department of Education

The FY 2007 Adopted Budget contains funding of \$15.45 billion for the Department of Education (DOE), representing an increase of \$132 million from the Executive Budget estimates. The major increases include \$32 million for City Council restorations and enhancements, \$86 million in State support assumed for various needs (including sabbatical fringe benefits, expanded universal pre-kindergarten program, and special education enrollment), and \$12 million in transfers to cover collective bargaining and energy costs. In a separate action that has no net impact on the DOE budget, the City has replaced \$31 million of Federal Medicaid revenue with City funds. Combined with previous actions, the City has assumed an expected loss of \$86 million in Medicaid revenue for each year of the plan because of State corrective actions to address findings from an ongoing Federal Medicaid audit.

In the outyears of the plan, the City projects that the Department's budget would increase to \$15.55 billion in FY 2008 and \$15.73 billion in FY 2009, before reaching \$15.86 billion by FY 2010. The growth in the outyears reflects increases mainly in State education aid, estimated to rise by \$345 million within the DOE budget, from \$7.12 billion in FY 2007 to \$7.47 billion in FY 2010. City funds, meanwhile, would grow modestly over the same span, increasing by about \$60 million from \$6.56 billion to \$6.62 billion. On average, State aid comprises about 47 percent of the overall DOE budget in the June Plan, while City funds constitute about 43 percent of the total. By contrast, in recent years State aid as a share of the Department's budget had fallen to 45 percent.¹¹

The largest area of growth within DOE budget functions is non-public school payments. These payments, covering tuition and transportation expenditures for special education programs and charter schools, would grow about 31 percent from \$1.09 billion in FY 2007 to \$1.42 billion by FY 2010 in the June Plan. With respect to the special

¹¹ See *The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2007*, dated March 2006, for a more detailed discussion of education funding shares.

education programs, the underlying assumptions show spending growth of 27 percent in the preschool segment and 29 percent in school-age contract schools. Factors contributing to higher expenditures include estimated growth of 20 percent in the preschool handicapped population, a projected rise of 44 percent in the number of *Carter cases*, and expected tuition rate increases of 20 percent for contract schools.¹² In addition, the Department projects that enrollment in charter schools would grow 32 percent between FY 2007 and FY 2008, an expected increase of about 4,800 students primarily in programs initiated during FYs 2006 and 2007. The rise in charter school expenditures in the latter years of the plan is attributable to projections of higher per capita rates paid by the Department.

As more charter schools were approved in recent years, the proportion of students attending programs in non-DOE facilities has risen steadily. Since FY 2003, overall DOE enrollment, including charter schools, has fallen 4.2 percent, from 1,107,916 to a projected 1,061,741 in FY 2007. Enrollment within DOE facilities, in comparison, reflects a steeper drop of 5.7 percent (from 1,061,016 to 1,000,613), while enrollment in non-DOE facilities shows a projected growth of about 30 percent (from 46,900 to 61,128). This trend is projected to continue over the course of the June Plan. The City estimates a decline of 5.4 percent in total enrollment in the outyears, falling from 1,061,741 in FY 2007 to 1,004,596 in FY 2010. This decline is driven mostly by enrollment in DOE facilities, which is projected to drift lower by 6.7 percent, reaching 933,804 by FY 2010. Meanwhile, the City expects non-DOE facilities enrollment to rise swiftly to 67,483 in FY 2008 and then increase gradually over the next two years, reaching 70,792 by FY 2010.

Health and Hospitals Corporation

The City projects that the Health and Hospitals Corporation (HHC) will end FY 2006 with a cash balance of that \$370 million, a significant revision from a projection of \$874 million in the May Plan. This change stems from the timing of Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) receipts, a transaction that provides HHC with a net revenue increase of \$1.07 billion in FY 2006 stemming from the drawdown of Federal matching dollars. The City, in providing the necessary funding to facilitate this action, has restructured its support to HHC through reductions of \$287 million in FY 2007 and \$90 million in FY 2008.

On an accrual basis, the Corporation's outlook in the June Plan remains basically unchanged since the May Plan, with sizable budget gaps expected throughout the term of the plan. The City projects a budget deficit of \$950 million for HHC in FY 2007 and gaps ranging from \$939 million to \$980 million in the outyears. The budget deficits result

¹² Based on a U.S. Supreme Court ruling from 1993, *Carter cases* represent instances in which parents who placed their handicapped children in non-approved private schools are entitled to tuition reimbursement from DOE if the Court determines that the Department failed to provide a suitable education to these students.

from the Corporation's rising expenses, growing from a base of \$5.23 billion in FY 2006 to \$5.91 billion by FY 2010. This growth is attributable mainly to increases for fringe benefits (\$239 million), personal services (\$152 million), affiliation contracts (\$122 million), and other non-personal services (\$115 million). Revenues, while projected to reach \$5.48 billion in FY 2006 on the strength of the DSH and UPL payments, are expected to range between \$4.42 billion and \$4.93 billion in FYs 2007-10.

The FY 2007 Adopted Budget contains a gap-closing program of \$282 million that would help ease HHC's budget deficit to about \$668 million. The main components of the program include \$150 million in Federal and State actions, \$35 million in other revenue initiatives, and operational savings (including medical malpractice savings) of \$75 million.

By the end of FY 2007, the City expects HHC to achieve a cash balance of \$475 million, an increase of \$105 million from the opening balance. However, to maintain a positive cash balance going forward, significantly greater levels of gap-closing actions are planned for the outyears, ranging from \$590 million to \$707 million annually. The larger values in the outyears reflect more aggressive assumptions of Federal and State actions, comprising \$400-\$500 million of additional support from these sources each year. Given that both Federal and State fiscal priorities are aimed at trimming Medicaid costs in future years, any potential shortfall in these assumptions could trigger the need for alternative measures or greater City support for the Corporation. To this end, the City has indicated the potential for HHC to generate revenues through additional DSH and UPL payments, though these would be significantly lower than the FY 2006 amounts.

Debt Service

Debt service in the FYs 2007-2010 Financial Plan is estimated to total \$4.93 billion in FY 2007 and is projected to grow to \$6.14 billion by FY 2010, an increase of \$1.21 billion, or 24.6 percent, over the Financial Plan period. These figures include NYC Transitional Finance Authority (NYCTFA), TSASC, and lease purchase debt service.

As shown in Table 17, General Obligation (G.O.) debt service is estimated to increase \$1.13 billion, or 31.7 percent, over FYs 2007-2010. This increase is driven primarily by projected new G.O. borrowing of approximately \$19.2 billion in FYs 2007-2010, generating additional debt service of about \$1.1 billion per year by FY 2010.

**Table 17. FY 2007 Adopted Budget and Financial Plan Estimates
FYs 2007-2010, June 2006**

(\$ in millions)

Debt Service Category	FY 2007	FY 2008	FY 2009	FY 2010	Change FY 2007 to FY 2010
G.O. ^a	\$3,574	\$3,929	\$4,312	\$4,707	\$1,133
NYCTFA ^b	901	631	986	985	84
Lease-Purchase Debt	359	385	382	360	1
TSASC, Inc.	88	91	92	93	5
Municipal Assistance Corp.	10	10	0	0	(10)
Total	\$4,932	\$5,046	\$5,772	\$6,145	\$1,213

SOURCE: FY 2007-2010 Financial Plan, June 2006, FY 2007 Adopted Budget, June 2006.

NOTE: Debt Service is adjusted for prepayments.

^a Includes long term G.O. debt service and interest on short term notes.

^b Amounts do not include NYCTFA building aid or \$2 billion incremental bonding capacity.

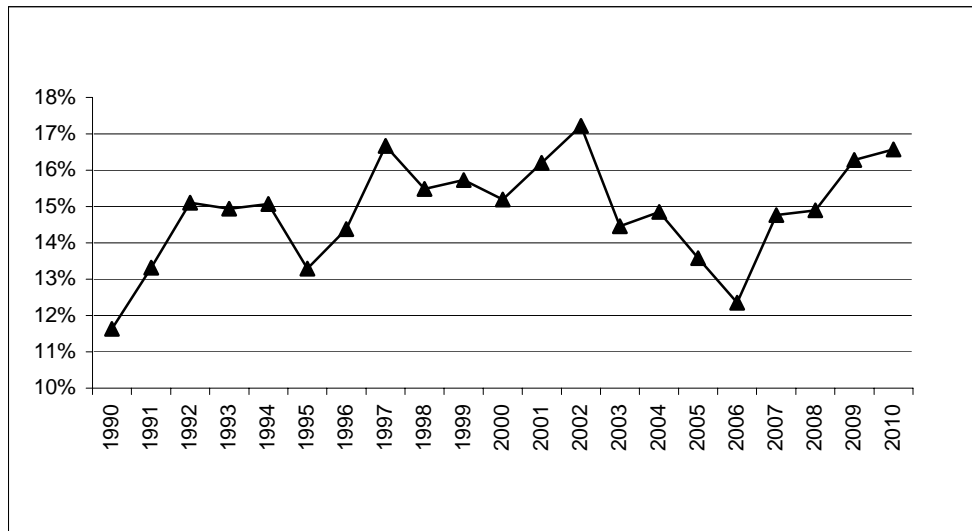
NYCTFA debt service is projected to grow by \$84 million over the Financial Plan period. However, this debt service does not include the scheduled borrowing over the period of \$4.87 billion for capital projects related to the Department of Education. The City expects this borrowing to be supported by State building aid.

The State Legislature recently passed a bill that increases the NYCTFA debt-incurring capacity by \$2 billion from \$11.5 billion to \$13.5 billion for general purposes. Although not currently scheduled, this incremental bonding capacity could substitute for G.O. debt. If used as a substitute for planned G.O. debt and not utilized to increase overall capital borrowing, NYCTFA debt should result in lower debt-service costs. TSASC, Inc. has no planned new money borrowing over the Financial Plan period.

Debt Burden

As shown in Chart 4, debt service as a percent of local tax revenues is projected to be 14.8 percent in FY 2007, rising to 16.6 percent by FY 2010. This increase results from projected debt service growth outpacing estimated growth in local tax revenues. Local tax revenues are projected to grow at an annual growth rate of 3.5 percent. Debt service, on the other hand, is estimated to grow at an annual rate of 7.6 percent.

Chart 4. Debt Service as a Percentage of Local Tax Revenues, 1990-2010



SOURCE: FY 2007 Adopted Budget & Financial Plan, Office of Management & Budget, June 2006.

To help reduce this burden, the City has allotted \$200 million in general fund operating revenues for pay-as-you-go capital, which will effectively reduce the amount of capital borrowing required by that same amount. The Comptroller's Office has recommended this action for several years and while the City has in recent years included a line item for pay-as-you-go capital, it has never actually used the funds in this manner.

Financing Program

As shown in Table 18, the financing program for FYs 2007-2010 totals approximately \$35 billion. Planned issuances of debt over the Financial Plan period include: G.O. bonds of \$19.16 billion, NYC Municipal Water Finance Authority debt of \$5.93 billion, NYCTFA –Building Aid bonds of \$4.87 billion, and DASNY bonds for education purposes of \$1.8 billion. Combined, this represents over 90 percent of the total financing program. Anticipated use of pay-as-you-go capital comprises \$800 million, or 2.3 percent of the total share. There is no scheduled borrowing for TSASC, Inc. and conduit (lease-purchase) debt.¹³

¹³ Although debt service is included for the Hudson Yards Development Corporation in the operating budget, borrowing for this entity is not included in the Financing Program because of its uncertain issuance schedule.

Table 18. FY 2007 Adopted Budget Financing Program, FYs 2007-2010

(\$ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2007-2010	Percent of Total
General Obligation Bonds	\$19,162	54.8%
NYC Municipal Water Finance Authority	5,927	16.9%
NYC TFA – Building Support Aid	4,868	13.9%
DASNY – Education Purposes	1,801	5.1%
NYC TFA – General Purposes	0	0.0%
TSASC, Inc.	0	0.0%
Conduit Debt	0	0.0%
Other Sources	2,445	7.0%
Pay-As-You-Go Capital	800	2.3%
Difference	\$35,003	100.0%

SOURCE: FY 2007 Adopted Budget and Financial Plan, Office of Management and Budget, June 2006.

Unlike other debt which is funded through the property tax and other general fund revenues, the NYC Municipal Water Finance Authority debt service is funded by user fees. NYC Municipal Water Finance Authority debt service is estimated to be \$918 million in FY 2007, growing to \$1.3 billion in FY 2010, or an increase of 42 percent over the period.¹⁴ The escalating cost of debt service is largely responsible for the rate increases planned by the Water Board. In May 2006, the Water Board adopted a rate increase of 9.9 percent for FY 2007. The Water Board is projecting further rate increases of 9.9 percent in FY 2008, 9.0 percent in FY 2009, and 8.0 percent in FY 2010.¹⁵

FY 2007 Adopted Budget City Council Capital Appropriation Additions

Section 254 of the City Charter permits the Council to add and rescind capital appropriations to the capital commitment plan. For FY 2007, the City Council added \$982.6 million in capital appropriations across various project types and rescinded \$119.6 million of capital appropriations for a total of \$863 million in net additions. Seven

¹⁴ Debt service figures cited here do not reflect the benefit of the carry forward surplus.

¹⁵ While water charges support both debt service and the projected cost of operating and maintaining the water system, the cost of operation and maintenance is projected to decline slightly over the Financial Plan period as discussed in “Miscellaneous Revenues” beginning on page 17. Thus, the current and future water rate increases reflect mainly escalating debt service costs.

project types accounted for over 72 percent of the additions. They include: \$233.5 million for cultural institutions throughout the City, \$134.6 million for Parks Department projects, \$89.9 million for economic development projects, \$76.8 million for education projects, \$71 million for Housing Preservation and Development, \$60.9 million for public buildings, and \$47 million for highway bridges.

Appendix — Revenue and Expenditure Details

Table A1. FYs 2007-2010 Financial Plan Revenue Detail

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY2007-10 Percent	Dollar
Taxes:						
Real Property	\$13,140	\$13,750	\$14,407	\$15,085	14.8%	\$1,945
Personal Income Tax	\$7,500	\$7,538	\$8,067	\$8,502	13.4%	\$1,002
General Corporation Tax	\$2,378	\$2,342	\$2,412	\$2,499	5.1%	\$121
Banking Corporation Tax	\$525	\$508	\$537	\$566	7.8%	\$41
Unincorporated Business Tax	\$1,239	\$1,217	\$1,262	\$1,339	8.1%	\$100
Sale and Use	\$4,508	\$4,570	\$4,797	\$5,032	11.6%	\$524
Commercial Rent	\$502	\$520	\$536	\$553	10.2%	\$51
Real Property Transfer	\$863	\$822	\$825	\$854	(1.0%)	(\$9)
Mortgage Recording Tax	\$882	\$727	\$720	\$740	(16.1%)	(\$142)
Utility	\$359	\$353	\$352	\$341	(5.0%)	(\$18)
Cigarette	\$118	\$115	\$112	\$110	(6.8%)	(\$8)
Hotel	\$309	\$317	\$330	\$342	10.7%	\$33
All Other	\$377	\$381	\$381	\$388	2.9%	\$11
Tax Audit Revenue	\$509	\$509	\$509	\$510	0.3%	\$1
Total Taxes	\$33,208	\$33,668	\$35,246	\$36,861	11.0%	\$3,652
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	\$395	\$396	\$402	\$405	2.5%	\$10
Interest Income	\$313	\$136	\$137	\$144	(54.0%)	(\$169)
Charges for Services	\$551	\$532	\$533	\$533	(3.3%)	(\$18)
Water and Sewer Charges	\$1,087	\$1,081	\$1,093	\$1,109	2.0%	\$22
Rental Income	\$181	\$174	\$172	\$171	(5.5%)	(\$10)
Fines and Forfeitures	\$728	\$737	\$735	\$736	1.1%	\$8
Miscellaneous	\$545	\$806	\$375	\$376	(31.0%)	(\$169)
Intra-City Revenue	\$1,355	\$1,333	\$1,335	\$1,335	(1.5%)	(\$20)
Total Miscellaneous	\$5,155	\$5,195	\$4,782	\$4,809	(6.7%)	(\$346)
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	\$327	\$327	\$327	\$327	0.0%	\$0
Other Federal and State Aid	\$13	\$13	\$13	\$13	0.0%	\$0
Total Unrestricted Intergovernmental Aid	\$340	\$340	\$340	\$340	0.0%	\$0
Other Categorical Grants	\$967	\$982	\$995	\$1,000	3.4%	\$33
Inter Fund Agreements	\$395	\$373	\$365	\$365	(7.6%)	(\$30)
Reserve for Disallowance of Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	0.0%	\$0
Less: Intra-City Revenue	(\$1,355)	(\$1,333)	(\$1,335)	(\$1,335)	(1.5%)	\$20
TOTAL CITY FUNDS	\$38,695	\$39,210	\$40,378	\$42,025	8.6%	\$3,329

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

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY2007-10 Percent	Dollar
Federal Categorical Grants:						
Community Development	\$249	\$249	\$249	\$249	0.0%	\$0
Welfare	\$2,262	\$2,299	\$2,302	\$2,305	1.9%	\$43
Education	\$1,717	\$1,717	\$1,717	\$1,717	0.0%	\$0
Other	\$835	\$792	\$787	\$786	(5.9%)	(\$49)
Total Federal Grants	\$5,063	\$5,057	\$5,055	\$5,057	(0.1%)	(\$6)
State Categorical Grants						
Welfare	\$1,758	\$1,758	\$1,749	\$1,749	(0.5%)	(\$9)
Education	\$7,127	\$7,248	\$7,353	\$7,472	4.8%	\$345
Higher Education	\$188	\$188	\$188	\$188	0.0%	\$0
Department of Health and Mental Hygiene	\$435	\$420	\$419	\$415	(4.6%)	(\$20)
Other	\$361	\$338	\$339	\$338	(6.4%)	(\$23)
Total State Grants	\$9,869	\$9,952	\$10,048	\$10,162	3.0%	\$293
TOTAL REVENUES	\$53,627	\$54,219	\$55,481	\$57,244	6.7%	\$3,616

Table A2. FYs 2007-2010 Financial Plan Expenditure Detail

(\$ in thousands)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY 2007 - 10	
					Dollar	Percent
Mayoralty	\$80,151	\$78,321	\$78,321	\$78,277	(\$1,874)	(2.3%)
Board of Elections	\$81,992	\$80,142	\$79,942	\$72,892	(\$9,100)	(11.1%)
Campaign Finance Board	\$13,889	\$8,171	\$8,171	\$8,171	(\$5,718)	(41.2%)
Office of the Actuary	\$5,326	\$5,126	\$5,126	\$5,126	(\$200)	(3.8%)
President, Borough of Manhattan	\$4,443	\$3,217	\$3,217	\$3,217	(\$1,226)	(27.6%)
President, Borough of Bronx	\$6,173	\$4,630	\$4,630	\$4,630	(\$1,543)	(25.0%)
President, Borough of Brooklyn	\$5,742	\$4,038	\$4,038	\$4,038	(\$1,704)	(29.7%)
President, Borough of Queens	\$5,299	\$3,739	\$3,739	\$3,739	(\$1,560)	(29.4%)
President, Borough of Staten Island	\$4,075	\$3,230	\$3,230	\$3,230	(\$845)	(20.7%)
Office of the Comptroller	\$62,052	\$70,666	\$70,373	\$70,373	\$8,321	13.4%
Dept. of Emergency Management	\$7,991	\$7,455	\$7,455	\$7,455	(\$536)	(6.7%)
Tax Commission	\$2,543	\$2,443	\$2,443	\$2,443	(\$100)	(3.9%)
Law Dept.	\$118,051	\$115,384	\$113,497	\$113,497	(\$4,554)	(3.9%)
Dept. of City Planning	\$24,818	\$21,514	\$21,514	\$21,514	(\$3,304)	(13.3%)
Dept. of Investigation	\$17,761	\$17,761	\$17,761	\$17,761	\$0	0.0%
NY Public Library - Research	\$5,340	\$19,230	\$19,230	\$19,230	\$13,890	260.1%
New York Public Library	\$15,426	\$99,920	\$99,920	\$99,920	\$84,494	547.7%
Brooklyn Public Library	\$9,358	\$73,131	\$73,131	\$73,131	\$63,773	681.5%
Queens Borough Public Library	\$9,253	\$70,883	\$70,883	\$70,883	\$61,630	666.1%
Dept. of Education	\$15,446,218	\$15,540,160	\$15,718,747	\$15,850,826	\$404,608	2.6%
City University	\$573,801	\$533,980	\$534,012	\$534,028	(\$39,773)	(6.9%)
Civilian Complaint Review Board	\$10,380	\$9,192	\$9,192	\$9,192	(\$1,188)	(11.4%)
Police Dept.	\$3,631,355	\$3,627,334	\$3,602,413	\$3,580,651	(\$50,704)	(1.4%)
Fire Dept.	\$1,345,356	\$1,339,707	\$1,328,265	\$1,320,829	(\$24,527)	(1.8%)
Admin. for Children Services	\$2,469,096	\$2,445,972	\$2,445,972	\$2,445,972	(\$23,124)	(0.9%)
Dept. of Social Services	\$6,991,858	\$7,140,384	\$7,287,258	\$7,423,150	\$431,292	6.2%
Dept. of Homeless Services	\$667,644	\$666,607	\$661,602	\$661,602	(\$6,042)	(0.9%)
Dept. of Correction	\$908,044	\$897,616	\$894,808	\$890,245	(\$17,799)	(2.0%)
Board of Correction	\$892	\$868	\$868	\$868	(\$24)	(2.7%)
Citywide Pension Contribution	\$4,754,616	\$5,477,900	\$5,723,127	\$5,588,140	\$833,524	17.5%
Miscellaneous	\$6,497,968	\$6,429,725	\$7,093,144	\$7,806,654	\$1,308,686	20.1%
Debt Service	\$654,659	\$4,313,703	\$4,694,218	\$5,066,813	\$4,412,154	674.0%
M.A.C. Debt Service	\$10,000	\$10,000	\$0	\$0	(\$10,000)	(100.0%)
N.Y.C.T.F.A. Debt Service	\$903,899	\$981,000	\$986,000	\$989,000	\$85,101	9.4%
Transfer for N.Y.C.T.F.A. Debt Service	(\$200,000)	\$0	\$0	\$0	\$200,000	(100.0%)
Defeasance of N.Y.C.T.F.A. Debt Service	(\$16,000)	(\$350,000)	\$0	\$0	\$16,000	(100.0%)
Public Advocate	\$2,995	\$2,034	\$2,034	\$2,034	(\$961)	(32.1%)
City Council	\$50,799	\$47,424	\$47,424	\$47,424	(\$3,375)	(6.6%)
City Clerk	\$3,784	\$3,664	\$3,664	\$3,664	(\$120)	(3.2%)
Dept. for the Aging	\$259,687	\$225,160	\$225,160	\$225,160	(\$34,527)	(13.3%)
Dept. of Cultural Affairs	\$152,264	\$116,295	\$116,295	\$116,295	(\$35,969)	(23.6%)
Financial Info. Service Agency	\$53,955	\$47,933	\$45,336	\$45,336	(\$8,619)	(16.0%)
Dept. of Juvenile Justice	\$108,157	\$106,584	\$106,584	\$106,584	(\$1,573)	(1.5%)
Office of Payroll Admin.	\$12,563	\$11,043	\$11,043	\$11,043	(\$1,520)	(12.1%)
Independent Budget Office	\$2,994	\$2,924	\$2,924	\$2,924	(\$70)	(2.3%)
Equal Employment Practices Comm.	\$834	\$737	\$737	\$737	(\$97)	(11.6%)

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

(\$ in thoudands)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FY 2007 - 10	
					Dollar	Percent
Civil Service Commission	\$569	\$610	\$610	\$610	\$41	7.2%
Landmarks Preservation Comm.	\$4,202	\$3,952	\$3,952	\$3,952	(\$250)	(5.9%)
Taxi & Limousine Commission	\$28,630	\$25,854	\$25,854	\$25,854	(\$2,776)	(9.7%)
Commission on Human Rights	\$6,917	\$6,917	\$6,917	\$6,917	\$0	0.0%
Youth & Community Development	\$303,036	\$235,770	\$235,770	\$235,770	(\$67,266)	(22.2%)
Conflicts of Interest Board	\$1,835	\$1,765	\$1,765	\$1,765	(\$70)	(3.8%)
Office of Collective Bargain	\$1,749	\$1,749	\$1,749	\$1,749	\$0	0.0%
Community Boards (All)	\$13,275	\$13,245	\$13,245	\$13,245	(\$30)	(0.2%)
Dept. of Probation	\$76,300	\$76,041	\$76,041	\$76,041	(\$259)	(0.3%)
Dept. Small Business Services	\$127,349	\$111,469	\$108,936	\$91,408	(\$35,941)	(28.2%)
Housing Preservation & Development	\$487,166	\$480,667	\$478,349	\$477,742	(\$9,424)	(1.9%)
Dept. of Buildings	\$85,878	\$77,837	\$77,183	\$77,079	(\$8,799)	(10.2%)
Dept. of Health & Mental Hygiene	\$1,560,236	\$1,514,043	\$1,529,143	\$1,527,918	(\$32,318)	(2.1%)
Health and Hospitals Corp.	\$853,204	\$876,910	\$955,281	\$975,326	\$122,122	14.3%
Dept. of Environmental Protection	\$888,354	\$864,595	\$856,065	\$854,431	(\$33,923)	(3.8%)
Dept. of Sanitation	\$1,200,182	\$1,208,292	\$1,204,157	\$1,199,931	(\$251)	(0.0%)
Business Integrity Commission	\$5,370	\$5,370	\$5,370	\$5,370	\$0	0.0%
Dept. of Finance	\$203,096	\$203,292	\$203,267	\$203,237	\$141	0.1%
Dept. of Transportation	\$552,850	\$537,897	\$537,897	\$537,967	(\$14,883)	(2.7%)
Dept. of Parks and Recreation	\$264,119	\$240,681	\$237,270	\$236,196	(\$27,923)	(10.6%)
Dept. of Design & Construction	\$99,869	\$95,771	\$89,771	\$89,771	(\$10,098)	(10.1%)
Dept. of Citywide Admin. Services	\$324,169	\$297,571	\$297,564	\$297,564	(\$26,605)	(8.2%)
D.O.I.T.T.	\$194,380	\$191,908	\$188,673	\$188,673	(\$5,707)	(2.9%)
Dept. of Record & Info. Services	\$4,522	\$4,112	\$4,097	\$4,097	(\$425)	(9.4%)
Dept. of Consumer Affairs	\$14,601	\$14,549	\$14,549	\$14,432	(\$169)	(1.2%)
District Attorney - N.Y.	\$71,874	\$66,615	\$66,615	\$66,615	(\$5,259)	(7.3%)
District Attorney - Bronx	\$42,251	\$39,137	\$39,137	\$39,137	(\$3,114)	(7.4%)
District Attorney - Kings	\$71,688	\$67,164	\$67,164	\$67,164	(\$4,524)	(6.3%)
District Attorney - Queens	\$37,855	\$39,756	\$39,756	\$39,756	\$1,901	5.0%
District Attorney - Richmond	\$6,709	\$6,235	\$6,235	\$6,235	(\$474)	(7.1%)
Office of Prosec. & Spec. Narc.	\$15,542	\$14,401	\$14,401	\$14,401	(\$1,141)	(7.3%)
Public Administrator - N.Y.	\$1,161	\$1,107	\$1,107	\$1,107	(\$54)	(4.7%)
Public Administrator - Bronx	\$398	\$345	\$345	\$345	(\$53)	(13.3%)
Public Administrator - Brooklyn	\$526	\$473	\$473	\$473	(\$53)	(10.1%)
Public Administrator - Queens	\$424	\$371	\$371	\$371	(\$53)	(12.5%)
Public Administrator - Richmond	\$345	\$292	\$292	\$292	(\$53)	(15.4%)
General Reserve	\$300,000	\$300,000	\$300,000	\$300,000	\$0	0.0%
Energy Adjustment	\$0	\$13,502	\$3,656	\$4,045	\$4,045	N/A
Lease Adjustment	\$0	\$18,148	\$36,841	\$56,095	\$56,095	N/A
OTPS Inflation Adjustment	\$0	\$54,165	\$109,684	\$165,203	\$165,203	N/A
City-Wide Total	\$53,628,132	\$58,029,525	\$60,067,000	\$61,316,982	\$7,688,850	14.3%

Glossary of Acronyms

ACS	Administration for Children Services
CFE	Campaign for Fiscal Equity, Inc.
CRB	Common-rate-and-base
CUNY	City University of New York
CY	Calendar Year
DASNY	Dormitory Authority of the State of New York
DC 37	District Council 37
DEP	Department of Environmental Protection
DOE	Department of Education
DSH	Disproportionate Share
DSS	Department of Social Services
FTE	Full-Time Equivalent
FY	Fiscal Year
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
J&C	Judgments and Claims

LBA	Lieutenants Benevolent Association
MAC	Municipal Assistance Corporation
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
OFHEO	Office of Federal Housing Enterprise Oversight
O&M	Operation and Maintenance
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PIT	Personal Income Tax
PS	Personal Services
RHBTF	Retiree Health Benefits Trust Fund
STAR	School Tax Relief Program
TANF	Temporary Assistance to Needy Families
TSASC	Tobacco Settlement Asset Securitization Corporation
UPL	Upper Payment Limit
U.S.	United States