The Comptroller's Comments on the Adopted Budget for Fiscal Year 2008 and the Financial Plan for Fiscal Years 2008–2011

The City of New York
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I. Executive Summary

New York City's Adopted Budget for FY 2008 and the FYs 2008-2011 Financial Plan reflects the benefits of the City economy's strong performance and prudent fiscal management. Indeed, in 2007 the three major bond rating agencies upgraded the ratings of the City's general obligation bonds to the highest levels ever. The City is using several years of accumulated operating surpluses in an unprecedented multi-year expense reduction program, applying $6.52 billion in FY 2007 to reduce expenditures in fiscal years 2008, 2009 and 2010. This amount alone approaches the level of general fund expenditures for the state of Alabama.

As a result of the City's actions in FY 2007 and more optimistic revenue projections, budget gaps in fiscal years 2008 through 2010 have been either eliminated or significantly reduced. In addition to easily achieving mandated budget balance for FY 2008, the City's Plan projects budget gaps of $1.55 billion in FY 2009 and $3.4 billion in FY 2010, much lower than the gaps of $4.584 billion and $4.069 billion projected for those years in the summer of 2006.

The Comptroller's review of the Financial Plan suggests that these gaps could be much lower due to stronger revenue collections than the City is anticipating. The Comptroller's Office projects that the gap in FY 2009 could be as low as $553 million, and the FY 2010 gap could be cut to $3.092 billion. These projected gaps include the impact of higher spending in certain areas that are more than offset by additional revenues. In FY 2011, the spending risks outweigh the additional revenues and the Comptroller's projected gap is greater than the City's.

The revenue adjustments made by the Comptroller's Office to the Financial Plan reflect a slightly more optimistic economic forecast than that adopted by the City. While we agree with the City that local economic growth will follow the lead of a slowing national economy, the Comptroller's Office expects that the local housing market will not soften as much as the City's forecast suggests. The Comptroller's Office forecasts additional revenues of $40 million FY 2007, $430 million in FY 2008, $965 million in FY 2009, $705 million in FY 2010 and $480 million in FY 2011. One note of caution surrounding these higher revenues is the concern that stresses to credit and equity markets emanating from problems with sub-prime loans could intensify and decrease Wall Street profits.

Higher revenues will be partly consumed by higher expenses. As is the case in past budget submissions, overtime spending is underestimated. The Comptroller's Office expects overtime to be $123 million more in FY 2008 and at least $100 million more in subsequent years of the Plan. The recently-settled contracts with the Sergeants' Benevolent Association, the Uniformed Sanitationmen's Association, and the Uniformed Fire Officers Association will increase wage costs by $65 million in FY 2009, $200 million in FY 2010 and $370 million in FY 2011 if it forms a pattern for all uniformed employees. Furthermore, the Department of Education has not yet identified the source of federal funds totaling $50 million in FY 2007 and $100 million in the outyears that it is counting as revenue.

Overall, the FY 2008 Adopted Budget totals $59.1 billion. This sum does not account for expenses that were prepaid in FY 2007. Once those amounts are included, the FY 2008 budget totals $62.2 billion, an increase of 5.8 percent from the adjusted FY 2007 level.

Propelled by real property taxes, tax revenue is projected by the City to grow 1.6 percent annually from FY 2007 to FY 2011. Property tax growth averaging 5.7 percent annually will be partly offset by a 0.7 percent average annual decline for non-property taxes. In addition to weaker near-term economic growth, these trends include the impact of a 7.0 percent cut in the overall property tax rate and reductions in business, personal income and sales taxes. The value of those reductions is more than $1.6 billion in FY 2008 and exceeds $2.2 billion by FY 2011.

Pensions, health insurance, debt service and judgments and claims continue to drive spending growth. Spending in these areas is projected to increase more than 20 percent from FY 2008 to FY 2011, compared to more than 8.0 percent growth for all other expenditure areas. Debt service is projected to increase more than 24 percent, growing from 13.2 percent of tax revenues in FY 2008 to 15.2 percent in FY 2011. The City has taken steps to reduce this burden as part of its expense reduction program by continuing its use of pay-as-you-go capital financing and, where possible, calling general obligation (GO) bonds and defeasing outstanding NYC Transitional Finance Authority debt. The calling of bonds and debt defeasance, which cost $1.254 billion in FY 2007, will save nearly $1.4 billion in FYs 2008 through 2010.

Growth in pension contributions, which have risen substantially since the beginning of this decade, is slated to level off after FY 2009. At that point, the impact of various pension enhancements and market losses from 2002 and 2003 on the City's contributions will have been phased in. The impact on FY 2009 contributions of FY 2007 investment returns averaging 18 percent will not be determined until June 30, 2007 valuations are completed.

The Financial Plan reflects substantial increases in spending in the Department of Education (DOE) resulting from the Campaign for Fiscal Equity court order. With the addition of significant State education aid, department spending in FY 2008 is now slated to be more than $1.4 billion greater than projected at this time last year. By FY 2011, DOE spending is expected to top $20 billion. Combined with the DOE's projected declines in school enrollment, per pupil spending will increase 23 percent on an inflation-adjusted basis from FY 2007 to FY 2011, driven by a 33 percent increase in real dollar growth for instructional spending. However, enrollment is not declining as rapidly as previously expected, and the City has increased its projected headcount to accommodate a larger student register for the coming years.

The court-ordered increase in education spending was the culmination of years of effort on the part of numerous elected officials, education advocates and private citizens.

The State has rightly required that DOE's use of the "Contract for Excellence" portion of these funds, which totals $258 million in FY 2008, be transparent to enhance accountability for the use of these hard-won dollars. The Comptroller's Office has noted in the past that the DOE's budgetary reporting structure is opaque, with all general education instructional spending collapsed into a $5 billion-plus unit of appropriation. The detailed reporting on the CFE portion of the DOE's $17 billion budget is a welcome step towards greater transparency.

Table 1. FYs 2008-2011 Financial Plan

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2008 – 2011 Dollar	Changes FYs 2008 – 2011 Percent
Revenues						
Taxes:						
General Property Tax	$13,143	$14,258	$15,343	$16,327	$3,185	24.2%
Other Taxes	$22,940	$22,410	$23,186	$24,245	$1,305	5.7%
Tax Audit Revenues	$559	$559	$560	$560	$1	0.2%
Miscellaneous Revenues	$5,997	$5,080	$5,097	$5,131	($866)	(14.4%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$0	0.0%
Less: Intra-City Revenues	($1,393)	($1,364)	($1,365)	($1,365)	$28	(2.0%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$41,571	$41,268	$43,146	$45,224	$3,653	8.8%
Other Categorical Grants	$1,006	$1,007	$1,012	$1,014	$8	0.8%
Inter-Fund Revenues	$436	$411	$403	$398	($38)	(8.7%)
Total City & Inter-Fund Revenues	$43,013	$42,686	$44,561	$46,636	$3,623	8.4%
Federal Categorical Grants	$5,295	$5,380	$5,364	$5,351	$56	1.1%
State Categorical Grants	$10,824	$11,410	$12,275	$12,718	$1,894	17.5%
Total Revenues	$59,132	$59,476	$62,200	$64,705	$5,573	9.4%
Expenditures						
Personal Service						
Salaries and Wages	$20,979	$21,978	$23,332	$24,443	$3,464	16.5%
Pensions	$5,728	$6,390	$6,509	$6,519	$791	13.8%
Fringe Benefits	$6,374	$6,681	$6,965	$7,288	$914	14.3%
Subtotal-PS	$33,081	$35,049	$36,806	$38,250	$5,169	15.6%
Other Than Personal Service						
Medical Assistance	$5,714	$5,603	$5,756	$5,916	$202	3.5%
Public Assistance	$1,187	$1,187	$1,187	$1,187	$0	0.0%
Pay-As-You-Go Capital	$100	$200	$200	$200	$100	100.0%
All Other	$17,641	$17,549	$17,974	$18,379	$738	4.2%
Subtotal-OTPS	$24,642	$24,539	$25,117	$25,682	$1,040	4.2%
Debt Service						
Principal	$1,765	$1,591	$1,602	$1,823	$58	3.3%
Interest & Offsets	$2,087	$2,650	$3,028	$3,230	$1,143	54.7%
Subtotal Debt Service	$3,852	$4,241	$4,630	$5,053	$1,201	31.2%
BSA	$2,552	$350	$0	$0	($2,552)	(100.0%)
Prepayments	($4,052)	($2,586)	($381)	$0	$4,052	(100.0%)
Debt Retirement						
Call 2009/2010 GO Debt	($27)	($278)	($277)	$0	$27	(100.0%)
Defease NYCTFA Debt	($33)	($363)	($382)	$0	$33	(100.0%)
Subtotal Debt Retirement	($60)	($641)	($659)	$0	$60	(100.0%)
Transfer for NYCTFA Debt Service	($562)	$0	$0	$0	$562	(100.0%)
Defeasance of certain NYCTFA Debt	($350)	$0	$0	$0	$350	(100.0%)
NYCTFA						
Principal	$463	$493	$515	$538	$75	16.2%
Interest & Offsets	$649	$645	$634	$616	($33)	(5.1%)
Subtotal NYCTFA	$1,112	$1,138	$1,149	$1,154	$42	3.8%
MAC Administrative Expenses	$10	$0	$0	$0	($10)	(100.0%)
General Reserve	$300	$300	$300	$300	$0	0.0%
	$60,525	$62,390	$66,962	$70,439	$9,914	16.4%
Less: Intra-City Expenses	($1,393)	($1,364)	($1,365)	($1,365)	$28	(2.0%)
Total Expenditures	$59,132	$61,026	$65,597	$69,074	$9,942	16.8%
Gap To Be Closed	**$0**	**($1,550)**	**($3,397)**	**($4,369)**	**($4,369)**	**N/A**

Table 2. Plan-to-Plan Changes
June 2007 Plan vs. April 2007 Plan

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Revenues				
Taxes:				
General Property Tax	($230)	($197)	($175)	($88)
Other Taxes	$35	$34	$35	$39
Tax Audit Revenues	$0	$0	$0	$0
Miscellaneous Revenues	$85	$9	$10	$10
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Less: Intra-City Revenues	($24)	$0	$0	$0
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	($134)	($154)	($130)	($38)
Other Categorical Grants	$4	$4	$0	$0
Inter-Fund Revenues	$8	$7	$7	$7
Total City & Inter-Fund Revenues	($122)	($143)	($123)	($31)
Federal Categorical Grants	($7)	($4)	($5)	($11)
State Categorical Grants	$34	$2	$3	$3
Total Revenues	($95)	($145)	($125)	($39)
Expenditures				
Personal Service				
Salaries and Wages	($42)	($82)	($131)	($143)
Pensions	$0	$0	$48	$58
Fringe Benefits	($554)	($35)	($32)	($28)
Subtotal-PS	($596)	($117)	($115)	($113)
Other Than Personal Service				
Medical Assistance	$0	$0	$0	($160)
Public Assistance	$0	$0	$0	$0
Pay-As-You-Go Capital	($100)	$0	$0	$0
All Other	$608	$197	$160	$314
Subtotal-OTPS	$508	$197	$160	$154
Debt Service				
Principal	$0	$0	$0	$0
Interest & Offsets	$50	$0	$0	$0
Subtotal Debt Service	$50	$0	$0	$0
BSA	$192	$0	$0	$0
Prepayments	($215)	($226)	($31)	$0
Debt Retirement				
Call 2009/2010 GO Debt	$12	$67	$109	$0
Defease NYCTFA Debt	($8)	($69)	($112)	$0
Subtotal Debt Retirement	$4	($2)	($3)	$0
Transfer for NYCTFA Debt Service	($14)	$0	$0	$0
Defeasance of certain NYCTFA Debt	$0	$0	$0	$0
NYCTFA				
Principal	$0	$0	$0	$0
Interest & Offsets	($0)	$0	$0	$0
Subtotal NYCTFA	($0)	$0	$0	$0
MAC Debt Service/Administrative Expenses	$0	$0	$0	$0
General Reserve	$0	$0	$0	$0
	($71)	($148)	$11	$41
Less: Intra-City Expenses	($24)	$0	$0	$0
Total Expenditures	($95)	($148)	$11	$41
Gap To Be Closed	**$0**	**$3**	**($136)**	**($80)**

Table 3. FYs 2007-2011 Risks and Offsets

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
City Stated Gap	**$0**	**$0**	**($1,550)**	**($3,397)**	**($4,369)**
Tax Revenue Assumptions					
Property Tax	$0	$0	($60)	($130)	$10
Personal Income Tax	$40	$20	$280	$170	$30
Business Taxes	$0	$310	$535	$465	$270
Sales Tax	$0	$40	$80	$40	$0
Real-Estate-Related Taxes	$0	$60	$130	$160	$170
Subtotal	**$40**	**$430**	**$965**	**$705**	**$480**
Expenditure Projections					
Overtime	$0	($123)	($100)	($100)	($100)
Department of Education	$0	($50)	($100)	($100)	($100)
Collective Bargaining	$0	$0	($65)	($200)	($370)
Subtotal	**$0**	**($173)**	**($265)**	**($400)**	**($570)**
Total Risk/Offsets	**$40**	**$257**	**$700**	**$305**	**($90)**
Restated (Gap)/Surplus	**$40**	**$257**	**($850)**	**($3,092)**	**($4,459)**

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II. The FY 2008 to FY 2011 Financial Plan

On June 22, 2007, the City adopted an FY 2008 budget of $59.1 billion. The FY 2008 budget is almost $1.5 billion, or 2.5 percent, less than the FY 2007 budget. The decrease is due to the use of FY 2007 surplus resources that provides $2.72 billion of budgetary relief in FY 2008, inflating expenses in the FY 2007 budget and reducing outlays in the FY 2008 budget.

The City expects a budget surplus of $4.663 billion in FY 2007. The Adopted Budget reflects the use of this surplus for the prepayments of general obligation (G.O.) and lease purchase debt service of $3.3 billion and $165 million, respectively, as well as prepayments of FY 2008 subsidies and New York City Transitional Finance Authority (NYCTFA) debt service of $639 million and $546 million, respectively. These prepayments were made in late June.

In addition, the FYs 2008-2011 Financial Plan also reflects the future benefits from the use of $1.25 billion of FY 2007 resources to call certain G.O. bonds that are scheduled to mature in FYs 2009 and 2010, and to defease NYCTFA bonds maturing in FYs 2009 and 2010. Another $600 million of surplus FY 2007 funds are used to accelerate $100 million of pay-as-you-go capital funding and $500 million of Retiree Health Benefits Trust (RHBT) contributions from FY 2008 to FY 2007. These transactions were carried out in late June.

In total, $6.52 billion of FY 2007 resources will be used to provide budget relief of $2.72 billion, $2.88 billion, and $1.04 billion in FYs 2008, 2009 and 2010, respectively, as shown in Table 4. The use of the FY 2007 surplus resources will close the $3.81 billion FY 2008 gap projected in the July 2006 Financial Plan and reduce the FYs 2009 and 2010 gaps to $1.55 billion, and $3.40 billion, respectively. Because the benefits provided by the FY 2007 surplus do not extend beyond FY 2010, the gap is projected to increase to $4.37 billion in FY 2011.

Table 4. Use of the FY 2007 Surplus

($ in millions)

	Use of FY 2007 Surplus Resources	Outyear Benefits		
		FY 2008	FY 2009	FY 2010
Prepay G.O. and Lease Purchase Debt Service	$3,478	($861)	($2,236)	($381)
Prepay Subsidies				
Metropolitan Transportation Authority	$275	($275)	$0	$0
Libraries	273	(273)	0	0
Health and Hospital Corporation	91	(91)	0	0
Subtotal Subsidies	$639	($639)	$0	$0
Prepay NYCTFA debt Service[a]	$546	($562)	$0	$0
Subtotal Prepayments	$4,663	($2,062)	($2,236)	($381)
Call G.O. Bonds	$536	($27)	($278)	($277)
Defease NYCTFA Debt	$718	($33)	($363)	($382)
Pay-As-You-Go Capital Fund	$100	($100)	$0	$0
Retiree Health Benefits Trust Fund	$500	($500)	$0	$0
Total	**$6,517**	**($2,722)**	**($2,877)**	**($1,040)**

[a] The $546 million grant to NYCTFA for FY 2008 NYCTFA debt service will generate $16 million in interest earnings by the FY 2008 debt service due date, resulting in a reduction of $562 million in FY 2008 personal income tax revenue retained for NYCTFA debt service.

After adjusting for the impact of budgetary relief provided by the use of FY 2007 surplus resources, projected FY 2008 expenditures total $62.2 billion, $3.4 billion more than the adjusted FY 2007 estimate, an increase of 5.8 percent. From FY 2008 to FY 2011, expenditures are expected to grow by 11.0 percent, or 3.6 percent annually, as shown in Table 5. Revenues are projected to grow 9.4 percent over the same period, an annual growth of 3.0 percent. For the entire period, expenditure growth is expected to outpace revenue growth by 1.6 percentage points.

Table 5. Revenue and Expenditure Growth Over the Financial Plan Period

($ in millions)

	FY 2008	FY2009	FY 2010	FY 2011	Growth FYs 08-12	Annual Growth
Revenues						
Tax Revenues	$36,642	$37,227	$39,089	$41,133	12.3%	3.9%
Non-Tax Revenues	6,371	5,459	5,472	5,503	(13.6%)	(4.8%)
Fed & State Categorical Grants	16,119	16,790	17,639	18,069	12.1%	3.9%
Total Revenues	**$59,132**	**$59,476**	**$62,200**	**$64,705**	**9.4%**	**3.0%**
Expenditures						
Pensions	$5,603	$6,265	$6,384	$6,395	14.1%	4.5%
Health Insurance	3,413	3,679	3,902	4,169	22.1%	6.9%
Debt Service	4,973	5,379	5,779	6,207	24.8%	7.7%
Judgments & Claims	635	688	738	795	25.3%	7.8%
Subtotal	**$14,624**	**$16,011**	**$16,803**	**$17,566**	**20.1%**	**6.3%**
Salaries and Wages	$19,986	$20,235	$20,483	$21,109	5.6%	1.8%
State Aid for CFE	723	1,476	2,256	2,302	218.4%	47.1%
City-Fund New Education Initiatives	0	0	326	767	N/A	N/A
Other Fringe Benefits	3,461	3,002	3,063	3,119	(9.9%)	(3.4%)
Medicaid	5,714	5,603	5,756	5,916	3.5%	1.2%
Public Assistance	1,187	1,187	1,187	1,187	0.0%	0.0%
Other OTPS	16,508	16,389	16,761	17,108	3.6%	1.2%
Subtotal	**$47,579**	**$47,892**	**$49,832**	**$51,508**	**8.3%**	**2.7%**
Total Expenditures	**$62,203**	**$63,903**	**$66,635**	**$69,074**	**11.0%**	**3.6%**

NOTE: Expenditures are adjusted to net out the effects of prepayments.

Revenue growth over the Financial Plan period is driven by growth in tax revenues and Federal and State categorical grants. Tax revenues, which account for almost 62 percent of total revenue, are expected to grow 12.3 percent, from $36.64 billion in FY 2008 to $41.13 billion in FY 2011 over the Financial Plan period. This increase follows a $2.03 billion, or 5.2 percent decline from FY 2007 to FY 2008 due mainly to proposed FY 2008 tax reduction initiatives totaling more than $1.6 billion and a projected decrease of $614 million in real-estate-related tax revenues. Non-tax revenues are projected to decline 13.6 percent over the Plan period. The decline reflects primarily the loss of FY 2008 one-shot revenues in the outyears of the Plan as well a drop in interest income resulting from lower expected cash balances.

Growth in expenditures over the Financial Plan period is dominated by growth in spending on pensions, health insurance, debt service, and judgments and claims (J & C). Spending in these areas, which accounts for 23.5 percent of the FY 2008 Adopted Budget, is projected to increase by 20.1 percent from FY 2008 to FY 2011, more than twice the rate of projected revenue growth. All other expenditure areas are expected to grow at 8.3 percent over the same period, lagging projected revenue growth by more than one percentage point.

A. RISKS AND OFFSETS

The analysis of the City's FY 2007 modification and the FYs 2008-2011 Financial Plan indicates that the City could have additional resources ranging from $40 million to $700 million in FYs 2007 through 2010, and a risk of $90 million in FY 2011, as shown in Table 3 on page 3. As such, the City could end FY 2007 and FY 2008 with a combined budget surplus of $297 million after planned pre-payments. The outyear gaps would narrow to $850 million in FY 2009, and $3.09 billion in FY 2010 but increase to $4.46 billion in FY 2011. If the additional FY 2007 and FY 2008 resources projected by the Comptroller's Office were to be used to provide budgetary relief for FY 2009, the FY 2009 gap will be further reduced to $553 million.

The additional resources identified by the Comptroller's Office stem from higher tax revenue projections relative to the City's estimates. As discussed in greater detail in "Tax Revenues" beginning on page 13, the Comptroller's Office forecasts tax revenues could be $40 million, $430 million, $965 million, $705 million, and $480 million above the City's estimates for FYs 2007, 2008, 2009, 2010, and 2011.

The higher revenue forecasts are offset by risks to the City's expenditure forecast. Overtime spending continues to pose the biggest risk to the budget. The Comptroller's estimate of overtime spending in FY 2008 is $123 million higher than the City's. For the outyears of the Plan, the Comptroller's Office estimates that overtime spending could exceed the City's projections by $100 million in each of FYs 2009 through 2011. The City also continues to assume Federal funding of $50 million for FY 2008 and $100 million for each of the outyears relating to the Department of Education (DOE) collective bargaining. However, the City has yet to identify the sources of this funding. Until the sources of funding are identified, the assumption of Federal funding poses a risk to the City's budget. Finally, the incremental cost of funding wage increases for all uniformed employees based on the recent Sergeants' Benevolent Association (SBA), Uniformed Sanitationmen's Association (USA), and Uniformed Fire Officers Association (UFOA) tentative contracts will total $65 million in FY 2009, $200 million in FY 2010, and $370 million in FY 2011, as discussed in "Labor" beginning on page 24.

III. The State of the City's Economy

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2007-2011

There are no major changes in the Comptroller's economic forecast since May 2007, when the Comptroller's comments on the FY 2008 Executive Budget were released. That forecast indicates that in the absence of an unexpected shock to the economy, economic growth should continue, albeit at a slower pace than in recent years. The principal threat to the national economy is the slumping housing market and the concurrent deterioration of the mortgage market. Since the Comptroller's May report was released, no new evidence has pointed to an imminent turn-around in the housing market. In fact, further turbulence in the mortgage backed securities market heightens concern that the housing market will continue to act as a drag on economic growth.

Household sector data released during the second quarter indicate that the weak housing market and higher gasoline prices are constraining consumers. Real disposable personal income fell in both April and May, and real personal consumption expenditures have been sluggish since March. Business investment also weakened in late 2006 and rebounded only modestly during the first quarter of 2007. Job creation totaled 439,400 in the second quarter of 2007, which was the lowest since the first quarter of 2005.

U.S. Real Gross Domestic Product grew at a 0.7 percent annual rate in the first quarter of 2007, the slowest quarterly growth in over four years. The growth rate is expected to rebound somewhat, as first quarter GDP was suppressed by slower-than-expected export activity and deep business inventory liquidation. Strong economic growth world wide and the continued weakness of the U.S. dollar should contribute to a rebound in export trade, while relatively strong retail sales portend growing factory orders and a replenishment of business inventories.

Overall, the Comptroller's Office expects the national economy to grow by only 2.0 percent in real terms during 2007, which would be the lowest rate of growth since 2002. That weakness should persist into 2008, when the housing market may finally begin to clear itself of the excesses of the recent boom. The Comptroller's Office expects that the expansion may experience a "second wind" thereafter, with economic growth rates picking up during the remainder of the forecast period.

The City's economy appears to have more momentum than the national economy. Real GCP rose 4.0 percent and payroll jobs grew 2.0 percent at a seasonally adjusted annualized rate during the first quarter of 2007. Personal income taxes withheld from paychecks, an indicator of household income trends, were 17.7 percent higher than in the first quarter of 2006. Early indicators of activity in the second quarter were also positive; payroll jobs in May were up 1.4 percent on a year-over-year basis and local personal income tax withholdings were up 11.8 percent in May compared to a year earlier. Furthermore, sales tax revenue through May of 2007 was 3.1 percent above the level of the first five months of 2006 despite sales tax reductions effective April 1, 2006 indicating a solid retail economy.

The City's economic growth tapered off in the second half of 2006 after a strong start and 2007 shows signs of repeating this pattern. The local economy received another strong first-quarter boost from Wall Street bonuses, and a weak dollar should continue to encourage tourist spending, but it cannot defy the national trend indefinitely. The City's economy should outperform the national economy in both 2007 and 2008, but it will gradually converge to the national growth rate as the year progresses.

Table 6. Forecasts of NYC GCP and Payroll Jobs, Percent Change, 2007-2011

Forecast by	Forecast of	2007	2008	2009	2010	2011
Comptroller	GCP	2.7	2.3	3.1	3.5	3.3
	Payroll Jobs	49.8	40.3	42.8	44.3	42.1
City	GCP	0.4	(0.2)	2.5	2.9	2.8
	Payroll Jobs	47.0	30.6	37.6	37.2	27.5

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=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

Both the City and the U.S. economies remained resilient despite the slowdown in the housing market and the rise in oil prices. However, the City's economy out-performed the national economy in the first half of 2007 and will eventually need a more robust national performance to sustain this growth.

During the first half of this decade, the booming housing market bolstered the national economy. A high rate of new housing construction created jobs directly in the construction sector and boosted sales and employment indirectly in building materials, consumer durables and other associated industries. Furthermore, rising home prices increased household wealth and enabled many families to spend home equity by refinancing their mortgages or taking home equity loans. Total home mortgage borrowing by the household sector more than doubled between 2001 and 2005, rising from $486 billion to $1.052 trillion. Home equity loans, which are often used to supplement household consumption spending, increased from $32 billion in 2001 to $185 billion in 2004.

In retrospect, it is clear that a turning point in the housing market was reached during 2006. Although the number of new homes completed continued to rise, the number started, and the number sold declined for the first time since the boom began. Prices also moderated significantly; while average existing home sales prices during the first quarter of 2006 were 12.6 percent higher than in the corresponding quarter of 2005, during the first quarter of 2007, they were only 4.3 percent higher than a year earlier. In response, households moderated their borrowing against their homes. Net home equity borrowing fell to $121 billion in 2006 and, during the first quarter of 2007, was increasing at only a $23 billion annual rate.

Since residential investment plus household furniture and equipment accounts for less than 9.0 percent of GDP, the national economy should be able to weather the slump in the housing market which, thus far, has caused new housing construction to decline by about 25 percent from its average of the previous three years. The direct effects of the housing slump pose an even smaller risk to New York City's economy, in which new housing construction and associated industries account for a smaller proportion of economic output. Moreover, Manhattan's housing market has held up extremely well, with the number of co-op sales increasing 99 percent and the number of condo sales increasing 59 percent in the first quarter of 2007 over a year earlier, according to Miller Samuel, Inc. There are some indications of a softening housing market in the other boroughs, however. Miller Samuel reports that the number of existing homes sold in Queens during the first quarter grew only 1.2 percent from a year earlier, while median prices were up 3.8 percent.

While the direct effects of the housing slump will continue to temper economic growth, they should not be sufficient to drag either the national or local economies into recession. However, the growing number of subprime mortgage defaults and the resulting turbulence in financial markets introduces a new source of uncertainty into the economic outlook. According to the Mortgage Bankers Association, the delinquency rate for subprime loans nationally reached 13.8 percent during the first quarter of 2007. In addition to the social and community development consequences of predatory lending, the subprime mortgage crisis poses an additional threat to the City's financial sector.

Since the Comptroller's report on the Executive Budget was released, the potential impact on the City's financial sector has been dramatized by the difficulties of several hedge funds that were heavily invested in securities backed by subprime mortgages. However, because data relating to these financial instruments and the entities that invest in them is sparse, it is difficult to assess accurately the City's economic risk. At minimum, the subprime delinquency crisis will diminish Wall Street profits and constrain revenue growth in the asset backed securities market.

Aside from concerns stemming from the subprime mortgage market, indicators of financial industry activity and profitability are highly positive. Interest rates remain relatively low by historical standards, and Wall Street firms are reporting increases in IPOs, corporate debt underwriting and other core businesses. Stock market indices and trading volumes remain at high levels. Reported profits of four of the City's largest financial institutions rose 24.1 percent in the first half of 2007, on a year-over-year basis.

Tourism is another important economic engine for the City. According to a recent study by the Comptroller's Office, tourists account for 38 percent of spending on entertainment and the arts within the City, as well as for 19 percent of the food service spending and for 22 percent of the spending on clothing and general shopping. A weak dollar and the City's growing reputation as a safe vacation destination should continue to promote tourist spending.

Other industries, such as health care, higher education, and media are critical to the City's long-term growth, but are not as volatile as finance and tourism. The Comptroller expects these industries to continue to grow at approximately their long-term trend rate.

Table 7 shows the forecasts of the Mayor and the Comptroller for the U.S. GDP and payroll jobs in 2007 through 2011. Neither projects a national recession, but the Comptroller's forecast anticipates stronger momentum in the outyears.

Table 7. Forecasts of Real GDP and Payroll Jobs, Percent Change, 2007-2011

Forecasts by	**Forecasts of**	**2007**	**2008**	**2009**	**2010**	**2011**
Comptroller	GDP	2.0	2.0	2.5	3.4	3.7
	Payroll Jobs	1.4	1.2	1.4	1.7	1.7
City	GDP	2.3	2.8	3.1	3.1	2.7
	Payroll Jobs	1.2	1.2	1.4	1.4	1.0

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

IV. Revenue Assumptions

The FY 2008 Adopted Budget and Financial Plan anticipates that total revenues will decrease by 2.5 percent in FY 2008 to $59.1 billion. The slight decline reflects the City's FY 2008 tax reduction initiatives estimated at more than $1.6 billion in FY 2008. Over the Financial Plan period beginning in FY 2008, total revenues are expected to grow 9.4 percent, to $64.7 billion in FY 2011. Throughout the plan period, tax revenues are expected to comprise over 60 percent of total anticipated revenues. The City expects tax revenues to grow at an average annual rate of 4.1 percent from FY 2008 to FY 2011. Non-tax miscellaneous revenues are expected to reach nearly $6 billion in FY 2008, drop 15 percent to $5 billion in FY 2009, and then remain flat for the remainder of the Plan period. Non-recurring revenues, which will benefit the City in FY 2008, are not expected to be available in the last three years of the Financial Plan. Federal and State categorical grants are expected to grow 1.1 percent and 17.5 percent, respectively, from FY 2008 to FY 2011. The increase in State aid reflects mostly an increase in expected State education aid.

Tax Revenues

Excluding the effects of the FY 2008 tax cut programs, total tax revenue would reach $38.3 billion in FY 2008, $39.2 billion in FY 2009, $41.2 billion in FY 2010, and $43.4 billion in FY 2011. From FY 2007 to FY 2011, average growth in tax revenues is forecasted at 2.9 percent annually, as shown in Table 8. Robust growth in real property tax revenue is expected to offset anticipated decreases in the economically sensitive business taxes and real-estate-related taxes.

Table 8. NYC Tax Revenues, without Tax Cut Programs, City Forecast, FYs 2007-2011

($ in millions)

	Forecast Annual Revenues					Change FYs 2007-11	Average Annual Growth
	FY 2007	**FY 2008**	**FY 2009**	**FY 2010**	**FY 2011**		
Property	$13,098	$14,450	$15,654	$16,825	$17,885	$4,787	8.1%
Non-Property	25,570	23,818	23,504	24,348	25,467	(103)	(0.1%)
Total	**$38,668**	**$38,268**	**$39,158**	**$41,173**	**$43,352**	**$4,684**	**2.9%**

SOURCE: NYC Office of Management and Budget.

Tax Reduction Program

The Adopted Budget contains a number of tax cut initiatives proposed since May 2006, which reduced real property, business, sales and personal income tax (PIT) revenue estimates. The FY 2008 tax reduction initiatives are expected to result in more than $1.6 billion of forgone revenues in FY 2008, $265 million more than expected in the Executive Budget as a result of changes in two tax cut initiatives:

- In the Executive Budget the City had proposed a 5.0 percent reduction in the overall property tax rates. In the Adopted Budget, the City is proposing a 7.0 percent reduction, hence increasing the estimated revenue loss in FY 2008 by $300 million to $1.05 billion. Future reductions, which are expected to result in revenue losses of $1.14 billion, $1.22 billion, and $1.30 billion in FYs 2009 through 2011, respectively, will be contingent on the budgetary outlook of the City during each of those fiscal years.

- In the Adopted Budget, the City has lowered its estimates of the impact on general corporation tax (GCT) collections from a resident PIT credit to owners of S-Corporations. The estimate for FY 2008 has been reduced by $35 million. Estimated foregone revenues from this initiative are now expected to be $35 million, $35 million, $37 million, and $39 million for FY 2008, FY 2009, FY 2010 and FY 2011, respectively.

In the outyears, foregone tax revenues from the tax reduction program are expected to total $1.9 billion, $2.1 billion, and $2.2 billion in FYs 2009 through 2011, respectively.

The FY 2008 Real Property Final Assessment Roll

The FY 2008 final property assessment roll recorded a 19 percent increase in market value of Class 4 properties, which consist mostly of commercial buildings. Offices, stores and commercial condominiums accounted for about 60 percent of the growth. Since the Department of Finance started publishing market value figures in FY 1993, the only other year of double-digit growth in Class 4 aggregate market value was FY 2006, in which values increased by 11.6 percent. Market values of properties in Class 2, which include multifamily condominiums and cooperatives, also experienced robust growth, increasing an unprecedented 24.7 percent. Valuation increases of rentals constituted over 70 percent of the market value surge. The last comparable advance in aggregate market value for Class 2 occurred in FY 2005, when it increased 18.9 percent. Strong market value growth was also seen in Class 1 properties, which are mostly owner-occupied homes. Because of statutory assessment caps and phase-ins, billable assessments rose only 4.5 percent, 8.0 percent, and 11.1 percent for Classes 1, 2, and 4, respectively.

Table 9 shows the contribution of each class to total market value growth. Class 1 accounted for almost half of the 18.1 percent, or $121.8 billion, growth across the City. Growth in taxable billable assessed value was 8.1 percent, or $9.3 billion, with Class 4 accounting for slightly under two-thirds of the growth.

Table 9. Contribution of Each Class to Total Assessment Growth from FY 07 to FY 08

($ in millions)

Contribution to:	Class 1	Class 2	Class 3	Class 4
Aggregate Market Value	49.1%	28.6%	(0.5%)	22.8%
Aggregate Taxable Billable Assessed Value	6.2%	34.5%	(3.8%)	63.1%

The Changes in Tax Revenue Forecasts

Including the FY 2008 tax cut programs, total tax revenue is forecast at $36.7 billion, $37.3 billion, $39.1 billion, and $41.2 billion in FYs 2008, 2009, 2010 and 2011, respectively.[1] Since the Executive Budget, significant changes have been made only to the real property tax and the general corporation tax revenue forecasts.

The real property tax is expected to yield $13.1 billion in revenue for the City in FY 2008, inclusive of the continuation of the $400 rebates to primary residence homeowners, which will cost $256 million. The current figure represents a $230 million decrease from the Executive Budget estimate. An additional 2.0 percent reduction in the overall tax rate for all property classes incorporated in the Adopted Budget will reduce tax collections $300 million. Without the impact of the additional tax cut, estimated FY 2008 property tax revenue would have increased $70 million, or 0.52 percent, from the Executive Budget estimate.

Excluding the effects of rate reduction, the City is expecting annual average growth of 7.5 percent in real property tax revenue in the outyears. In comparison with the Executive Budget, this translates into estimate increases of $131 million, $180 million, and $294 million for FYs 2009, 2010 and 2011, respectively.

Reduced estimates of the value of resident PIT credit to owners of S-Corporations have resulted in changes in GCT estimates throughout the Plan period. Since the Executive Budget, estimates for general corporation tax revenue have increased by $35 million in FY 2008, $34 million in FY 2009, $36 million in FY 2010, and $39 million in FY 2011.

Table 10. Changes in NYC Tax Revenues, Adopted vs Executive Budget, FYs 2008-2011

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Property	($230)	($197)	($175)	($87)
GCT	35	34	36	39
TFA	22	69	112	0
Total Change	**($173)**	**($94)**	**($28)**	**($48)**

SOURCE: NYC Office of Management and Budget.

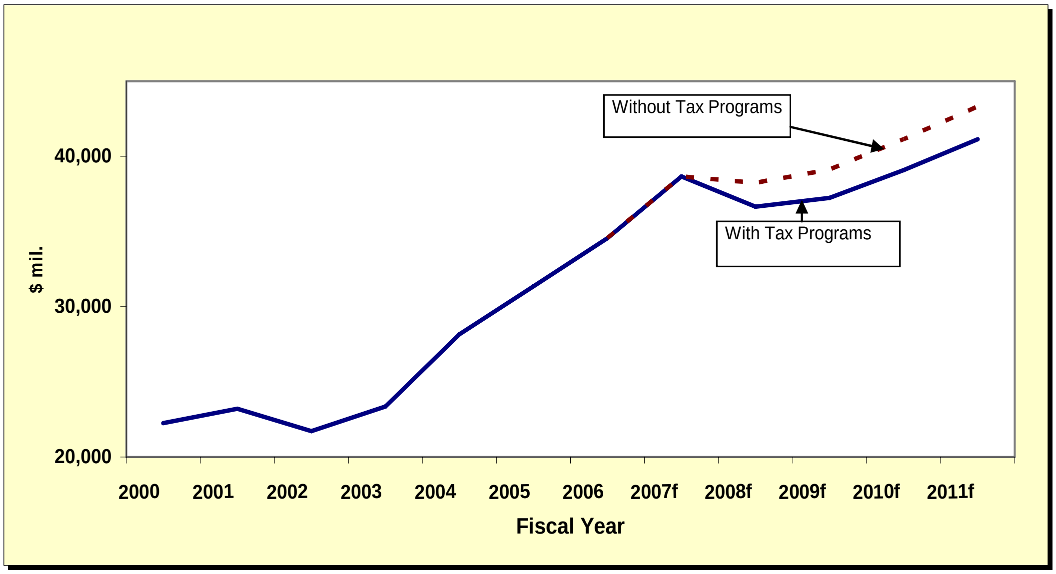
City Estimates of Growth in Tax Revenues

The City forecasts that total tax revenue will decrease 5.2 percent in FY 2008, followed by increases of 1.6 percent in FY 2009, 5.0 percent in FY 2010, and 5.2 percent in FY 2011. The estimated average annual growth rate from FY 2007 to FY 2011 is 1.6 percent. Most of the expected decline in FY 2008 originates from a projected drop of

[1] The definitions of PIT and real property tax revenues used in this section include STAR, NYCTFA retention, and net lien sales of property.

$747 million in business taxes, $614 million in real-estate-related taxes, and $600 million in tax audit revenues. Without the tax cut programs, total tax revenue would be significantly higher, as shown in Chart 1, although it would still fall slightly in FY 2008.

***Chart 1*. Total Tax Revenues with and without FY 2008 Tax Cut Programs**



Source: FYs 2000-2005 data from NYC Comptroller, Comprehensive Annual Financial Report of the Comptroller for FY 2005. Other data from NYC Office of Management and Budget.

Most increases in tax revenues forecast for FY 2009 and FY 2010 come from real property tax revenues. The City expects real property tax revenues to increase by $3.2 billion from FY 2007 to FY 2011, or 5.7 percent annually.

Non-property taxes are forecast to decline 8.0 percent in FY 2008 and 2.3 percent in FY 2009, before rebounding in FY 2010 and 2011. The City forecasts that PIT revenues, including revenues committed for NYCTFA debt service, will decline 0.8 percent in FY 2008 and 1.0 percent in FY 2009. This decline reflects the City's anticipation of a moderation in economic growth and a decline in Wall Street profits and bonuses. For FY 2010, the City projects a PIT increase of $332 million, or 3.9 percent, and for FY 2011, an increase of $449 million, or 5.1 percent. Compared with the Executive Budget, the City has not made any changes to PIT estimates over the Financial Plan period.

Table 11. Changes in NYC Tax Revenues, City Forecast, FYs 2008-2011

($ in millions)

	Forecast Annual Change in Revenues				Change	Average Annual
	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**	**FYs 2007-11**	**Growth (%)**
Property	$45	$1,115	$1,085	$984	$3,229	5.7%
Non-Property:						
PIT	(71)	(89)	332	449	621	1.7
Business	(747)	(258)	138	260	(607)	(2.5)
Sales	10	114	228	249	600	3.2
Real-Estate-Related	(614)	(349)	29	56	(878)	(7.6)
All Other	(619)	52	51	46	(470)	(4.3)
Subtotal Non-Property	($2,040)	($531)	$777	$1,060	($734)	(0.7%)
Total Change	**($1,996)**	**$585**	**$1,862**	**$2,044**	**$2,495**	**1.6%**

SOURCE: NYC Office of Management and Budget.
NOTE: The revenue changes include the impact of both economic conditions and tax policy changes.

Business tax revenues are expected to drop 12.0 percent in FY 2008 and 4.7 percent in FY 2009, before rising 2.7 percent and 4.9 percent in FY 2010 and 2011, respectively. The decrease in FY 2008 and FY 2009 is a result of an expected decline in New York Stock Exchange member-firm profits to $16.8 billion in 2007 and $12.6 billion in 2008, from $20.9 billion in 2006.

After record-high collections in FY 2007, the City expects the level of real-estate-related taxes to revert to levels consistent with long-term trends, with declines of 18.9 percent in FY 2008 and 13.3 percent in FY 2009, followed by modest growth of 1.3 percent and 2.4 percent in FYs 2010-2011, respectively. The projected declines in FY 2008 and FY 2009 are based on the City's forecasts of declines in residential and commercial transactions in those years.

Comptroller's Forecast of Tax Revenues

The Comptroller's Office forecast of total tax revenue is higher than the City's by $430 million in FY 2008, $965 million in FY 2009, $705 million in FY 2010, and $480 million in FY 2011. Forecasts of PIT, business taxes, and sales tax revenues for FYs 2008-2011 reflect projections of the local economy that are slightly more positive than the City's over the entire Financial Plan period.

The Comptroller's Office higher tax revenue projection stems primarily from a more optimistic outlook for the business and PIT tax revenues. The Comptroller's estimate of total business tax revenues collected over the Plan period is $1.58 billion higher than the City's, reflecting the Comptroller's Office anticipation of a less severe slowdown in the local economy in FYs 2008 and 2009.

Table 12. Comptroller's Risks and Offsets to the City's Tax Revenues, FYs 2007-2011

($ in millions)

Tax	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Property	$0	$0	($60)	($130)	$10
PIT	40	20	280	170	30
Business	0	310	535	465	270
Sales	0	40	80	40	0
Real Estate-Related	0	60	130	160	170
Total	**$40**	**$430**	**$965**	**$705**	**$480**

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

For the outyears, excluding the discretionary 7.0 percent rate reductions, the Comptroller is expecting real property tax receipts to increase at an average annual rate of 7.5 percent, virtually the same as the City's projection. However, for the initial years of plan, the Comptroller forecasts slightly more moderate growth, resulting in downward adjustments of $60 million and $130 million to the City's estimates in FY 2009 and FY 2010, respectively.

Because of an expected decline in real-estate-related activities, the Comptroller's Office, like the City, expects a decline in real-estate-related tax revenues. However, the Comptroller does not expect as severe a slump in the City's housing market as does the City, and consequently our forecast of cumulative real-estate-related tax revenues is $520 million above the City's from FYs 2008 through 2011.

Miscellaneous Revenues

Miscellaneous revenues are locally raised non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, water and sewer charges, interest income, and asset sales. In the FY 2008 Adopted Budget and Financial Plan, the City increased its miscellaneous revenue projection for FY 2008 by $61 million from the Executive Budget estimate to $4.6 billion. Projections for the outyears remained virtually unchanged at approximately $3.7 billion.[2]

As Table 13 on page 19 shows, in FY 2008 the two largest categories of miscellaneous revenues are water and sewer fees and "other miscellaneous." Most water and sewer revenues are earmarked for reimbursement for expenses related to the operation and maintenance of the water and sewer system. A portion is also paid into the general fund as rent for the use of the facilities and is available for general governmental purposes. An estimated $1 billion in water system revenues in FY 2008, growing to a

[2] Miscellaneous revenue projections exclude private grants and intra-City revenues.

projected $1.5 billion in FY 2011, will be used to pay debt service on Water Finance Authority bonds. Those collections are not included in miscellaneous revenues.

Table 13. City Forecast of Miscellaneous Revenue

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Licenses, Franchises, Permits	$419	$420	$423	$427
Interest Income	387	137	144	144
Charges for Services	563	549	547	548
Water and Sewer	1,194	1,192	1,196	1,224
Rental Income	194	193	192	192
Fines and Forfeitures	724	723	724	724
Other Miscellaneous	1,123	502	506	507
Total Miscellaneous Revenue	**$4,604**	**$3,716**	**$3,732**	**$3,766**

SOURCE: NYC Office of Management and Budget.

The "other miscellaneous" category includes the sale of City property, mortgages, cash recoveries, and other revenues. Non-recurring miscellaneous revenues are mostly grouped in this category. In FY 2008, this category benefited from over $500 million in non-recurring actions. The largest item is a delayed recognition of tobacco settlement revenues from FY 2006 and FY 2007 to FY 2008 totaling $354 million. A settlement the City reached with the Internal Revenue Service (IRS) involving a refund of FICA (i.e. Social Security and Medicare) tax that was inappropriately imposed on line-of-duty injury payments to uniformed workers in the 1990's is expected to yield $141 million. In addition, the City expects to generate $30 million in non-recurring revenues from the sale of taxi medallions. One of the largest recurring items in this category is the anticipated payment for debt service from the Health and Hospital Corporation (HHC), worth $162 million in FY 2008 and $131 million thereafter under a transaction to boost Medicaid revenues for the Corporation.[3]

For the remainder of the Financial Plan period, the City is not expected to benefit significantly from one-shot revenues. Therefore, starting in FY 2009, the estimate for the "other miscellaneous" category fall by 55 percent to around $500 million, and is projected to remain at this level throughout the Plan period. Interest income is expected to decline 19 percent in FY 2008 and 64 percent in FY 2009, reflecting the City's expectation of a decline in the level of cash balances. Estimates for all other categories remain stable throughout the plan period.

Federal and State Aid

The City has made minor revisions to its Federal and State aid assumptions in the Adopted Budget. A net increase of $27 million has been reflected in FY 2008 that consists of additional State grants of $25 million and $9 million for health and social services respectively, offset by a net reduction of $7 million in Federal grants. The City's

[3] For a more detailed discussion on this transaction, please see "Health and Hospital Corporation" beginning on page 33.

expectation of Federal and State grants would total $16.12 billion in FY 2008. In the outyears, Federal and State grants are projected to grow 12 percent and reach $18.07 billion by FY 2011. This growth is driven almost exclusively by the increase in State education grants, as other categories remain basically flat or show only modest gains throughout the June Plan. In contrast, the revenue budget reflects an increase of 4.0 percent for City tax-levy funds between FY 2007 and FY 2011. The more rapid growth of Federal and State grants would boost their proportion in the overall revenue budget to 28.4 percent in FY 2011, compared with 27 percent of projected revenues in FY 2007.

Furthermore, the FY 2008 gap-closing program contains no assumption of additional support from Federal and State sources, though the City still maintains an agenda of Federal actions potentially providing further fiscal relief that could exceed $1 billion annually in the June Plan. The list of actions includes additional support for education and criminal justice based on authorized funding levels, child care funding for meeting Federal work requirements for welfare programs, and reimbursement for providing added security measures to foreign dignitaries at the United Nations.

V. Expenditure Analysis

City-fund expenditures, including NYCTFA debt service, total $43.01 billion in the FY 2008 Adopted Budget. This level is $122 million less than the projection in the Executive Budget because certain expenses that had been scheduled for FY 2008 were instead accelerated into FY 2007. These items include a $500 million contribution to the RHBTF, $100 million of pay-as-you-go capital funding, and a $37 million increase in net prepayment of FY 2008 expenditures. The savings in the FY 2008 budget due to the shift in timing of these expenses are partially offset by City Council restoration of $233 million, additional agency spending of $208 million, increased debt service of $54 million, and the restoration of cuts to libraries, the City University of New York and cultural institutions totaling $20 million.

Table 14. Changes to the FY 2008 Expenditure Estimates

($ in millions)

Accelerate Contribution to RHTBF	($500)
Accelerate Pay-As-You-Go Capital	(100)
Increase in Net Pre-payment	(37)
Council Restoration	233
Agency Increases	208
Debt Service	54
Restoration of Cuts to Libraries, CUNY and Cultural Institution	20
Total	**($122)**

Overtime

The FY 2008 Adopted Budget's overtime appropriation totals $754 million, an increase of about $3 million from the assumptions in the FY 2008 Executive Budget. However, the FY 2008 overtime budget is $116 million less than the revised FY 2007 overtime estimate of $870 million and appears overly optimistic, since overtime has grown annually by an average of just under 3.0 percent over the last five years.[4] As shown in Table 15, the Comptroller's Office estimates that at least $123 million in additional funding will be needed for FY 2008.

The Comptroller's Office estimates that police uniformed overtime spending will be approximately $375 million in FY 2008, 38 percent higher than the City's estimate of $272 million. The City typically revises upwards the forecast for police uniformed overtime to address actual expenditures during the course of the fiscal year. Police uniformed overtime has averaged $345 million in recent fiscal years and is on track to be approximately $360 million for FY 2007.

[4] The $870 million FY 2007 overtime estimate reflects expected offsets from personal services savings.

Table 15. Projected Overtime Spending, FY 2008

($ in millions)

	City Planned Overtime FY 2008	Comptroller's Projected Overtime FY 2008	FY 2008 Risk
Uniformed Forces			
Police	$272	$375	($103)
Fire	152	152	0
Correction	55	75	(20)
Sanitation	59	59	0
Total Uniformed Forces	$538	$661	($123)
Others			
Police-Civilian	$40	$40	$0
Admin for Child Svcs	20	20	0
Environmental Protection	22	22	0
Transportation	30	30	0
All Other Agencies	104	104	0
Total Civilians	$216	$216	$0
Total City	**$754**	**$877**	**($123)**

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

The FY 2008 projection for uniformed correction officers overtime is $55 million. Between FYs 2004 and 2006, overtime expenditures for correction officers averaged about $60 million annually. For FY 2007, the difficulty in recruiting new officers coupled with the increase in the average daily inmate population has resulted in overtime spending of approximately $90 million through June 30, 2007. The Comptroller's Office expects overtime spending for correction officers to be about $75 million for FY 2008. However, if recruitment levels are not met, actual overtime spending for corrections could exceed this level.

Headcount

City-funded full-time headcount is projected to increase 2.5 percent from 233,610 positions in FY 2007 to 239,436 in FY 2008, and then remain relatively flat in the outyears. The most significant change from the Executive Budget occurs at the Department of Education, where projections for full-time pedagogical staff have been revised upwards by 137 in FY 2007, 3,957 in FY 2008, 4,989 in FY 2009, 6,388 in FY 2010, and 6,378 in FY 2011. These revised estimates are driven by higher forecasts for enrollment.

Overall, the FY 2008 full-time staff is expected to increase by 5,826 employees. Planned new hires in the Department of Education account for 2,707 of this increase, due almost exclusively to growth in pedagogical staff. The addition of 2,618 employees to the Department of Health and Mental Hygiene, the Department of Social Services, the Department of Parks and Recreation, the Police Department, the Department of

Correction, and the Fire Department accounts for most of the remaining increase.[5] For the remainder of the Financial Plan period, full-time headcount is projected to decline slightly to 239,273 in FY 2009 before increasing gradually to 240,114 by FY 2011.

Table 16. City-Funded Full-Time Year-End Headcount Projections

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Pedagogical					
Dept. of Education	91,190	93,870	94,002	94,579	94,569
City University	2,699	2,706	2,700	2,700	2,700
Sub-total	93,889	96,576	96,702	97,279	97,269
Uniformed					
Police	35,624	35,624	35,624	35,624	35,624
Fire	11,232	11,264	11,264	11,264	11,264
Corrections	8,735	8,869	8,779	8,779	8,779
Sanitation	7,622	7,622	7,622	7,622	7,870
Sub-total	63,213	63,379	63,289	63,289	63,537
Civilian					
Dept. of Education	8,955	8,982	8,982	8,982	8,982
City University	1,614	1,773	1,637	1,637	1,637
Police	10,115	10,362	10,362	10,370	10,325
Fire	4,556	4,729	4,729	4,729	4,729
Corrections	1,381	1,466	1,454	1,454	1,454
Sanitation	2,005	2,016	2,015	2,016	2,070
Admin for Children's Services	7,380	7,369	7,365	7,365	7,365
Social Services	11,477	11,941	11,930	11,930	11,930
Homeless Services	2,344	2,300	2,296	2,296	2,296
Health and Mental Hygiene	3,106	4,231	4,215	4,198	4,200
Finance	2,241	2,241	2,241	2,241	2,241
Transportation	2,259	2,257	2,314	2,314	2,314
Parks and Recreation	3,005	3,363	3,383	3,402	3,419
All Other Civilians	16,070	16,451	16,359	16,355	16,346
Sub-total	76,508	79,481	79,282	79,289	79,308
Total	233,610	239,436	239,273	239,857	240,114

City-funded full-time equivalent (FTE) headcount is expected to increase 1.0 percent from 30,459 to 30,728 in FY 2008 and then fall back to approximately the FY 2008 level in the outyears. There have been no significant changes to FTE headcount since the Executive Budget.

[5] The underlying factors driving this increase are discussed in detail in "Headcount" beginning on page 27 in the May 2007 report, "The Comptroller's Comments on the Fiscal Year 2008 Executive Budget."

Table 17. City-Funded FTE Year-End Headcount Projections

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Pedagogical					
Dept. of Education	902	1,053	1,053	1,053	1,053
City University	1,468	1,468	1,468	1,468	1,468
Sub-total	2,370	2,521	2,521	2,521	2,521
Civilian					
Dept. of Education	14,784	14,917	14,917	14,917	14,917
City University	800	800	800	800	800
Police	5,685	5,732	5,706	5,706	5,706
Health and Mental Hygiene	1,572	1,422	1,367	1,367	1,367
Parks and Recreation	3,590	3,658	3,483	3,428	3,428
All Other Civilians	1,658	1,678	1,679	1,680	1,679
Sub-total	28,089	28,207	27,952	27,898	27,897
Total	30,459	30,728	30,473	30,419	30,418

Labor

The City's labor reserve, which holds funds for collective bargaining prior to their transfer to the various agencies, currently has a balance of $611 million for FY 2008 increasing to $1.760 billion in FY 2011, as shown in Table 18. The balance in the labor reserve mainly reflects funds for wage increases for unions that have not yet reached contract agreements with the City, patterned after settled contracts in the current round of collective bargaining. In addition, the labor reserve includes the City's assumption that wages will increase by half the rate of inflation in the outyears.

Table 18. June 2007 Projections of the City's Labor Reserve

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
April 2007	$312	$715	$1,032	$1,542	$1,915
Transfer to Agencies	(45)	(104)	(83)	(95)	(96)
Transfer to Pension Budget	0	0	0	(48)	(58)
June 2007	$265	$611	$948	$1,399	$1,760

Since the FY 2008 Executive Budget, the City has transferred a total of $423 million from the labor reserve to various agency budgets to fund wage increases for employees whose unions have reached contract agreements with the City. Of this amount, approximately $27 million in FY 2007, $76 million in FY 2008, $52 million in FY 2009, and $64 million in each of FY 2010 and FY 2011 were transferred to the Department of Education (DOE) to fund the Council of School Supervisors and Administrators (CSA) contract, which was ratified in May 2007.[6] Additionally, based on the terms of the Uniformed Firefighters Association (UFA) agreement, $48 million in FY 2010 and $58 million in FY 2011 were transferred to the pension budget to fund potential pension costs resulting from expected wage increases for all other uniformed personnel. Prior to the UFA contract agreement, the City had funded expected wage increases for all uniformed employees based on the District Council 37 (DC 37) agreement. In addition to the UFA, CSA and DC 37, the City has settled with the United Federal of Teachers (UFT). The City's non-union managerial staff has also been granted wage increases mirroring DC 37's contract.

Since budget adoption on June 22, 2007, the City has reached tentative contract agreements with the Sergeant's Benevolent Association (SBA), the Uniformed Sanitationmen's Association (USA), and the Uniformed Fire Officers Association (UFOA). These tentative settlements provide for wage increases and economic benefits as follows:

1. *SBA tentative agreement covering a 74-month period from June 1, 2005 through July 31, 2011:*

    - *Wage Increases*

        - 3.0 percent effective June 1, 2005.
        - 3.15 percent, compounded, effective June 1, 2006.
        - 4.0 percent, compounded, effective June 1, 2007.
        - 4.0 percent, compounded, effective June 1, 2008.
        - 4.0 percent, compounded, effective August 1, 2009.
        - 4.0 percent, compounded, effective August 1, 2010.

    - *Health and Welfare Contributions* – Effective July 1, 2008 the City will increase health and welfare contributions by $170 per retired member. These contributions will increase by an additional $80 per retire member effective September 1, 2010.

    - *Longevity Payments* – Effective July 1, 2008, longevity payments at the 5, 10, 15 and 20 year steps will increase by $460. Effective

[6] The CSA and the UFA contracts are discussed in greater detail in "Labor" beginning on page 24 of "The Comptroller's Comments on the Fiscal Year 2008 Executive Budget," May 2007. The DC 37 contract is discussed in greater detail in "Labor" beginning on page 25 of "The Comptroller's Comments on the Adopted Budget for Fiscal Year 2007 and the Financial Plan for Fiscal Years 2007 – 2010," July 2006.

September 1, 2010, longevity payments at the 5 and 10 year steps will increase by $600 and at the 15 and 20 year steps by $1,000.

- *Annuity Fund* – Effective September 1, 2010, contributions to the Annuity Fund will increase by $261 per active member.

2. *USA tentative agreement covering a 54-month and nineteen-day period from March 2, 2007 through September 20, 2011:*

    - *Wage increases*

        - ❖ 4.0 percent effective March 2, 2007
        - ❖ 4.0 percent, compounded, effective March 2, 2008
        - ❖ 4.0 percent, compounded, effective August 21, 2009
        - ❖ 4.0 percent, compounded, effective August 21, 2010

    - *Enhanced Salary Schedule* – Effective March 2, 2007, the starting salary for new hires will be increased by nearly $3,000 to $30,000. With the subsequent wage increases provided for in the contract, the starting salary will reach $33,746 by the end of the contract period.

    - *Welfare Funds* – Effective March 2, 2007 the City will increase its contributions to the active employee welfare fund by $100 per employee and to the retiree welfare fund by $300 per employee.

    - *Annuity Fund* – Effective July 1, 2007, the City will increase its contributions to the Annuity Fund by $3 per day per employee. Effective April 2, 2008, the City will increase its contribution by an additional $2 per day for each employee with 15 or more years of service.

    - *Additional Paid Holiday* – Effective January 2008, Martin Luther King, Jr’s birthday will be a paid holiday.

    - *Other Available Funds* – Effective September 21, 2010 and August 21, 2011, the bargaining unit will have available funds of 1.59 percent and 0.4 percent, respectively, to purchase mutually agreed upon recurring benefits.

    - *Special Assignment Pay* – Upon ratification of the contract, sanitation workers on “special assignment” in the Citywide Transportation Unit shall be paid an assignment differential of up to 12 percent above the basic maximum salary.

3. *UFOA tentative agreement covering a 48-month period from March 20, 2007 through March 19, 2011:*

- *Wage increases*

  - ❖ 4.0 percent effective March 20, 2007
  - ❖ 4.0 percent, compounded, effective March 20, 2008
  - ❖ 4.0 percent, compounded, effective March 20, 2009
  - ❖ 4.0 percent, compounded, effective March 20, 2010

- *Enhanced Salary Schedule* – Effective March 2, 2007, the salary schedule for new promotees to the position of lieutenants and supervising fire marshals will be revised as follows:

  Lieutenants

  - ❖ Step 1 $75,000
  - ❖ Step 2 $75,500
  - ❖ Step 3 $76,000
  - ❖ Step 4 $77,120
  - ❖ Basic maximum $87,798

  Supervising Fire Marshals

  - ❖ Step 1 $87,400
  - ❖ Step 2 $88,900
  - ❖ Step 3 $90,000
  - ❖ Step 4 $92,120
  - ❖ Basic maximum $96,016

- *Family Protection Plan Fund* – Effective March 20, 2008 the City will increase its contribution to this fund by $60 per year per retiree. Effective April 20, 2010 this contribution will be increased by an additional $60 per retiree and $50 per active employee.

- *Annuity Fund* – Effective March 20, 2008 and April 20, 2010, respectively, the City will increase its contributions to the Annuity Fund by $261 per year.

- *Longevity Schedule* – Effective April 20, 2010, the longevity schedule will be increased by $1,000 at all steps.

- *Assignment Differential* – Effective September 1, 2007 Deputy Chiefs designated as "Division Commanders" will be paid an annualized assignment differential of $2,500 and Battalion Chiefs designated as "Battalion Commanders" will be paid an annualized assignment differential of $1,500. Effective March 20, 2008, the eight-hour Battalion Chief/Deputy Chief training day will be compensated at a rate of time and one-half instead of straight time.

- *Certified First Responder-Defibrillation (CFR-D) Refresher* – Effective April 20, 2010, the 40 hours of CFR-D training will be compensated at a rate of time and a half instead of straight time.

- *Special Assignment Pay* – Effective September 1, 2007, there will be assignment differentials payable to lieutenants, captains, and battalion chiefs on "special assignments" in certain specific companies.

Except for the last two years in each contract, the SBA, USA and UFOA tentative agreements mirror the wage increases of the UFA contract. The last two years represent a two-year extension beyond the UFA contract.

The Financial Plan contains funding for all uniformed employees based on the UFA contract. As such, significant portions of the SBA, USA, and UFOA contracts are already funded in the Financial Plan. The incremental costs of the SBA contract, arising from the enhanced economic benefits and the final two wage increases, are expected to total $15 million in FY 2010 and $45 million in FY 2011 while the incremental costs of the USA contract are expected to total $10 million in FY 2010 and $22 million in FY 2011. The UFOA contract is expected to cost at least an additional $3 million in FY 2009, $12 million in FY 2010, and $21 million in FY 2011.

It is likely that the last two wage increases in the tentative agreements could establish a pattern for the next round of collective bargaining for uniformed employees. The Comptroller's Office estimates that the incremental costs of wage increases for all uniformed employees, patterned after the SBA and USA tentative agreements, would total $65 million in FY 2009, $200 million in FY 2010, and $370 million in FY 2011.

Pensions

The FY 2008 Adopted Budget projects that the City's pension expenditures will increase to $5.6 billion in FY 2008 before leveling off at $6.3 billion in FYs 2009 and 2010 and $6.4 billion in FY 2011, as shown in Table 19. These projections, mainly for FY 2009 and beyond, will likely be revised later in FY 2008 to reflect FY 2007 investment earnings and to accommodate the potential changes in actuarial assumptions and methods recommended by the Segal Company (Segal) that recently completed a charter-mandated, independent actuarial audit of the City's actuarial pension systems.[7] The City has reserved $200 million per year beginning in FY 2009 to fund additional costs that may result from changes in actuarial assumptions and methods. The Chief Actuary of the pension systems is currently reviewing Segal's findings and recommendations.

Pension contributions for FYs 2008 and 2009 remain unchanged from the April 2006 Financial Plan projections. However, projections for FYs 2010 and 2011 were increased by $48 million and $58 million, respectively reflecting the transfer of funding from the labor reserve as discussed in "Labor" beginning on page 24.

FY 2007 pension investment returns for the five actuarial systems averaged approximately 18 percent. Investment earnings above or below the actuarial return of 8.0 percent through June 30, 2007 will affect projected pension costs beginning in FY 2009. However, the financial impact of the FY 2007 pension investment earnings on FY 2009 and beyond will not be determined until the June 30, 2007 actuarial valuations are completed.

Table 19. FY 2008 Adopted Budget Projections of the City's Pension Contributions

($ in millions)

	FY 2007* Actual	FY 2008	FY 2009	FY 2010	FY 2011
Five Actuarial Systems	$4,757	$5,624	$6,283	$6,401	$6,411
Other Systems	104	104	107	108	108
Less Intra-City	(124)	(124)	(124)	(124)	(124)
TOTAL FY 2008 Adopted	$4,737	$5,604	$6,266	$6,385	$6,395
TOTAL FY 2008 Executive	$4,737	$5,604	$6,266	$6,337	$6,337
Net Increase/(Decrease)				$48	$58

* Preliminary Estimate

Health Insurance

Pay-as-you-go health insurance expenses for employees and retirees are projected to total $3.413 billion in FY 2008, as shown in Table 20. This is $360 million more than the current estimate of $3.053 billion for FY 2007. Health insurance expenditures are expected to grow at an average annual rate of 8.10 percent from the FY 2007 forecast to

[7] Segal's actuarial audit findings and recommendations are discussed in "Pensions" in the December 14, 2006 Comptroller's report "The State of the City's Economy and Finances, 2006." Segal's reports, in their entirety, are available on the Comptroller's website http://comptroller.nyc.gov/bureaus/bud/all_budget_reports.shtm under "Miscellaneous Reports."

$4.169 billion by FY 2011, reflecting primarily an expected premium rate increase of 9.36 percent in FY 2008 and assumed increases of 8.0 percent for the remaining outyears.

Table 20. The City's Health Insurance Expenditures

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Pay-as-you-go Expense	$3,053	$3,413	$3,679	$3,902	$4,169
Deposit to Retiree Health Benefits Trust Fund	$1,500				
Total FY 2008 Adopted	$4,553	$3,413	$3,679	$3,902	$4,169
Total FY 2008 Executive	$4,074	$3,960	$3,723	$3,943	$4,207
Increase/(decrease)	$479	($547)	($44)	($41)	($38)

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.

[a] Expenditures for retirees' health insurance and welfare fund benefits will be paid out of the Retiree Health Benefits Trust Fund.

Since the FY 2008 Executive Budget, the City has accelerated its planned FY 2008 transfer of $500 million to the Retiree Health Benefits Trust Fund in FY 2008 to FY 2007, bringing the total FY 2007 contribution to the RHBTF to $1.5 billion.[8] Additionally, health insurance projections for active employees were revised downward by $25 million annually for FYs 2007 to 2011, reflecting lower headcount levels than previously anticipated. Spending on retiree health insurance was also revised downward by $30 million each year for FYs 2008 to FY 2011 as a result of lower Medicare Part B and GHI Senior Care rates. These reductions are partially offset by increases of $9 million in FY 2008, $12 million in FY 2009, $14 million in FY 2010, and $18 million in FY 2011 in the baseline health insurance cost for employees at the City University of New York.

Public Assistance

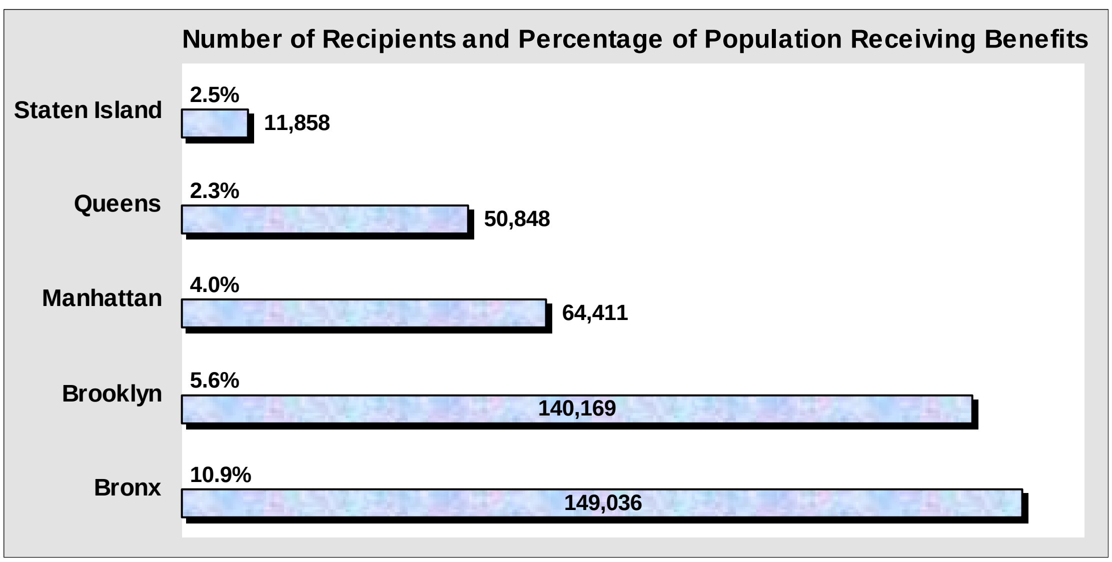
For the Adopted Budget, the City has maintained its Executive Budget caseload projection of 368,892 for FY 2008. Since the Executive Budget update, the public assistance caseload has fallen by 1.0 percent or almost 5,000 recipients to 363,972 in May. Thus, the City's caseload projections may be overstated and will likely be revised over the course of FY 2008. The City's spending forecast for public assistance grants is on target for FY 2007. Barring a significant reversal of recent trends, the City's portion of public assistance grant expenditures appears adequately funded at $471 million for

[8] The RHBTF was created with an initial deposit of $1 billion in FY 2006 to establish reserves to offset liabilities from "other post-employment benefits" (OPEB) provided by the City to its retired employees. Every year's pay-as-you-go expenses for OPEB (which include retirees' health insurance, welfare benefit contributions for retirees, and Medicare Part B reimbursements) are expected to be channeled through the RHBTF. The City does not have any legal obligation to fund or reimburse the RHBTF.

FY 2008. Over the remainder of the plan, both caseload and spending are projected to remain at FY 2008 levels.

Based on population estimates from the U.S. Census Bureau, the average public assistance caseload in FY 2006 represented about 5 percent of the total population in New York City. The District Resource Statement for FY 2006, prepared by the Human Resources Administration, provides a snapshot of where recipients resided within the five boroughs, as depicted in Chart 2. The majority of the City's public assistance population was concentrated in Brooklyn and The Bronx, which together constituted about 70 percent of the overall caseload. The Bronx, by far, had the highest proportion of its residents on the welfare rolls, estimated at almost 11 percent. Brooklyn had a recipient population that was about 6.0 percent lower than The Bronx. Yet, because of its greater population, only 5.6 percent of Brooklyn residents received public assistance benefits, about half the rate experienced in The Bronx in FY 2006. In the other boroughs, about 4.0 percent of Manhattan residents received benefits while proportions were lower in both Staten Island and Queens, at about 2.5 percent each. These indicators are roughly consistent with poverty data in the 2000 Census which showed that only 10 percent and 15 percent of borough population were below the Federal Poverty Level (FPL) in Staten Island and Queens respectively, while the Bronx topped all boroughs with 31 percent of its population below the FPL.

***Chart 2*. Public Assistance Population by Borough, FY 2006**



SOURCES: New York City Human Resources Administration and U.S. Census Bureau.

Department of Education

In the Adopted Budget, the Department of Education (DOE) reflects a funding increase of $110 million, covering a $73 million collective bargaining obligation for principals and supervisors and $37 million for City Council initiatives. In addition, the DOE has redirected $91 million in resources from a number of areas, including central and regional administration, professional development, and energy, to support new funding allocation to the schools.

The recognition of these changes brings projected DOE spending for FY 2008 to nearly $17 billion, an increase of approximately $1.13 billion from the FY 2007 estimate. Similar increases are reflected in the Department's spending projections throughout the plan, which will grow at an average of almost $1.1 billion incrementally each year in FYs 2008-2011. By the end of the June Financial Plan period, the DOE budget is expected to top $20 billion, a cumulative increase of about 28 percent from the FY 2007 base, reflecting the prominent role that the Campaign for Fiscal Equity (CFE) court order will play in financing the City's education spending.

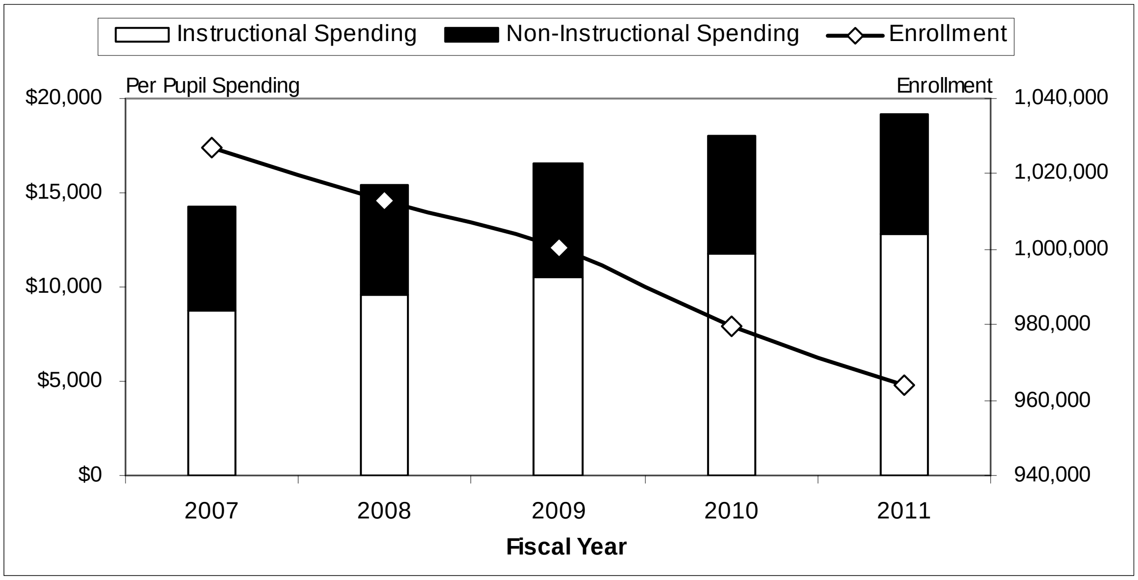
The City assumes that State education aid would reach $9.93 billion or 49 percent of overall DOE funding by FY 2011, pursuant to the Governor's plan of phasing in significant additional support over the next four years to conform to the CFE court ruling. In comparison, State support constitutes about $7.18 billion or 45 percent of the projected DOE budget in FY 2007. Over this same period, City support is projected to grow 23 percent to $8.32 billion by FY 2011. This represents 41 percent of projected DOE funding in FY 2011, compared with about 43 percent in FY 2007.

The large yearly increases in DOE funding, combined with a projected decline in school enrollment, will impact per pupil spending significantly at the Department. As shown in Chart 3, per pupil spending in DOE-based programs would jump 35 percent from FY 2007 to FY 2011 based on expenditure projections in the June Plan.[9] Enrollment in DOE-based programs is expected to fall 6 percent to 964,207 in FY 2011, from a base of 1,027,087 in FY 2007. This decline accentuates the growth in per pupil spending in the outyears, which would rise from $14,234 in FY 2007 to $19,188 in FY 2011. The instructional component within these figures would grow 46 percent from $8,765 to $12,790 over the June Plan period. Meanwhile, per pupil spending for non-instructional services such as administration and ancillary support would undergo a more modest growth of 17 percent, from $5,469 to $6,398.

Even after adjusting for inflation, projected per pupil spending would still jump 23 percent during the June Plan period, driven primarily by a 33 percent increase in real dollar growth for instructional spending. Meanwhile, non-instructional functions would undergo real spending growth of 7.0 percent over the same period. The growth in instructional spending is attributable both to rising State aid and City support for Children First initiatives that seek to direct additional resources to the schools, while the increase in non-instructional spending stems mainly from pupil transportation and fringe benefits.

[9] For the purpose of this discussion, DOE-based programs are defined as instructional and support services provided within DOE facilities and pre-kindergarten programs in community-based organizations. This category excludes charter schools and special education private school programs.

***Chart 3*. Projected Enrollment and Per Pupil Spending in DOE-Based Programs, FY 2007-FY 2011**



SOURCE: NYC Office of Management and Budget.

Health and Hospitals Corporation

The Adopted Budget projects that the Health and Hospitals Corporation (HHC) will begin FY 2008 with a record cash balance and with a stronger financial footing than previous years. More importantly, the Corporation expects to retain a comparable cash balance at the end of FY 2008, which bodes well for its fiscal outlook in FY 2009.

The June Plan shows that HHC will carry forward a sizable cash balance of $1.16 billion from FY 2007 into FY 2008. Besides the strong opening cash balance, the recognition of supplemental Medicaid Disproportionate Share (DSH) and Upper Payment Limit (UPL) reimbursement over the course of FY 2007 has helped HHC shrink its projected FY 2008 deficit to $279 million on an accrual basis, compared with a projection of $939 million in June 2006. A potential risk was removed from HHC's revenue plan when, in May, President Bush signed the Iraq War Supplemental Appropriations bill into law. Among its provisions, the law imposes a one-year moratorium on changes in Medicaid regulations that would have negatively impacted the Corporation's UPL revenue assumption in FY 2008. In addition, a moderate gap-closing program of $135 million is planned in the current year, culminating in a projected closing cash balance of $1.27 billion, after a positive cash adjustment of $255 million.

In the outyears, the City projects that HHC will face deficits of $680 million in FY 2009 and about $820 million in both FY 2010 and FY 2011. These deficits would erode HHC's cash position over the course of the FYs 2008-2011 Financial Plan, with year-end balance falling sequentially to $1.01 billion in FY 2009, $545 million in FY 2010, and $116 million in FY 2011. To achieve these cash balances, HHC would need to realize gap closing actions totaling $720 million in FY 2009 and $633 million in each of FYs 2010-11. The gap closing program in these years will be heavily reliant on

Federal and State actions, which constitute $575 million (80 percent) of total gap-closing actions in FY 2009 and $483 million (76 percent) of total actions annually in FY 2010 and FY 2011. The high proportion of Federal and State actions is partly due to a cautionary step taken by the Corporation to include UPL revenues in its gap closing program rather than its baseline revenues, in anticipation of Medicaid regulation changes beyond FY 2008.

Debt Service

Debt service is estimated to total $5.062 billion in FY 2008 and is projected to grow to $6.298 billion by FY 2011, an increase of $1.24 billion, or 24.4 percent, over the Financial Plan period. These figures include NYC Transitional Finance Authority (NYCTFA), TSASC, and lease purchase debt service.

The City's debt service projections do not include the scheduled borrowing over the Financial Plan period of $1.05 billion in Expanding our Children's Education & Learning (EXCEL) bonds and $3.5 billion in NYCTFA Building Aid Revenue Bonds (BARBs), all in support of the NYC Department of Education's capital program. The City expects this borrowing to be supported by State personal income tax and State building aid. The Dormitory Authority of the State of New York (DASNY) and NYCTFA issued $757 million of EXCEL bonds and $1.3 billion of NYCTFA BARBs, respectively, in FY 2007.

As shown in Table 21, General Obligation (G.O.) debt service is estimated to increase $1.16 billion, or 32.5 percent, from FY 2008 to FY 2011. This increase is driven by projected new G.O. borrowing totaling approximately $21.4 billion for FYs 2008 through 2011, requiring additional debt service of about $1.3 billion per year by FY 2011.

Table 21. FY 2008 Adopted Budget and June 2007 Financial Plan Estimates

($ in millions)

Debt Service Category	FY 2008	FY 2009	FY 2010	FY 2011	Change FY 2008 to FY 2011
G.O.[a]	$3,575	$3,923	$4,316	$4,736	$1,161
NYCTFA[b]	1,112	1,137	1,149	1,154	42
Lease-Purchase Debt	277	319	314	317	40
TSASC, Inc.	88	89	90	91	3
Municipal Assistance Corp.	10	0	0	0	(10)
Total	**$5,062**	**$5,468**	**$5,869**	**$6,298**	**$1,236**

SOURCE: FY 2008 Adopted Budget, June 2007 Financial Plan.
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.

NYCTFA debt service is projected to grow $42 million over the Financial Plan period. The City has recently requested the State Legislature to pass legislation that would increase the NYCTFA debt-incurring capacity by $2.5 billion from $13.5 billion to

$16 billion for general capital 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.

Use of G.O. Callable Bond Program and NYCTFA Defeasance Program.

The FY 2008 Adopted Budget includes a prudent multi-year savings plan that reflects the recent redemption of select callable G.O. bonds and defeasance of outstanding NYCTFA debt. The City recently redeemed $536 million of G.O. bonds ($185 million in variable rate bonds and $351 million in fixed rate bonds) resulting in estimated savings of $27 million in FY 2008, $278 million in FY 2009, and $277 million in FY 2010. In another transaction, the City defeased approximately $718 million ($171 million of NYCTFA variable rate bonds and $545 million of fixed-rate bonds) maturing in FYs 2009 and 2010, resulting in estimated savings of $33 million in FY 2008, $363 million in FY 2009, and $382 million in FY 2010.[10]

Debt Burden

As shown in Chart 4, debt service as a percent of local tax revenues is projected to be 13.2 percent in FY 2008, rising to 15.2 percent by FY 2011. 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 rate of 3.0 percent while debt service is estimated to grow at an annual rate of 7.6 percent over the Financial Plan period.

To help reduce the debt burden, the City has continued with its pay-as-you-go capital program, which will effectively reduce the amount of capital borrowing required. The FY 2008 Adopted Budget and Financial Plan reflects an acceleration of $100 million in pay-as-you-go capital into FY 2007, thereby halving the FY 2008 amount to $100 million. In FYs 2009-2011, the $200 million per year pay-as-you-go assumption remains unchanged.

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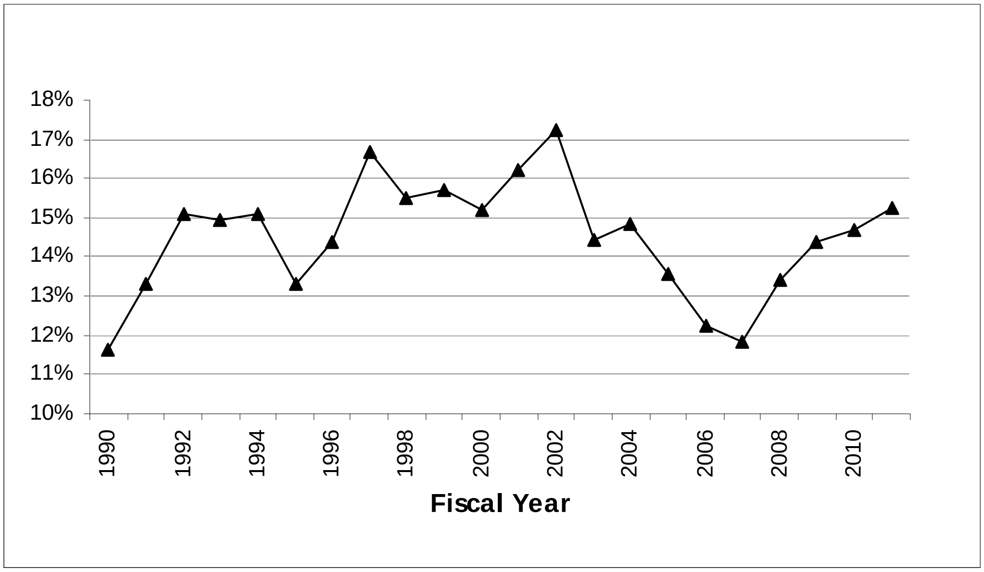
[10] A defeasance differs from an outright retirement of debt because of the use of an escrow to pay the principal and interest of the chosen debt. In turn, the debt is economically defeased but still remains legally outstanding.

Chart 4. **Total Debt Service as a Percentage of Local Tax Revenues, FYs 1990-2011**



SOURCE: FY 2008 Adopted Budget & Financial Plan, Office of Management & Budget, June 2007.

Financing Program

As shown in Table 22, the financing program for FYs 2008-2011 totals approximately $35.8 billion. Planned issuances of debt over the Financial Plan period include: G.O. bonds of $21.38 billion, NYC Municipal Water Finance Authority debt of $9.22 billion, NYCTFA –Building Aid bonds of $3.49 billion, and Dormitory Authority of the State of New York (DASNY) bonds for education purposes of $1.05 billion. Combined, this represents 98 percent of the total financing program. Anticipated use of pay-as-you-go capital comprises $700 million, or 2.0 percent of the total share over the Financial Plan period. There is no scheduled borrowing for TSASC, Inc. and conduit (lease-purchase) debt. [11]

[11] Although debt service is included for the Hudson Yards Infrastructure Corporation (HYIC) in the City's debt service budget, borrowing for this entity is not included in the Financing Program. The HYIC borrowed $2 billion in December 2006.

Table 22. FY 2008 Adopted Budget Financing & Funding Program, FYs 2008-2011

($ millions)

Description:	**Estimated Borrowing and Funding Sources FYs 2008-2011**	**Percent of Total**
General Obligation Bonds	$21,380	59.7%
NYC Municipal Water Finance Authority	9,220	25.7%
NYC TFA – Building Support Aid	3,486	9.7%
DASNY – Education Purposes	1,045	2.9%
NYC TFA – General Purposes	0	0.0%
Pay-As-You-Go Capital	700	2.0%
Total	**$35,831**	**100.0%**

SOURCE: FY 2008 Adopted Budget and Financial Plan, Office of Management and Budget, June 2007.

Unlike other debt that 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 $1 billion in FY 2008, growing to $1.5 billion in FY 2011, an increase of 50 percent over the period. [12] The escalating cost of debt service is largely responsible for the rate increases planned by the Water Board. In May 2007, the Water Board adopted a rate increase of 11.5 percent for FY 2008 and projects further rate increases of 11.5 percent in FY 2009, 11.4 percent in FY 2010, and 11.3 percent in FY 2011.

As a result of a provision in the lease agreement between the Water Board and the City, escalating debt service results in escalating rent payments by the Water Board to the City. On June 19, 2007, the Comptroller presented an alternative use of the Water Board's rental payment to the City's general fund. This proposal to renegotiate the terms of the lease agreement would benefit rate payers over the short and long-term but would result in a concomitant decrease in revenue to the City's general fund. The Comptroller's Office believes that the reprogramming of debt service coverage reserves after the satisfaction of each year's debt service requirements would not compromise the Water Finance Authority's credit rating.

[12] Debt service figures cited here do not reflect the benefit of the carry forward surplus.

FY 2008 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 2008, the City Council added $1.14 billion in capital appropriations across various project types and rescinded $140.1 million of capital appropriations for a net addition of $1 billion. Five project types accounted for over 73 percent of the additions. They include: $248.8 million for cultural institutions throughout the City, $191.5 million for Parks Department projects, $171.4 million for Department of Education projects, $132.2 million for public buildings, and $91.9 million for economic development projects.

VI. Appendix – Revenue and Expenditure Details

Table A1. *FYs 2008-2011 Financial Plan Revenue Detail*

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2008-11 Percent	Dollar
Taxes:						
Real Property	$13,143	$14,258	$15,343	$16,327	24.2%	$3,185
Personal Income Tax	$8,562	$8,473	$8,805	$9,254	8.1%	$692
General Corporation Tax	$3,102	$3,012	$3,083	$3,223	3.9%	$121
Banking Corporation Tax	$813	$658	$693	$729	(10.3%)	($84)
Unincorporated Business Tax	$1,542	$1,529	$1,561	$1,645	6.7%	$103
Sale and Use	$4,532	$4,646	$4,874	$5,122	13.0%	$590
Commercial Rent	$550	$566	$583	$601	9.3%	$51
Real Property Transfer	$1,381	$1,163	$1,178	$1,207	(12.6%)	($174)
Mortgage Recording Tax	$1,249	$1,118	$1,132	$1,159	(7.2%)	($90)
Utility	$355	$370	$385	$401	13.0%	$46
Cigarette	$137	$133	$130	$128	(6.6%)	($9)
Hotel	$337	$353	$367	$381	13.1%	$44
All Other	$380	$389	$395	$396	4.0%	$15
Tax Audit Revenue	$559	$559	$560	$560	0.2%	$1
Total Taxes	**$36,642**	**$37,227**	**$39,089**	**$41,133**	**12.3%**	**$4,491**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$419	$420	$423	$427	1.9%	$8
Interest Income	$387	$137	$144	$144	(62.8%)	($243)
Charges for Services	$563	$549	$547	$548	(2.7%)	($15)
Water and Sewer Charges	$1,194	$1,192	$1,196	$1,224	2.5%	$30
Rental Income	$194	$193	$192	$192	(1.0%)	($2)
Fines and Forfeitures	$724	$723	$724	$724	0.0%	$0
Miscellaneous	$1,123	$502	$506	$507	(54.9%)	($616)
Intra-City Revenue	$1,393	$1,364	$1,365	$1,365	(2.0%)	($28)
Total Miscellaneous	**$5,997**	**$5,080**	**$5,097**	**$5,131**	**(14.4%)**	**($866)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$13	$13	$13	$13	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$340**	**$340**	**$340**	**$340**	**0.0%**	**$0**
Other Categorical Grants	**$1,006**	**$1,007**	**$1,012**	**$1,014**	**0.8%**	**$8**
Inter Fund Agreements	**$436**	**$411**	**$403**	**$398**	**(8.7%)**	**($38)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**0.0%**	**$0**
Less: Intra-City Revenue	**($1,393)**	**($1,364)**	**($1,365)**	**($1,365)**	**(2.0%)**	**$28**
TOTAL CITY FUNDS	**$43,013**	**$42,686**	**$44,561**	**$46,636**	**8.4%**	**$3,623**

Table A2 (Con't). *FYs 2008-2011 Financial Plan Revenue Detail*

($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2008-11 Percent	Changes FYs 2008-11 Dollar
Federal Categorical Grants:						
Community Development	$269	$277	$262	$259	(3.7%)	($10)
Welfare	$2,291	$2,400	$2,393	$2,393	4.5%	$102
Education	$1,851	$1,898	$1,899	$1,900	2.6%	$49
Other	$884	$805	$810	$799	(9.6%)	($85)
Total Federal Grants	**$5,295**	**$5,380**	**$5,364**	**$5,351**	**1.1%**	**$56**
State Categorical Grants						
Social Services	$1,927	$1,804	$1,804	$1,803	(6.4%)	($124)
Education	$7,872	$8,628	$9,494	$9,932	26.2%	$2,060
Higher Education	$195	$195	$195	$195	0.0%	$0
Department of Health and Mental Hygiene	$457	$430	$429	$435	(4.8%)	($22)
Other	$373	$353	$353	$353	(5.4%)	($20)
Total State Grants	**$10,824**	**$11,410**	**$12,275**	**$12,718**	**17.5%**	**$1,894**
TOTAL REVENUES	**$59,132**	**$59,476**	**$62,200**	**$64,705**	**9.4%**	**$5,573**

Table A2. ***FYs 2008-2011 Financial Plan Expenditure Detail***

($ in thousands)

					Changes FYs 2008 - 11	
	FY 2008	**FY 2009**	**FY 2010**	**FY 2011**	**Percent**	**Dollar**
Mayoralty	$86,924	$85,974	$85,644	$85,659	(1.5%)	($1,265)
Board of Elections	$100,864	$82,819	$75,769	$75,769	(24.9%)	($25,095)
Campaign Finance Board	$9,806	$8,664	$8,664	$8,664	(11.6%)	($1,142)
Office of the Actuary	$6,005	$5,905	$5,905	$5,905	(1.7%)	($100)
President, Borough of Manhattan	$5,446	$3,483	$3,483	$3,483	(36.0%)	($1,963)
President, Borough of Bronx	$7,214	$4,961	$4,961	$4,961	(31.2%)	($2,253)
President, Borough of Brooklyn	$8,054	$4,371	$4,371	$4,371	(45.7%)	($3,683)
President, Borough of Queens	$6,931	$3,988	$3,988	$3,988	(42.5%)	($2,943)
President, Borough of Staten Island	$4,860	$3,465	$3,465	$3,465	(28.7%)	($1,395)
Office of the Comptroller	$76,148	$75,673	$74,348	$74,348	(2.4%)	($1,800)
Dept. of Emergency Management	$11,993	$8,970	$8,970	$8,970	(25.2%)	($3,023)
Tax Commission	$2,584	$2,584	$2,584	$2,584	0.0%	$0
Law Dept.	$121,523	$119,570	$119,391	$119,391	(1.8%)	($2,132)
Dept. of City Planning	$29,700	$23,729	$23,729	$23,729	(20.1%)	($5,971)
Dept. of Investigation	$18,983	$18,984	$18,985	$18,875	(0.6%)	($108)
NY Public Library - Research	$25,086	$25,366	$25,366	$25,366	1.1%	$280
New York Public Library	$119,955	$121,310	$121,310	$121,310	1.1%	$1,355
Brooklyn Public Library	$88,288	$89,250	$89,250	$89,250	1.1%	$962
Queens Borough Public Library	$86,800	$87,704	$87,704	$87,704	1.0%	$904
Dept. of Education	$16,974,359	$18,037,249	$19,274,827	$20,199,690	19.0%	$3,225,331
City University	$628,425	$575,905	$578,591	$581,847	(7.4%)	($46,578)
Civilian Complaint Review Board	$11,959	$11,896	$11,896	$11,896	(0.5%)	($63)
Police Dept.	$3,693,898	$3,681,974	$3,687,856	$3,681,351	(0.3%)	($12,547)
Fire Dept.	$1,462,564	$1,450,279	$1,444,337	$1,445,418	(1.2%)	($17,146)
Admin. for Children Services	$2,751,369	$2,721,780	$2,721,786	$2,721,877	(1.1%)	($29,492)
Dept. of Social Services	$8,562,680	$8,416,298	$8,570,152	$8,729,330	1.9%	$166,650
Dept. of Homeless Services	$649,647	$638,578	$637,797	$637,797	(1.8%)	($11,850)
Dept. of Correction	$932,343	$911,775	$914,582	$913,990	(2.0%)	($18,353)
Board of Correction	$925	$925	$925	$925	0.0%	$0
Citywide Pension Contribution	$5,603,272	$6,265,317	$6,384,454	$6,394,993	14.1%	$791,721
Miscellaneous	$6,117,775	$6,919,017	$7,683,964	$8,473,418	38.5%	$2,355,643
Debt Service	$3,851,743	$4,241,291	$4,629,720	$5,052,786	31.2%	$1,201,043
M.A.C. Debt Service	$10,000	$0	$0	$0	(100.0%)	($10,000)
N.Y.C.T.F.A. Debt Service	$1,112,000	$1,137,000	$1,149,000	$1,154,000	3.8%	$42,000
Pre-Payments	($4,052,620)	($2,585,442)	($380,865)	$0	(100.0%)	$4,052,620
Budget Stabilization Account	$2,551,537	$350,000	$0	$0	(100.0%)	($2,551,537)
Transfer for N.Y.C.T.F.A. Debt Service.	($562,000)	$0	$0	$0	(100.0%)	$562,000
Defeasance of N.Y.C.T.F.A. Debt	($383,000)	($363,000)	($382,000)	$0	(100.0%)	$383,000
Call 2009/2010 G.O. Debt	($26,935)	($278,334)	($276,634)	$0	(100.0%)	$26,935
Public Advocate	$3,152	$2,191	$2,191	$2,191	(30.5%)	($961)
City Council	$54,608	$54,608	$54,608	$54,608	0.0%	$0
City Clerk	$3,934	$3,934	$3,934	$3,934	0.0%	$0
Dept. for the Aging	$277,183	$242,321	$242,321	$241,321	(12.9%)	($35,862)
Dept. of Cultural Affairs	$168,232	$154,140	$154,140	$154,140	(8.4%)	($14,092)
Financial Information Services. Agency	$59,161	$53,360	$47,366	$47,366	(19.9%)	($11,795)
Dept. of Juvenile Justice	$127,431	$124,589	$124,589	$124,589	(2.2%)	($2,842)
Office of Payroll Admin.	$14,531	$12,956	$11,507	$11,507	(20.8%)	($3,024)
Independent Budget Office	$3,161	$3,151	$3,121	$3,121	(1.3%)	($40)
Equal Employment Practices Comm.	$773	$773	$773	$773	0.0%	$0

Table A2 (Con't). *FYs 2008-2011 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2008 - 11 Percent	Changes FYs 2008 - 11 Dollar
Civil Service Commission	$611	$636	$636	$636	4.1%	$25
Landmarks Preservation Comm.	$4,621	$4,321	$4,321	$4,321	(6.5%)	($300)
Taxi & Limousine Commission	$32,157	$28,966	$28,966	$28,966	(9.9%)	($3,191)
Commission on Human Rights	$7,180	$7,180	$7,180	$7,180	0.0%	$0
Youth & Community Development	$388,251	$275,902	$275,902	$275,902	(28.9%)	($112,349)
Conflicts of Interest Board	$1,917	$1,912	$1,912	$1,912	(0.3%)	($5)
Office of Collective Bargain	$1,862	$1,862	$1,862	$1,862	0.0%	$0
Community Boards (All)	$14,498	$14,347	$14,349	$14,351	(1.0%)	($147)
Dept. of Probation	$80,732	$80,740	$80,740	$80,740	0.0%	$8
Dept. Small Business Services	$172,335	$108,396	$103,805	$96,846	(43.8%)	($75,489)
Housing Preservat'n & Developm'nt	$519,414	$511,962	$491,376	$487,999	(6.0%)	($31,415)
Dept. of Buildings	$99,271	$88,505	$88,402	$88,147	(11.2%)	($11,124)
Dept. of Health & Mental Hygiene	$1,589,071	$1,564,812	$1,581,743	$1,590,710	0.1%	$1,639
Health and Hospitals Corp.	$128,450	$89,771	$92,382	$91,979	(28.4%)	($36,471)
Dept. of Environmental Protection	$965,678	$942,176	$922,159	$920,385	(4.7%)	($45,293)
Dept. of Sanitation	$1,244,485	$1,274,900	$1,300,396	$1,355,202	8.9%	$110,717
Business Integrity Commission	$5,874	$5,774	$5,630	$5,630	(4.2%)	($244)
Dept. of Finance	$214,890	$212,818	$211,788	$211,788	(1.4%)	($3,102)
Dept. of Transportation	$645,842	$611,779	$609,869	$609,798	(5.6%)	($36,044)
Dept. of Parks and Recreation	$317,113	$305,067	$304,566	$301,665	(4.9%)	($15,448)
Dept. of Design & Construction	$105,977	$96,005	$96,005	$96,005	(9.4%)	($9,972)
Dept. of Citywide Admin. Services	$336,994	$310,839	$310,839	$310,839	(7.8%)	($26,155)
D.O.I.T.T.	$240,781	$239,629	$238,521	$238,647	(0.9%)	($2,134)
Dept. of Record & Info. Services	$6,593	$4,687	$4,687	$4,687	(28.9%)	($1,906)
Dept. of Consumer Affairs	$18,156	$15,677	$15,560	$15,345	(15.5%)	($2,811)
District Attorney – N.Y.	$77,772	$76,672	$76,672	$76,672	(1.4%)	($1,100)
District Attorney – Bronx	$46,183	$45,543	$45,543	$45,543	(1.4%)	($640)
District Attorney – Kings	$76,562	$75,617	$75,617	$75,617	(1.2%)	($945)
District Attorney - Queens	$41,595	$45,152	$45,152	$45,152	8.6%	$3,557
District Attorney - Richmond	$7,581	$7,479	$7,479	$7,479	(1.3%)	($102)
Office of Prosecut'n. & Spec. Narc.	$16,989	$16,139	$16,139	$16,139	(5.0%)	($850)
Public Administrator - N.Y.	$1,238	$1,185	$1,185	$1,185	(4.3%)	($53)
Public Administrator - Bronx	$501	$427	$427	$427	(14.8%)	($74)
Public Administrator - Brooklyn	$582	$528	$528	$528	(9.3%)	($54)
Public Administrator - Queens	$455	$402	$402	$402	(11.6%)	($53)
Public Administrator - Richmond	$366	$313	$313	$313	(14.5%)	($53)
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Energy Adjustment	$0	$20,470	$19,448	$23,528	N/A!	$23,528
Lease Adjustment	$0	$20,010	$40,620	$61,848	N/A!	$61,848
OTPS Inflation Adjustment	$0	$55,519	$111,038	$166,557	N/A	$166,557
City-Wide Total	**$59,131,848**	**$61,025,420**	**$65,596,984**	**$69,073,592**	**16.8%**	**$9,941,744**

Glossary of Acronyms

BSA	Budget Stabilization Account
CSA	Council of School Supervisors and Administrators
CFE	Campaign for Fiscal Equity
DASNY	Dormitory Authority of the State of New York
DOE	Department of Education
EXCEL	Expanding our Children's Education & Learning Bonds
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HYIC	Hudson Yards Infrastructure Corporation
IRS	Internal Revenue Service
J&C	Judgments and Claims

MAC	Municipal Assistance Corporation
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYS	New York State
OPEB	Other Post-employment Benefits
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PIT	Personal Income Tax
PS	Personal Services
RHBTF	Retiree Health Benefits Trust Fund
SBA	Sergeant Benevolent Association
TSASC	Tobacco Settlement Asset Securitization Corporation
UFA	Uniformed Firefighters Association
UFOA	Uniformed Fire Officers Association
UFT	United Federation of Teachers
U.S.	United States
USA	Uniformed Sanitationmen's Association