The Comptroller's Comments on The Preliminary Budget for Fiscal Year 2006 and The Financial Plan for FYS 2006-09

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

Over the past three years the City has faced and surmounted its most daunting fiscal challenge in decades. The City's financial outlook now appears to have stabilized for the current fiscal year and FY 2006; over the long term, however, multi-billion dollar budget deficits loom.

The FY 2006 Preliminary Budget appears on course toward balance assuming the risks it contains are expeditiously addressed. These risks total $478 million after accounting for offsetting revenues. The single largest risk stems from budgetary relief the City assumes will be forthcoming from Federal and State actions. The City relies upon an ambitious menu of such actions, and assumes enough will be realized to provide $750 million in relief.

Many of the City's proposed actions have previously failed to materialize, and it does not appear likely that they will receive legislative consideration in the near future. As in previous years, the Governor released a State budget that claims to provide the City considerably more assistance than it requested. The City, however, has disputed most of the fiscal relief in the State estimates.

Although the Comptroller's Office accepts that some additional State and Federal assistance will likely be realized, $550 million of the City's agenda should be considered at risk

Other risks to the FY 2006 budget include an overtime risk of $150 million and the assumption of $34 million in savings from a reduction in the number of teacher's sabbaticals. This assumption has been maintained despite a ruling by the Public Employment Relations Board (PERB) that the City cannot unilaterally deny teacher sabbaticals in order to save money.

In addition, there are several major issues that are likely to be costly to the City, but whose precise costs and timing are difficult to predict. The City's approach to these issues has been optimistic.

First, the City has made no provision for wage increases for the next round of collective bargaining for civilian employees. This contract expires on June 30, 2005. The City maintains its position that any wage increases for employees must be funded through productivity initiatives. In the absence of productivity savings, however, it will cost the City approximately $39 million annually for every one-percentage point wage increase for these employees. This omission could result in significant cost to the City. Furthermore, the contracts of firefighters, police officers and teachers are currently in mediation, the outcome of which could be costly as well. The City has funded these contracts based on the 2002-2005 agreement with civilian employee unions. For every one percentage point above the civilian employee wage settlement, the City will incur additional cost of $145 million annually. Any increase in the wage level will also increase the baseline for overtime.

Second, the City faces risks with regard to education funding. In February, the State Supreme Court ordered the State to increase the City schools' operating budget gradually over a four-year period until it has risen by $5.63 billion a year from current levels. The Court also directed an increase of more than $9 billion over five years in capital spending. While the City has taken the reasonable position that the State should bear the costs for improving education, it remains unclear whether the City will be required to provide any of the increased education funding required by the court's ruling.

Third, the City must also confront the financial position of the Health and Hospitals Corporation. The City projects that the HHC will face looming budget gaps ranging between $485 million and $636 million in FYs 2006-2009, as receipts and disbursements diverge significantly. While we recognize that the City's estimates may be on the conservative side because certain Federal and State actions may materialize in the outyears to help close these gaps, these actions would not solve entirely the Corporation's problem. In the current fiscal year, HHC appears to have averted a decline in its cash balance due in part to a $150 million prepayment of the City's FY 2006 subsidy. However, this results in lower projected receipts for FY 2006. Therefore, unless a significant improvement in HHC's receipts occurs, we should at least acknowledge the potential of a more permanent increase in the level of support that the City provides to the Corporation.

Our concern over these risks is heightened when we take into consideration the City's practice of relying on non-recurring actions to balance its budget. The use of an anticipated $2 billion FY 2005 surplus to prepay FY 2006 expenses is emblematic of this approach. While the surplus provides one-time budget relief to FY 2006, it does not address the central budgetary challenge: the fact that the growth of the City's expenditures outpaces the growth of its revenues over the financial plan period.

This year's projected surplus results from unanticipated revenues that have more than offset increases in this year's expenditures. The surge in revenue is due mainly to a recovering economy and a robust local real estate market driven by historically low interest rates that have together bolstered tax collections. The City has raised its tax revenue estimates for the current fiscal year by $909 million, and is expecting an additional $224 million from non-tax sources.

A surplus is not projected for FY 2006. As a result, the City confronts multi-billion dollar deficits beginning in FY 2007. The City projects budget deficits of $3.7 billion in FY 2007, $3.6 billion in FY 2008, and $3.2 billion in FY 2009. This reliance on non-recurring revenues allows the City little margin for error in the event of increases in labor, education and health care costs or another economic downturn. While the City's economy is projected to expand, both the City and the Comptroller's Office project that growth in 2005 will be slower than in 2004, and will lag that of the nation. In addition, rising interest rates may hamper economic growth.

Until the City can find a way to address the embedded gap between revenues and expenditures, the citizens of New York will face years of difficult budget deficits.

Table 1. The City's Projections for FYs 2005-2009

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Changes FY 2005-FY 2009 Dollar	Changes FY 2005-FY 2009 Percent
Revenues							
Taxes							
General Property Tax	$11,688	$12,498	$13,221	$14,161	$14,826	$3,138	26.8%
Other Taxes	$17,088	$16,359	$16,643	$17,392	$18,219	$1,131	6.6%
Tax Audit Revenues	$525	$512	$509	$509	$509	($16)	(3.0%)
Tax Reduction Program	$0	$0	$0	$0	$0	$0	0.0%
Miscellaneous Revenues	$6,199	$4,580	$4,343	$4,380	$4,406	($1,793)	(28.9%)
Unrestricted Intergovernmental Aid	$562	$562	$562	$562	$562	$0	0.0%
Anticipated State & Federal Actions	$0	$750	$200	$100	$100	$100	0.0%
Less: Intra-City Revenues	($1,268)	($1,206)	($1,205)	($1,205)	($1,205)	$63	(5.0%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$34,779	$34,040	$34,258	$35,884	$37,402	$2,623	7.5%
Other Categorical Grants	$897	$934	$916	$921	$927	$30	3.3%
Inter-Fund Revenues	$357	$347	$339	$332	$332	($25)	(7.0%)
Total City & Inter-Fund Revenues	$36,033	$35,321	$35,513	$37,137	$38,661	$2,628	7.3%
Federal Categorical Grants	$5,563	$4,839	$4,776	$4,765	$4,765	($798)	(14.3%)
Federal-FEMA Insurance Program	$1,000	$0	$0	$0	$0	($1,000)	(100.0%)
State Categorical Grants	$8,999	$9,057	$9,074	$9,138	$9,179	$180	2.0%
Total Revenues	$51,595	$49,217	$49,363	$51,040	$52,605	$1,010	2.0%
Expenditures							
Personal Service							
Salaries and Wages	$17,850	$17,499	$17,524	$17,401	$17,413	($437)	(2.4%)
Pensions	$3,243	$3,894	$4,294	$4,681	$4,609	$1,366	42.1%
Fringe Benefits	$5,235	$5,518	$5,808	$6,156	$6,479	$1,244	23.8%
Subtotal-PS	$26,328	$26,911	$27,626	$28,238	$28,501	$2,173	8.3%
Other Than Personal Service							
Medical Assistance	$4,901	$5,067	$5,337	$5,719	$6,148	$1,247	25.4%
Public Assistance	$2,487	$2,365	$2,354	$2,354	$2,354	($133)	(5.3%)
Pay-As-You-Go Capital	$200	$200	$200	$200	$200	$0	0.0%
All Other	$14,509	$13,153	$13,314	$13,497	$13,645	($864)	(6.0%)
Subtotal-OTPS	$22,097	$20,785	$21,205	$21,770	$22,347	$250	1.1%
Debt Service							
Principal	$1,509	$1,437	$1,741	$1,813	$1,932	$423	28.0%
Interest & Offsets	$1,693	$2,028	$2,427	$2,696	$2,911	$1,218	71.9%
Total	$3,202	$3,465	$4,168	$4,509	$4,843	$1,641	51.2%
Budget Stabilization	$2,004	$0	$0	$0	$0	($2,004)	(100.0%)
Prepayment	($1,923)	($2,004)	$0	$0	$0	$1,923	(100.0%)
MAC Debt Service	$130	$10	$10	$10	$0	($130)	(100.0%)
NYCTFA							
Principal	$381	$348	$386	$411	$429	$48	12.6%
Interest & Offsets	$544	$608	$591	$572	$559	$15	2.8%
Total	$925	$956	$977	$983	$988	$63	6.8%
General Reserve	$100	$300	$300	$300	$300	$200	200.0%
Subtotal	$52,863	$50,423	$54,286	$55,810	$56,989	$4,126	7.8%
Less: Intra-City Expenses	($1,268)	($1,206)	($1,205)	($1,205)	($1,205)	$63	(5.0%)
Total Expenditures	$51,595	$49,217	$53,081	$54,605	$55,784	$4,189	8.1%
Gap To Be Closed	**$0**	**($0)**	**($3,718)**	**($3,565)**	**($3,179)**	**($3,179)**	

NOTE: Includes STAR and PIT revenues retained for NYCTFA debt service.

Table 2. Plan-to-Plan Changes, October Modification vs. January Modification

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008
Revenues				
Taxes				
General Property Tax	($80)	$258	$449	$579
Other Taxes	$987	$198	$65	($0)
Tax Audit Revenues	$2	$4	$0	$0
Tax Reduction Program	$0	$0	$0	$0
Miscellaneous Revenues	$219	$287	$112	$117
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Anticipated State & Federal Actions	($50)	$750	$200	$100
Less: Intra-City Revenues	($79)	($76)	($76)	($76)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$999	$1,421	$750	$720
Other Categorical Grants	$94	$57	$50	$55
Inter-Fund Revenues	$8	$12	$8	$1
Total City & Inter-Fund Revenues	$1,101	$1,490	$808	$776
Federal Categorical Grants	$606	$263	$217	$216
Federal-FEMA Insurance Program	$0	$0	$0	$0
State Categorical Grants	$290	$463	$404	$397
Total Revenues	$1,997	$2,216	$1,429	$1,389
Expenditures				
Personal Service				
Salaries and Wages	$645	$231	$268	$245
Pensions	($133)	($213)	($221)	$179
Fringe Benefits	$75	$87	$84	$87
Subtotal-PS	$587	$105	$131	$511
Other Than Personal Service				
Medical Assistance	$168	$299	$474	$666
Public Assistance	$134	$63	$51	$51
Pay-As-You-Go Capital	$0	$0	$0	$0
All Other	$0	$294	$281	$286
Subtotal-OTPS	$302	$656	$806	$1,003
Debt Service				
Principal	$47	($467)	$101	$191
Interest & Offsets	($95)	$453	($1)	($32)
Total	($48)	($14)	$100	$159
Budget Stabilization	$1,430	$0	$0	$0
Prepayment	$0	($1,430)	$0	$0
MAC Debt Service	$10	$10	$10	$10
NYCTFA	$0	$0	$0	$0
Principal	$0	$0	$0	$0
Interest & Offsets	($5)	$0	$0	$0
Total	($5)	$0	$0	$0
General Reserve	($200)	$0	$0	$0
	$2,076	($673)	$1,047	$1,683
Less: Intra-City Expenses	($79)	($76)	($76)	($76)
Total Expenditures	$1,997	($749)	$971	$1,607
Gap To Be Closed	**$0**	**$2,965**	**$458**	**($218)**

NOTE: Includes STAR and PIT revenues retained for NYCTFA debt service.

Table 3. FYs 2005-2009 Risks and Offsets

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
City Stated Gap	**$0**	**$0**	**($3,718)**	**($3,565)**	**($3,179)**
Tax Revenue Assumptions					
General Property Tax	$50	$39	($21)	($63)	($93)
Personal Income Tax	$60	$86	$73	($4)	($71)
Business Taxes	$120	$54	$31	($21)	($51)
Sales Tax	$20	$50	$28	$3	($6)
Real Estate Transaction Taxes	$0	$18	($3)	($33)	($37)
All Other Taxes	$0	$9	$48	$46	$67
Subtotal	**$250**	**$256**	**$156**	**($72)**	**($191)**
Federal and State Actions					
Federal Actions	$0	($250)	$0	$0	$0
State Actions	$0	($300)	$0	$0	$0
Subtotal	**$0**	**($550)**	**$0**	**$0**	**$0**
Expenditure Projections					
Overtime	($50)	($150)	($75)	($75)	($75)
Reduction in Sabbatical	($15)	($34)	($34)	($34)	($34)
Subtotal	**($65)**	**($184)**	**($109)**	**($109)**	**($109)**
Total Risk	**$185**	**($478)**	**$47**	**($181)**	**($300)**
Restated Gap	**$185**	**($478)**	**($3,671)**	**($3,746)**	**($3,479)**

II. Outyear Risks and Offsets

While the City has presented reasonable estimates of its revenues and expenditures in the January Modification, the Comptroller's Office has identified some risks and offsets to risk in the City's projections. As Table 3 on page 3 shows, the Comptroller's Office projects risks of $478 million, $181 million, and $300 million in FYs 2006, 2008, and 2009, respectively, and upside potential of $47 million in FY 2007.

The Comptroller's Office has a more optimistic tax revenue forecast than the City in the first half of the financial plan period. As a result, the Comptroller's Office estimates that tax revenues may be $256 million, and $156 million greater than the City's projections in FY 2006 and FY 2007, respectively. However, the Comptroller's Office has a more conservative outlook for tax revenues for FY 2008 and FY 2009 than the City. Therefore, the Comptroller's Office projects that revenues may fall short of the City's forecasts by $72 million in FY 2008 and by $191 million in FY 2009.

The biggest risk to the Preliminary FY 2006 Budget is the assumption of $750 million in Federal and State gap-closing actions for FY 2006. All of these proposals require Federal or State approval. While the City has presented a menu of proposals to achieve this target, the Federal and State governments' responses to them are uncertain. As such, it is too soon to recognize these revenues. However, based on recent State actions in providing budgetary relief to the City, it is likely that the City may realize $200 million of the $500 million assumed in State initiatives for FY 2006.

Expenditure risks total $184 million in FY 2006, and $109 million annually for FY 2007 to FY 2009. The dominant expenditure risk is in overtime projections. As discussed in "Overtime" beginning on page 16, overtime spending will exceed the City's estimates by $150 million in FY 2006, and $75 million annually from FY 2007 to FY 2009. The City also continues to assume annual savings of $34 million from the reduction of teacher sabbaticals in the outyears of the plan, despite a PERB ruling that the City cannot unilaterally deny teacher sabbaticals in order to save money.

In addition to the risks identified above, the City could be burdened with additional expenditures from the Campaign for Fiscal Equity (CFE) lawsuit. Justice Leland DeGrasse has ruled that the State must spend an additional $5.6 billion on educating the City's children, and that the Court could not prohibit the State Legislature from requiring the City to contribute a portion of this mandated education funding. The City also faces additional uncertainty surrounding the outcomes of the PBA, UFA, and UFT contracts that are currently under mediation, as discussed in "Labor" beginning on page 21. Furthermore, the contracts for civilian employees expire on June 30, 2005 and no provisions have been made for wage increases in the next round of collective bargaining.

III. The FY 2005 Budget

The City's January Modification reflects the continuing improvement in the local economy as well as the robust real estate market. The City has increased its City-fund revenue estimates $1.1 billion since the October Modification, as shown in Table 4, driven mainly by higher tax revenue forecasts.[1] Tax revenue estimates were revised upwards $909 million with real estate transaction tax revenues accounting for almost 40 percent of this increase. In addition, the City expects to generate an additional $138 million in revenues from its programs to eliminate the gap (PEG). Increases in non-tax revenue estimates add another $224 million to the City's October forecast. These increases are partially offset by the removal of $50 million in anticipated Federal and State aid from the budget as well as an expected delay, until FY 2006, of the receipt of $120 million in TSASC residual revenues.

The City has proposed additional agency gap-closing programs of $295 million, recognized $200 million in prior-year payable adjustment and reduced its General Reserve $200 million. These actions, together with the higher tax revenue estimates, enabled the City to increase its budget stabilization account (BSA) $1.4 billion and fund a $367 million increase in agency spending.

Table 4. Changes to the City's FY 2005 Estimates

($ in millions)

Revenues		Expenditures	
Tax Revenues[a]	$909	PEG	($295)
PEG	138	Prior Year Payable	(200)
TSASC	(120)	General Reserve	(200)
Anticipated Federal and State Aid	(50)	Agency Spending[b]	367
Non-Tax Revenue	224	BSA	1,429
Total	**$1,101**		**$1,101**

SOURCE: NYC Office of Management and Budget.
[a] Tax revenues include State reimbursement for School Tax Relief exemption as well as the portion of Personal Income Tax revenue retained for New York City Transitional Finance Authority (NYCTFA) debt service and expenditures include NYCTFA debt service.
[b] Agency spending includes NYCTFA debt service.

A. TAX REVENUES

Tax revenues for FY 2005 are expected to total $29.3 billion, as shown in Table 5.[2] This is $909 million higher than the October Modification estimate and represents an increase of $1.0 billion, or 3.6 percent, from FY 2004 tax revenues. The resurgent economy and a robust real estate market continue to boost City tax revenues.

[1] City fund revenues include other categorical grants and inter-fund revenues.

[2] Includes personal income tax (PIT) revenue retained for New York City Transitional Finance Authority (NYCTFA) debt service and state reimbursement for School Tax Relief (STAR) exemption.

Table 5. Changes to FY 2005 Tax Revenue Estimates

($ in millions)

Tax Revenues	Oct. Mod.	Jan. Mod.	Change
Real Estate Transaction	$1,346	$1,703	$357
Personal Income	6,123	6,442	319
Business	2,982	3,154	172
Sales	4,128	4,205	77
Real Property	11,768	11,688	(80)
All Other	2,045	2,109	64
Total	**$28,392**	**$29,301**	**$909**

SOURCE: NYC Office of Management and Budget.

Real Estate Transaction Tax Revenue re-estimates account for almost 40 percent of the increase in projected tax revenue. As Table 5 shows, real estate transactions tax revenues – mortgage recording and real property transfer tax revenues – are $357 million higher than the October Modification projections. Collections through January were $351 million more than the City's October projections. Transactions continue to be strong as historically low mortgage interest rates spur home purchases and refinancings. However, there are signs that the level of activity is slowing; and real estate transaction tax revenues are, therefore, expected to decline in FY 2006 as discussed in "Tax Revenues" beginning on page 9.

Personal Income Tax (PIT) Revenue forecasts have been revised upward $319 million compared to the October Modification. Collections through January were $211 million more than the October estimates. The strength of PIT revenue reflects the ongoing recovery of both the local economy and job market.

Business Tax Revenues are also stronger than expected. Collections through January for business taxes – General Corporation, Banking Corporation, and Unincorporated Business taxes – were $325 million greater than the October Modification estimates. The City has increased its estimates for business tax revenues $172 million since the October Modification.

Sales Tax Revenue estimates have been increased moderately by $77 million from the October Modification. Sales tax revenue is now expected to be $4.2 billion in FY 2005, an increase of $183 million over FY 2004. The increase in sales tax revenue reflects the continued recovery of the hotel and tourism industry as well as strong holiday sales in December. Collections through January were $55 million more than the October Modification forecast.

Property Tax Revenue estimates, in contrast, have been reduced $80 million compared with the October Modification projection. The drop in property tax revenue is due mainly to a planned delay of lien sale of $54 million, an increase of $30 million in the refund estimate and an increase of $6 million to the current year reserve. These reductions to the property tax revenue estimate are partially offset by an increase of $10 million in the prior year collections forecast.

B. EXPENDITURES

The January Modification increased the FY 2005 BSA $1.4 billion to a total of $2 billion. In addition, agency spending increased $367 million. These increases are funded by stronger revenue estimates, a reduction of $200 million in the General Reserve, an adjustment of $200 million for prior-year-payable expenses, and the inclusion of $295 million in additional agency gap-closing actions.

The City plans to use the entire BSA to prepay FY 2006 expenditures, thereby providing one-time budget relief of $2 billion to the FY 2006 budget. The bulk of the BSA will be used to prepay $1.7 billion in FY 2006 debt service. The remaining $300 million will be used to prepay $150 million of the Health and Hospitals Corporation (HHC) subsidy and $150 million of the Transit Authority subsidy.

Most of the increase in agency spending occurs in the Department of Social Services (DSS), as shown in Table 6. The increase is due mainly to $153 million in higher estimated Medicaid costs. New needs for the Department of Education relating to a FICA re-estimate, special education contract schools, Carter cases and Charter schools along with technical adjustments, account for a $114 million increase in DOE spending.

Table 6. FY 2006 Agency Spending Increases

($ in millions)

	Oct. Mod.	Jan. Mod.	Change
DSS	$4,990	$5,161	$171
DOE	5,522	5,636	114
All Other Agencies	23,545	23,627	82
Total	$34,057	$34,424	$367

NOTE: Expenditures are before gap-closing actions and include NYCTFA debt service and other categorical grants and inter-fund agreement.

In addition to the $114 million increase in City-funds, the DOE total fund budget recognizes about $506 million in Federal and State grants based on the latest appropriations. The higher State grants projections, which comprise about $311 million of this total, account for education aid increases enacted as part of State budget adoption and subsequent adjustments made to the FY 2005 appropriations, as shown in the Governor's proposed budget. The chief component of this increase is $321 million in additional extraordinary needs aid, offset by a net decrease of $10 million in other aid categories. The State allocates this grant to districts with high concentrations of students with limited English proficiency and at-risk pupils. The Federal aid increase consists mostly of re-estimates of Title I funds, Reading First grants and technology grants.

C. FY 2005 OUTLOOK

The January Modification presents a balanced budget for FY 2005. However, as discussed in "Labor" beginning on page 21, the unions representing uniformed employees and teachers have not settled contracts with the City. The January Modification contains funding for wage increases for these employees patterned after the DC 37 2002-2005 agreement. Any settlement above the terms of the DC 37 2002-2005 agreement will result in additional costs to the City.

The $2 billion BSA combined with the $100 million in the General Reserve provide a comfortable cushion against any shortfall in the FY 2005 budget. However, any depletion in the BSA will result in a corresponding deficit in FY 2006 as the BSA funds have been earmarked for FY 2006 budget relief.

IV. The Preliminary FY 2006 Budget

A. REVENUE OUTLOOK

Tax Revenues

The January Modification projects total tax revenues of $29.4 billion in FY 2006.[3] Property tax revenues are expected to account for 43 percent of total tax revenues with non-property tax revenues accounting for the remainder. Compared with FY 2005, the relative share of property tax revenues is expected to increase 2.7 percentage points, reflecting the increase in the property tax levy forecast, the phase-out of the PIT rate increase, and the decline of real-estate transaction related tax revenues.

The $29.4 billion in FY 2006 tax revenues represents an increase of $67 million or 0.2 percent over FY 2005. The projections of property tax revenues increased $809 million, or 6.9 percent over FY 2005. Non-property tax revenue projections decreased $742 million compared with FY 2005, attributable to the decrease in tax revenues related to real-estate transactions and sales tax revenues.

The City projects that non-property tax revenues will total $16.9 billion in FY 2006, representing a decrease of 4.2 percent from FY 2005, as shown in Table 7. This decrease is due mainly to the expected slowdown in real-property transactions and legislative changes in PIT and sales tax.[4] Increases from stronger economic growth in FY 2006 are more than offset by legislative reductions and an anticipated decline in the tax revenues related to real-estate transactions. Business taxes are expected to grow in FY 2006, increasing $97 million or 3.1 percent.

Table 7. Non-Property Tax Revenues

($ in millions)

	FY 2005	FY 2006	Change
PIT	$6,442	$6,381	($61)
Business	3,154	3,251	97
Sales	4,205	4,046	(159)
Real-Estate Transaction	1,703	1,072	(631)
All Other	2,109	2,121	12
Total	**$17,613**	**$16,871**	**($742)**

SOURCE: NYC Office of Management and Budget.

[3] Tax revenues includes School Tax Relief (STAR) reimbursement, the portion of PIT retained for NYCTFA debt service and tax audit revenues.

[4] While the Governor's budget contains a proposal to permanently reinstate the sales tax on purchases of clothing and footwear under $110, the City's tax revenue projections do not reflect this proposal.

PIT revenues are expected to decrease $61 million, or 1.0 percent, after a $350 million increase in FY 2005. After adjusting for tax law changes and TFA retention, PIT is forecasted to grow 3.6 percent in FY 2006. In January 2007, the temporary personal income tax increase will sunset. The City also is expecting no growth in capital gains realization in tax year 2005 and has lowered its expectation for growth in FY 2006.

Sales tax revenues are projected at $4,046 million in FY 2006, a decline of $159 million or 3.8 percent from FY 2005, resulting from the expiration of the 0.125 percentage point rate increase in sales tax and the sunset of the repeal of the sales tax exemption for clothing and footwear priced under $110.

Real property transfer tax revenues are forecast to drop 37.3 percent to $555 million, reflecting a slowdown in the number of transactions. Mortgage recording taxes are expected to decrease 36.8 percent to $517 million, due to a decline in mortgage refinancing.

Tax revenue projections for FY 2006 have been increased $460 million, or 1.6 percent, since the October Modification. Of this increase, $259 million is attributable to property tax revenues and $202 million to non-property tax revenues. Property tax revenue projections for FY 2006 have been revised upward from $12.24 billion in the October Modification to $12.5 billion in January. This is a result of a $242 million increase to the levy forecast and a $51 million increase in lien sale proceeds, offset by a $30 million increase in the refund forecast and a $5 million increase to the current year reserve. For FY 2006, real property transfer tax revenue projections are reduced $18 million and the mortgage recording tax is lowered $149 million. The City also raised its FY 2006 PIT forecast $221 million or 3.6 percent over the October Modification. Business tax projections are increased $49 million due to a continuing recovery in the business sector. Sales tax revenues are raised $37 million from the October forecasts. The City's tax revenue assumptions for FY 2006 are illustrated in Table 8.[5]

Table 8. Changes to the City's Tax Revenue Assumptions, FY 2006

($ in millions)

	Oct. Mod.	Jan. Mod.	Change
Property	$12,239	$12,498	$259
PIT	6,160	6,381	221
Business	3,202	3,251	49
Sales	4,009	4,046	37
Real-Estate Transaction	1,239	1,072	(167)
All Other	2,060	2,121	61
Total	**$28,909**	**$29,369**	**$460**

SOURCE: NYC Office of Management and Budget.

[5] The changes in non-property tax revenues include audit revenue changes.

Risks to the City's Tax Revenues Assumptions

The Comptroller's Office is projecting risks and offsets to the City's tax revenue assumptions as illustrated in Table 9. The projections are based on current year collections and economic growth projections. The Comptroller's Office projects economic growth for the City that is higher than the City's projections for Calendar Year (CY) 2006 and CY 2007. The Comptroller's Office's projections are lower than the City's estimates for the remaining outyears.

For FY 2005, the Comptroller's Office is projecting an upside of $250 million to the City's estimates, as collections continue to exceed expectations. The withholding and estimated components of PIT for December and January are also above the previous estimates.

Table 9. Tax Revenue Risks and Offsets

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Property	$50	$39	($21)	($63)	($93)
PIT	60	86	73	(4)	(71)
Business	120	54	31	(21)	(51)
Sales	20	50	28	(3)	(6)
Real-Estate Transaction	0	18	(3)	(33)	(37)
All Other	0	9	48	46	67
Total	**$250**	**$256**	**$156**	**($72)**	**($191)**

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

For FY 2008 and FY 2009, projections by the Comptroller's Office regarding tax revenues are lower than the City's estimates. The difference stems from a projected reduction in property tax and PIT revenues resulting from a slightly more conservative projection for property values and a weaker outlook for jobs and Wall Street profits.

Miscellaneous Revenues

Excluding intra-City revenues, the January Modification projects Miscellaneous Revenues of $3.4 billion in FY 2006, $3.1 billion in FY 2007, $3.2 billion in FY 2008, and $3.2 billion in FY 2009. This represents increases of $211 million, $36 million, $41 million, and $65 million in FYs 2006 to 2009 compared to the October Modification.

For FY 2006, interest income is projected to increase $32 million, roughly 57 percent more than the October Modification, while miscellaneous revenue is expected to increase $161 million, nearly 38 percent more than the October Modification.[6] The projected increase in interest income is driven primarily by higher interest rate assumptions. The FY 2006 change in miscellaneous revenue is due mainly to the anticipated release of $120 million of tobacco settlement revenues (TSR) from the

[6] The miscellaneous revenue in this discussion refers to the miscellaneous revenue sub-category within Miscellaneous Revenues. The other categories are: Licenses and franchises, interest income, charges for services, water and sewer charges, rental income, and fines and forfeitures.

trapping account.[7] The TSASC agreement includes provisions to fund the trapping account up to 25 percent of the amount of outstanding TSASC bonds if a trapping event occurs.[8] In May 2003, RJ Reynolds, one of the four major tobacco manufacturers, was downgraded to below investment grade, triggering a trapping event for TSASC.[9] In addition, the non-participating manufacturers' market share exceeded 7.0 percent in calendar year 2003, based on an independent auditor's report in 2004. Since TSASC had roughly $1.32 billion of outstanding program bonds at the time, the trapping requirement called for $320 million to be retained. In FY 2004 and FY 2005, approximately $120 million was retained by this mechanism, resulting in a corresponding decrease in residual TSR. TSASC's goal was to have an alternative insurance mechanism in place that would have allowed the trapped TSR to be released to the City in FY 2005. Although it is currently expected that this will be accomplished in FY 2006, no details are currently available regarding the specific options being considered.

The City will recognize an additional $33 million of revenue in FY 2006 as a result of the sale of Escrow Securitization Corporation Bonds in FY 2005.[10] An additional $4.7 million in miscellaneous revenue is expected as a result of more favorable terms in a contract renegotiated with Con Edison last year that allows it the right of way at upstate watershed facilities. The new contract called for substantially higher payments in FY 2005 and FY 2006. Miscellaneous revenues will also benefit from annual payments of $3 million from the Triborough Bridge and Tunnel Authority in FY 2005 and FY 2006 as compensation for the use of Randall's Island facilities.

Federal and State Aid

In the FY 2006 Preliminary Budget, the City has raised its baseline Federal and State grant assumptions $726 million to $13.9 billion. The funding increase includes the recognition of $391 million in State education aid largely based on the latest appropriations. The change also reflects a $263 million increase in Federal aid for FY 2006 that includes $149 million for health and mental health funding and $75 million for education grants. In the outyears, Federal and State grants are expected to increase between $613 million and $656 million annually compared to previous estimates, bringing baseline Federal and State grants to about $13.9 billion each year.

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[7] The City previously had anticipated the release of these funds in FY 2005.

[8] There are five types of trapping events: consumption decline, downgrade of the bonds of any of the four major tobacco manufacturers or their parent companies to below investment grade, lump sum payment in lieu of future TSR, model statute, and the share of non-participating manufacturers exceeding 7.0 percent in a calendar year.

[9] Investment grade is defined as Baa3 by Moody's or BBB by Standard and Poor's.

[10] This sale facilitated a restructuring of an existing general obligation bond refunding escrow, which generated the additional $33 million in revenue.

Federal and State Agenda

In addition to the baseline grant assumptions, the City anticipates significant additional Federal and State assistance which together comprise the single largest initiative to balance the FY 2006 budget. Among the FY 2006 gap closing actions in the January Modification is the assumption of additional assistance to be realized through $500 million in State actions and $250 million in Federal actions.

To achieve these targets, the City has proposed a Federal and State Agenda consisting of potential Federal and State actions totaling $2.1 billion for FY 2006. The extensive list of proposals contains actions that if approved, would reduce the City's Medicaid spending by almost $900 million, including the elimination of Federal recapture of drug cost savings for dual eligibles ($186 million), re-importation of drugs from Canada ($168 million), expanded State Medicaid support for all disabled children ($197 million), and an accelerated State takeover of Family Health Plus ($85 million). The City also seeks greater Federal Homeland Security funding of $326 million, comprised mainly of additional funding that would be available to the City if all future allocations are made on a threat basis. The reversal of State cost shifts, including proposals to remove the cap on administrative reimbursement for social services and discontinuing foster care funding in a block grant format, would further save the City $399 million. Also included on the list are no-cost State proposals of $297 million and various Federal actions of $192 million.

While the City is likely to receive additional Federal and State support, it is unclear if it will be realized from the actions articulated in the Federal and State Agenda. Further, it is unlikely that many of these actions will provide the full gap-closing benefit expected in the January Modification because of the categorical nature of most Federal and State revenues. Given these concerns and the City's ambitious targets for these actions, the FY 2006 gap-closing program could face significant risk. With the exception of certain Medicaid initiatives, a majority of these actions have not yet been introduced and will not likely receive legislative consideration in the near future. In the outyears of the plan, the City's assumptions for additional Federal and State support tapers off considerably, falling to $200 million in FY 2007 and $100 million annually thereafter.

Impact of the State Executive Budget

In January, the Governor released the FY 2005-2006 State Executive Budget. Though the January Modification does not reflect the impact of the proposed State budget, according to State estimates the Governor's proposals could provide the City with over $900 million in State assistance in City FY 2006. The major components of projected State support are school aid appropriations, Medicaid reform, and sales tax revenue. Highlights from these areas include:

> <u>Education Aid</u> – State estimates indicate that the Governor's proposals would provide the City with an $85 million increase in traditional school aid and $195 million in a new Sound Basic Education (SBE) grant, for a total of $280 million in additional education aid in FY 2006. The proposed SBE grant is

predicated on revenues from new video lottery terminals and will require a significant local funding match from the City of approximately $130 million. While the State has provided significant education aid increases to the City in FY 2005, a similar proposal by the Governor in last year's executive budget was rejected by the Legislature. Also, with respect to the recent Campaign for Fiscal Equity (CFE) court decision, the SBE grant proposal would fall far short of the required funding under the court ruling.[11]

Medicaid Reform – The Governor has proposed extensive Medicaid cost containment initiatives that could significantly reduce costs to localities. The proposed actions are estimated to provide the City with a total of $208 million in Medicaid savings in the first half of FY 2006. If the Legislature approves this level of cost containment actions, a spending cap will be placed on the City's Medicaid budget and the State will absorb all additional expenditures in the event that the City's Medicaid spending grows in excess of 3.5 percent.[12] The cap provision is estimated to save the City an additional $190 million, bringing total Medicaid savings to $398 million in FY 2006. While the Governor's proposal will provide predictability in budgeting for Medicaid, it is unclear if the Legislature will adopt such a significant level of cost containment actions.

Sales Tax Revenue – The State Executive Budget calls for a permanent reinstatement of sales tax on clothing and footwear costing under $110, which would provide $216 million in additional tax revenue to the City in FY 2006. The proposal would extend the tax burden that New York City consumers currently face from the temporary sales tax on clothing and footwear that is scheduled to expire during FY 2005.

The City has disputed most of the fiscal relief in the State estimates, with the exception of about $150 million in net relief that may be available to close its FY 2006 budget gap. In its analysis, the City estimates that a majority of the additional State relief will be in the form of sales tax on clothing and footwear and various miscellaneous actions, providing a total of about $280 million in revenues and savings. The City has discounted the entire $280 million increase in proposed education aid on the grounds that the funding would boost the DOE budget but would not have any gap-closing impact. Unlike the State, the City believes the Governor's Medicaid proposals will only provide modest savings of about $31 million. (See the discussion under "Medical Assistance" beginning on page 23.) Furthermore, the City argues the State's proposal to fund welfare

[11] A more detailed discussion of the CFE court decision can be found in "Department of Education," beginning on page 24.

[12] Under the Governor's proposal, the local Medicaid spending growth cap will be lowered to 3.25 percent in 2007 and 3.0 percent in 2008 and beyond. Beginning in 2008, localities will be given the option to either retain the 3.0 percent cap provision or remit sales tax revenues to the State in exchange for a full State takeover of local Medicaid expenditures.

and child care services under a new flexible fund will require additional City expense of $155 million if the City is to maintain the same level of services.

B. EXPENDITURE ASSUMPTIONS

Headcount

As of December 31, 2004, the City had 221,156 full-time City-funded employees. The FY 2006 Preliminary Budget projects that the City-funded workforce will increase 4,050 employees to 225,206 by June 30, 2005 and then remain relatively stable. The workforce is projected to total 225,408 on June 30, 2006, as shown in Table 10. The City will most likely meet the headcount target for FY 2005. About 1,000 individuals who are contract workers — primarily at the Department of Social Services and Administration for Children Services — will be hired as full-time employees by the end of the fiscal year and the Department of Education projects an increase in pedagogical staff of 1,496 employees.

Current projections anticipate a workforce of 225,687 by June 30 2007, 279 employees more than expected by the end of FY 2006. Most of this increase stems from the City's decision to achieve budgetary savings in FY 2006 by postponing filling 192 civilian positions until FY 2007.

The City's uniformed personnel headcount was 62,998 on December 31, 2004. Uniformed headcount is expected to decline to 62,052 by June 30, 2007 and remain flat through FY 2009. The Police Department will experience peak uniform headcount of 37,038 twice a year when new officers are hired, thereby enabling the City to receive Federal assistance.[13]

[13] The Federal government provides 75 percent of entry-level salaries of officers hired under the Community Oriented Policing Services (COPS) program for a three-year period.

Table 10. City-Fund Full-Time Year-End Headcount

	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2006 - 2009
Agency					
Uniformed:					
Police	34,824	34,824	34,824	34,824	0
Fire	11,154	11,154	11,154	11,154	0
Correction	8,506	8,492	8,492	8,492	(14)
Sanitation	7,582	7,582	7,582	7,582	0
Sub-total	62,066	62,052	62,052	62,052	(14)
Pedagogical:					
Dept. of Education	90,066	90,049	90,049	90,049	(17)
City University	2,700	2,700	2,700	2,700	0
Sub-total	92,766	92,749	92,749	92,749	(17)
Civilian:					
Police	9,140	9,332	9,332	9,332	192
Admin for Child Svcs.	6,242	6,242	6,242	6,242	0
Dept. of Health	3,070	3,077	3,114	3,119	49
Social Services	11,333	11,373	11,373	11,373	40
All Other Civilians	40,791	40,862	40,833	40,789	(2)
Sub-total	70,576	70,886	70,894	70,855	279
Total	225,408	225,687	225,695	225,656	248

SOURCE: Office of Management and Budget, January 2005.

The City now accounts for part-time employees as full-time-equivalent (FTEs) employees. The City had 30,974 FTEs at the end of December 2004 and anticipates ending FY 2005 with 30,261 FTEs and FY 2006 with 30,334 FTEs. The decline results primarily from reductions in FTEs projected for the DOE, which shows FTE positions declining from 15,326 as of December 31, 2004 to 14,411 by June 30, 2005. FTE projections are expected to increase to 30,633 by June 30, 2007 and 30,649 by June 30, 2009, mainly because of projected growth of 291 FTEs in the Police Department, where positions will increase from 5,829 as of June 30, 2006 to 6,120 by June 30, 2009

Overtime

In the January Modification, the City projects that citywide overtime expenditures will total $601 million in FY 2006. Both historical and recent overtime spending patterns indicate that the City has under-budgeted its FY 2006 overtime expenditures. The Comptroller's Office estimates that the City will incur about $751 million in overtime costs in FY 2006, $150 million more than the City's estimate as shown in Table 11.

Table 11. Projected Overtime Spending, FY 2006

($ in millions)

	Comptroller's Projected Overtime FY 2006	Planned Overtime FY 2006	FY 2006 Risk
Uniform			
Police	$356.0	$245.3	($110.7)
Fire	95.8	90.1	(5.7)
Correction	55.0	39.9	(15.1)
Sanitation	63.1	63.1	0.0
Total Uniformed	$569.9	$438.4	($131.5)
Others			
Police-Civilian	$34.0	$15.6	($18.4)
Admin for Child Svcs	16.8	16.8	0.0
Environmental Protection	19.9	19.9	0.0
Transportation	25.8	25.8	0.0
All Other Agencies	84.5	84.5	0.0
Total Civilians	$181.0	$162.6	($18.4)
Total City	**$750.9**	**$601.0**	**($149.9)**

Uniformed Police Overtime ($ in millions)	
FY 2004	$345
FY 2003	$336
FY 2002	$333
FY 2001	$317

NOTE: Does not include WTC and 2004 blackout related overtime spending.

Most of the risk to the City's overtime budget lies in the City's projection of overtime expenditure for uniformed police officers. The Comptroller's Office estimates that Police overtime spending will be about $356 million for FY 2006, $111 million above the City's estimate of $245 million. As the figure to the right shows, the City's projection is considerably lower than actual uniformed police overtime in each of the last four years. In fact, the City's estimate is about one-third less than average actual uniformed police overtime since FY 2001.

The FY 2006 gap-closing actions include overtime reductions of about $15 million in the Fire Department and about $10 million in the Department of Correction (DOC). The Fire Department projects savings of as much as $10 million through management initiatives. However, these programs are not fully developed and will pose a risk to the FY 2006 budget if not implemented. In addition, the Department anticipates saving $5 million in overtime costs by hiring about 250 more firefighters than planned.

The Department of Correction estimates savings to result from a number of initiatives, including more efficient arrest processing and the consolidation and closure of housing areas in facilities. Initiatives to curtail the growth in uniformed overtime are very challenging and may not succeed without diligent monitoring. Overall, the City's overtime spending for uniformed personnel has increased from $414 million in FY 2000 to $620 million in FY 2004.

Pensions

The January Modification projects that pension contributions will grow from $3.8 billion in FY 2006 to a peak of $4.5 billion in FY 2008 before declining slightly in FY 2009. As indicated in Table 12, growth in the City's contributions to the five actuarial pension systems levels off after FY 2008 as actuarial investment losses from fiscal years 2001 to 2003 are fully phased in to the actuarial asset value.

Table 12. The City's Pension Contributions as per the January Modification

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
City Actuarial Pension Systems	$3,657	$4,054	$4,438	$4,366
Non-City Actuarial Pension System	61	64	66	67
City Non-Actuarial Pension System	40	40	40	40
Total	**$3,758**	**$4,158**	**$4,544**	**$4,473**

SOURCE: NYC Office of Management and Budget

NOTE: 1) The projections include pension cost of wage increases for all covered employees patterned after the recent DC 37 contract agreement.

2) Pension contributions for the City Actuarial Pension Systems are net of intra-City expenditures.

The January Modification projections include savings of $325 million in FY 2006 and $200 million in FY 2007, and additional costs of $250 million each in FYs 2008 and 2009 from anticipated changes in actuarial assumptions and methods. The Pension Systems' Chief Actuary has indicated that he anticipates recommending several changes to the actuarial assumptions and methods used in the computation of employer contributions to the five actuarial pension systems. Details of the changes, and the final computation of employer contributions for FY 2005 and FY 2006, are expected to be released in the fourth quarter of FY 2005. The Chief Actuary's recommendations are expected to accomplish the following:

1. *Update Assumptions and Recognize All Actuarial Liabilities.*

   (a) *The Chief Actuary is expected to recommend changes in actuarial assumptions due to changes in future expectations as reported by Gabriel, Roeder, Smith & Company (GRS) and/or as identified by the Chief Actuary.* GRS, an independent actuarial firm engaged by the Comptroller's Office to conduct Charter-mandated experience studies and an actuarial audit of employer contributions, issued reports in early FY 2004 detailing its findings. GRS recommended changes in several economic and demographic actuarial assumptions, including increasing the merit component of the Salary Scale assumption in NYCERS, TRS and BERS; increasing the Baseline Overtime assumption in NYCERS; increasing the Withdrawal assumption in TRS; and increasing the Accidental Disability assumption in FIRE. The Chief Actuary, who is ultimately responsible for recommending changes to the Boards of Trustees, used GRS' findings as well as his own specialized local knowledge and more-recent experience to formulate his own set of recommendations for change.

(b) *In addition, the Chief Actuary is seeking to fully recognize liabilities created by the Cost of Living Allowances (COLA) enacted by Chapter 125 of the Laws of 2000.* Chapter 125 mandated that recognition of the liabilities created by the new COLA benefits be phased in over five years. Subsequently, Chapter 278 of the Laws of 2002 extended the phase-in period to ten years. It is expected that the Chief Actuary will recommend the discontinuance of the current ten-year phase-in and instead recognize the full liabilities created by these benefits.

These changes would increase total employer contributions to the five systems by about $800 million in FY 2005.

2. *Achieve Budget Certainty by Defining the Final Pension Cost for a Fiscal Year Prior to the Adoption of a Budget for that Fiscal Year.* The Chief Actuary is also expected to recommend the introduction of a one-year lag methodology used to compute employer pension contributions. This methodology is designed to avoid budget surprises after the budget for a fiscal year has been adopted.

   Currently, the City's contributions to the pension funds for a given fiscal year are based on assets and liabilities as of the last day of the prior fiscal year. The current process often requires revisions to be made to pension contribution estimates toward the end of the fiscal year. For example, the contribution computations for FY 2004 were based on census data and actuarial asset values as of June 30, 2003. However, due to the complexities involved, determination of the amount of employer pension contributions could not be finalized until April 2004, less than three months before the close of the fiscal year. Revisions late in the fiscal year present a budgetary challenge if the final pension contribution turns out to be higher than previously projected.

   To avoid this problem, the Chief Actuary is expected to recommend using a one-year-lag methodology in pension contribution computations, i.e., basing employer contributions on data and assets a year older than current practice. If this is implemented, FY 2005 pension contributions will be based on June 30, 2003 data and actuarial asset values (and not on June 30, 2004 data and actuarial asset values as per current practice). As a result, the City will know with certainty its required pension contributions for a fiscal year before the budget is adopted for that year.[14] For example, under this approach the Chief Actuary would be expected to finalize FY 2006 employer pension contributions by the fourth quarter of FY 2005.

[14] Except for additional contributions, if any, as required by the Retirement Social Security Law (RSSL) Section 430. Section 430 applies when a new benefit or an improvement to any benefit is enacted that warrants an increase in actuarial contributions. It requires State and municipal employers to "commence payment for such increased cost …… (in) the employer's fiscal year in which such benefit or improvement becomes effective." Therefore, if any such new benefit or benefit improvement is enacted after the adoption of the budget, the increased cost of the new benefit or benefit improvement would have to be appropriated.

3. *Reduce volatility in Employer Pension Contributions resulting from fluctuations in Investment Markets by keeping Pension Contributions Relatively Level as a Percentage of Payroll.* The Chief Actuary is also expected to change the actuarial asset valuation.

   The depressed financial markets earlier this decade showed that, in a protracted bear market, the current five-year phase-in period does not provide sufficient time for gains in subsequent market recoveries to offset the recognition of losses from the bear market.[15] As a result, pension contributions rise rapidly against a backdrop of falling tax revenues stemming from a weak financial market. The Comptroller's Office initiated discussions with the Chief Actuary and the Mayor to stretch the phase-in period to address this problem. The Chief Actuary is expected to implement an asset valuation method that phases in "unexpected" investment returns over a six-year period.[16] Combined with the "one-year lag" described above, it would take seven years for asset gains and losses to be fully recognized in employer contribution calculations. These changes are expected to lower the rate of increase in the City's pension contributions as compared to the FY 2005 Adopted Budget projections, because the recognition of "unexpected investment losses" suffered in FYs 2001-2003 will be further smoothed.

When the package of changes discussed above is implemented, employer pension contributions are projected to peak in FY 2009 and then remain relatively steady as a percent of payroll. The Chief Actuary is expected to release detailed financial impacts of his proposed changes in the fourth quarter of FY 2005. At this point it appears that the pension contribution projections in the January Modification are reasonable.

Health Insurance

City's Health Insurance Cost ($ in millions)	
FY 2006	$2,925
FY 2007	$3,175
FY 2008	$3,475
FY 2009	$3,758

As shown in the figure to the right, the City's January Financial Plan projects that health insurance expenditures will increase from $2.9 billion in FY 2006 to $3.8 billion in FY 2009. The projections reflect rate increases of 10.43 percent in FY 2005, 8.75 percent in FY 2006, and provisional rate increases of 8.0 percent in FY 2007 through FY 2009.

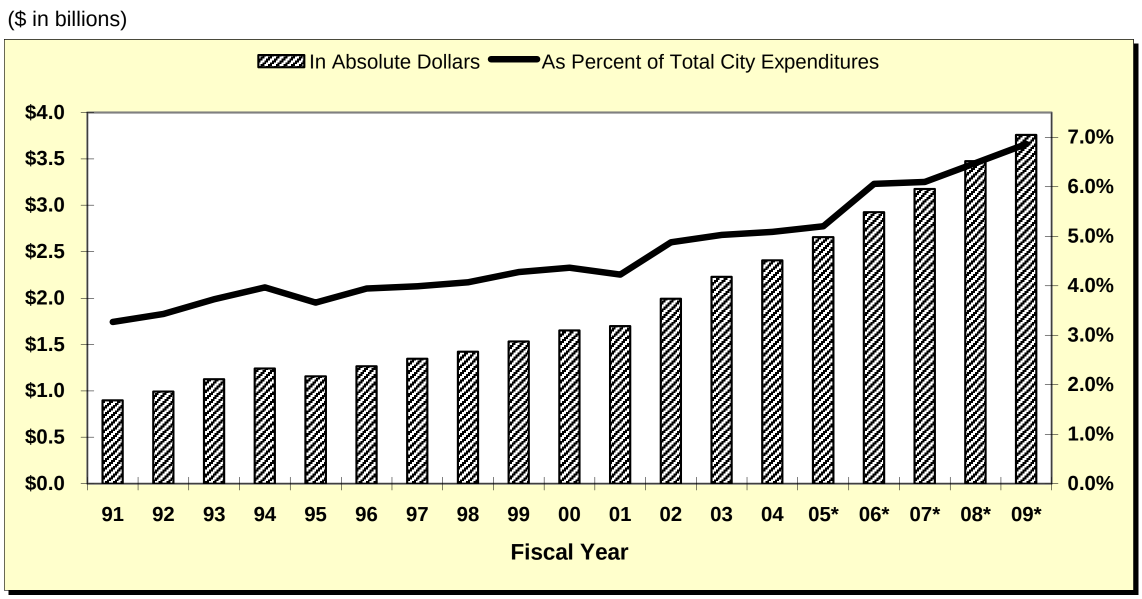
[15] The City's pension fund investments lost 8.3 percent in each of FYs 2001 and 2002 and earned only 3.8 percent in FY 2003, incurring significant unexpected investment losses in all three years. Some of those losses will be offset when the 16.4 percent gain experienced in FY 2004 is phased-in to the actuarial asset value.

[16] The Chief Actuary defines Unexpected Investment Returns as investment returns above or below the long-term Actuarial Investment Return Assumption (AIRA), which is currently 8.0 percent. The City's current actuarial asset valuation method recognizes Unexpected Investment Returns over a five-year period, cumulatively 10 percent in year one, 25 percent in year two, 45 percent in year three, 70 percent in year four and 100 percent in year five. If implemented, the new six-year actuarial asset valuation method, plus the one-year lag, would effectively recognize Unexpected Investment Returns over a seven-year period, cumulatively zero percent in year one, 15 percent in year two, 30 percent in year three, 45 percent in year four, 60 percent in year five, 80 percent in year six and 100 percent in year seven.

The City's health insurance expenditures have increased from 3.3 percent of the City's budget in FY 1991 to a projected 6.1 percent in FY 2006 as shown in Chart 1. The financial plan anticipates that health insurance expenditures will continue to increase and will consume about 6.9 percent of the City's expenditures by FY 2009.

The January Modification projects that health insurance costs will grow by 28.5 percent between FY 2006 and FY 2009, averaging 8.7 percent a year. In contrast, over the same period, all other spending is expected to average 4.3 percent growth annually.

Chart 1. Health Insurance in Dollars and as a Percent of Total City Expenditures



Labor

Wages and Salaries ($ in millions)	
FY 2005	$17,850
FY 2006	17,499
FY 2007	17,524
FY 2008	17,401
FY 2009	17,413

Despite the expiration of the civilian contracts on the last day of FY 2005, the City projects that wages and salaries will be flat from FY 2006 to FY 2009. As the figure to the right shows, wages and salaries are expected to decline slightly from $17.5 billion in FY 2006 to $17.4 billion in FY 2009, a drop of 0.5 percent over the four-year period. The City is maintaining the position that any wage increase in the next round of collective bargaining will be funded with productivity savings. In the absence of productivity savings, every 1.0 percent wage increase for civilian workers would cost the City about $39 million in FY 2006. A wage increase for civilian employees equal to the projected rate of inflation would cost approximately $76 million in FY 2006.

In addition, the unions representing police officers, firefighters and teachers whose contracts expired in FY 2002 and FY 2003, have not negotiated successor contracts with the City. The unions representing these employees have rejected wage increases offered by the City. The Patrolmen's Benevolent Association (PBA), the

Uniformed Firefighter's Association (UFA), and the United Federation of Teachers (UFT) have filed for impasse proceedings with the New York State Public Employment Relations Board (PERB). Hearings on the PBA contract, which began in November 2004, concluded in the middle of January 2005. PERB's decision on wage increases, which is binding for the PBA members, is expected sometime in March. Meanwhile, PERB mediators are working with the UFA, the UFT and the City on their contracts. The City has funded wage increases patterned after the DC 37 2003-2005 agreement for employees represented by these unions. An additional percentage point increase for these employees over the DC 37 contract would cost the City $145 million, as shown in Table 13.

Table 13. Cost of One-Percentage Point Increase Over DC 37 Agreement

($ in millions)

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

NOTE: Assumes that, as in the DC 37 agreement, the second increase of 2 percent will be funded with productivity gains.

Public Assistance

In the January Modification, the City has adjusted its caseload projections to reflect more accurately current public assistance caseload levels. The revised estimates indicate that welfare caseload will rise to 438,295 by the end of FY 2006, from a projected FY 2005 year-end caseload of 436,295. Beyond FY 2006, caseload is projected to remain flat at 438,295. The City has boosted its funding for baseline grants by $21 million to $512 million annually in FYs 2006-2009, a modest increase from projected grant expenditures of $506 million for FY 2005.

The City's public assistance caseload has actually declined by a total of 13,290 recipients in the first seven months of FY 2005. Based on the January caseload of 424,163 reported by the Department of Social Services, the City's welfare rolls have fallen by about 3.0 percent from the June 2004 caseload of 437,453. This downward trend has brought the City's public assistance caseload to a level only slightly above a recent low of 418,770 reported in February 2003.

Despite the decline in caseload, public assistance grant expenditures have not experienced a corresponding decrease. In fact, monthly grant spending has averaged about $106 million thus far in FY 2005, up from an average $104 million in FY 2004. As a result, the City share of these expenditures has risen from a monthly average of about $40 million in FY 2004 to upwards of $41 million in FY 2005. We previously indicated that the City may have underestimated baseline grants expenditures because its funding allocation did not account for the growth in grant expenditures. The additional funding for baseline grants expenditures in the January plan brings the City's allocation in line with recent spending, thus eliminating the risks identified in our previous analysis. However, to reach the projected caseload growth in the January Plan, the City's welfare rolls would have to undergo a reversal of the current caseload decline, which appears uncertain at this point.

Medical Assistance

In the FY 2006 Preliminary Budget, the City has increased significantly funding in its Medicaid budget to reflect growing expenditures for this mandate. Projected City-funded Medicaid spending in FY 2006, excluding the Health and Hospitals Corporation, has risen to about $4.14 billion, an increase of $285 million compared with the October Plan. Adjusted for savings from the State takeover of the Family Health Plus (FHP) program, the City's Medicaid budget is growing about 8.0 percent, or $319 million, from the FY 2005 projection. Over the balance of the plan, the City has increased its Medicaid funding by $446 million in FY 2007, $641 million in FY 2008, and $1.08 billion in FY 2009. By FY 2009, City-funded Medicaid expenditures are expected to reach $5.22 billion, representing a 30 percent increase from the FY 2005 projection and comprising about 13 percent of the overall City-funded expense budget. Adjusted for the FHP takeover, the baseline City-funded Medicaid budget reflects an average increase of about 8 percent annually in FYs 2006-2009.

The projected growth in Medicaid spending is attributable mainly to pharmaceuticals and prepaid care. These two categories have grown rapidly in recent years and the City expects this trend to continue over the course of the January Plan. Spending for pharmaceuticals is expected to rise nearly 15 percent or $127 million above FY 2005 estimates, reaching $977 million in FY 2006. Beyond FY 2006, the projected costs for this category will increase at an average rate of 16 percent each year and edge past $1.52 billion by FY 2009. This trend is a function of both rising drug costs and greater consumption associated with a surge in the number of Medicaid enrollees. Meanwhile, as the Medicaid population continues to grow, more recipients are expected to enroll in prepaid care. As a result, the cost for prepaid care is also expected to jump significantly. The January Modification allocates $1.09 billion to prepaid care in FY 2006, representing an increase of 15 percent or $142 million over the FY 2005 allocation. The City estimates prepaid care spending will rise about 15 percent annually over the balance of the Plan, surpassing $1.64 billion by FY 2009. As a result, pharmaceuticals and prepaid care will grow from half of City-funded Medicaid spending in FY 2006 to 61 percent ($3.17 billion) in FY 2009.

The Governor's proposed budget indicates that the City could save $398 million through Medicaid actions in FY 2006. The proposal would require the enactment of significant Medicaid cost containment initiatives that are expected to provide $208 million in cost relief through the first half of FY 2006. The majority of the actions target hospitals and nursing homes, comprising close to $110 million of the total. Other categories with significant savings include pharmaceuticals ($19 million), managed care/Family Health Plus ($43 million), and adult dental services ($15 million). Contingent upon the enactment of these cost containment actions, the Governor has proposed to implement a spending cap in the second half of FY 2006 that would limit the

City's Medicaid budget growth to no more than 3.5 percent. Under the proposal, the State assumes the cap would save the City an additional $190 million, based on projected growth of 9.0 percent in the City's Medicaid spending. The City, however, contends that the cost containment actions would significantly reduce its Medicaid expenditures, to the extent that they would fall below the proposed 3.5 percent growth cap. Therefore, no additional savings would materialize in FY 2006 from the cap proposal. Also, a negative impact of $275 million on HHC from the cost containment actions would offset the bulk of the estimated Medicaid savings, culminating in a net benefit of only about $31 million to the City, if the City chooses to fund any HHC shortfall.

Department of Education

The FY 2006 Preliminary Budget for the Department has incorporated an increase of about $569 million, mainly from the extension of baseline changes incorporated in the FY 2005 budget. For FY 2006, these changes include the recognition of $466 million in Federal and State grants, with State aid comprising $392 million of this total. The State aid increase basically reflects adjustments to education aid appropriations dating back to State budget adoption in August 2004. In addition, City funding has risen by $87 million in the preliminary budget, including $56 million to fund various non-public school payments such as Carter cases and contract school services. The residual City funds increase would cover projected needs mainly in energy and fringe benefits spending. The additional funding brings the DOE budget to an estimated $13.75 billion in FY 2006, which is projected to rise gradually to $14.02 billion by FY 2009.

In the State Executive Budget, the Governor has proposed an increase of about $85 million in school aid appropriations, close to the $90 million increase for FY 2006 shown in the January Modification. The Governor has once again proposed to establish a Sound Basic Education grant, as a response to the Campaign for Fiscal Equity court case. This would provide the City with $195 million in additional school funding. The proposal would be supported by revenues from the opening of new video lottery parlors and would require a significant City funding match. A similar proposal from last year failed to receive approval by the Legislature.

On February 14th, the State Supreme Court issued a decision on the Campaign for Fiscal Equity case that essentially adopts the recommendations made by a panel of special referees in November 2004. In its report, the panel recommended a phase-in of additional education funding to provide the City with incremental increases of $1.41 billion annually over four years. By the end of the phase-in period, annual baseline funding for DOE will have increased by $5.63 billion. The panel separately recommended annual capital budget increases of about $1.84 billion for the City over five years, totaling $9.2 billion of additional funding for education capital improvements. However, the Court also ruled that the funding split between the State and City should be determined by the Legislature, despite the City's contention that the State should be held wholly responsible for the entire cost. The Legislature will have 90 days to restructure the State's education funding mechanism. The State has already indicated its intent to appeal the decision within the 30-day limit imposed by the Court. Thus, it appears unlikely that the Court ruling will produce any immediate impact on education financing in the City's budget.

Budget Restructuring

The January Plan also includes a proposed realignment of the Department of Education's units of appropriation (U/A) to better reflect its operating structure beginning in FY 2006. Since the latter part of FY 2003, DOE operations have changed from a community school district/high school structure to a regional format. The regional format consists of ten learning support centers that oversee instructional and support services in kindergarten through the twelfth grade, which in turn report to six regional operational centers. The proposed budget restructuring would recognize the merging of select U/A's (within instructional and operational functions) among elementary, middle, and high schools in both general education and special education. In addition, budgeting for non-public school payments would become more defined with additional U/A's to show separately payments for special education pre-kindergarten programs, charter and contract schools, and all other non-public school payments.

While this realignment would create more detail in some areas, overall the restructuring would result in a net reduction of nine U/As in the Department's budget, from 35 in the existing structure to 26 in FY 2006. This change will require approval from the City Council. The effort to realign U/As to reflect the Department's new structure is reasonable in principle. However, the reduction in the number of U/As will make the Department's budget less transparent.

Health and Hospitals Corporation

In the January Modification, the City projects that the Health and Hospitals Corporation will close FY 2005 with a cash balance of $315 million. This represents an increase of $69 million from the previous projection of $246 million in the Adopted Budget. Since the Adopted Budget, HHC's revenue projections have risen by about $435 million, mostly on account of two actions. The Corporation's third-party reimbursement has jumped $269 million, with Medicare and indigent care pool revenues as key components of this increase. A majority of these revenues were previously held below HHC's baseline budget assumptions as gap-closing measures. In addition, the City has prepaid $150 million of its FY 2006 cash subsidy to HHC.

The overall revenue increase is partly offset by a combined need of $139 million from higher spending projections and a lower opening cash balance. Further, because many of the gap-closing revenue actions are now incorporated into the baseline projections, the value of HHC's gap-closing program has been reduced correspondingly $227 million in FY 2005. After accounting for these adjustments, the net receipts increase raises the Corporation's ending cash balance $69 million.

Despite this improvement, the January Plan shows a significant deterioration in HHC's financial position beginning in FY 2006, as trends in revenues and disbursements diverge significantly. The Corporation's revenue estimate reflects a year-over-year decline of $393 million, from $4.52 billion in FY 2005 to $4.13 billion in FY 2006. The decline is most evident in City services revenues, which are projected to fall $244 million, mainly due to the impact of prepayment of the FY 2006 cash subsidy by the City.[17] Also, a decline of $158 million is projected in third-party revenues as estimates of Medicare and indigent care pool revenues taper off, although HHC has various Federal and State actions in its gap-closing proposals that could improve projections for these receipts. A modest improvement of $9 million in other revenue rounds out the balance of the net change in overall revenues. Meanwhile, the Corporation's spending plan indicates that disbursements will expand from $4.56 billion in FY 2005 to $4.74 billion in FY 2006. This increase includes $121 million for personnel and fringe benefit costs (mainly attributable to one additional payroll period in FY 2006) and $25 million for affiliation contract expenditures. Other non-personal services costs, including debt service and malpractice settlements, are expected to rise by a total of $29 million.

The divergence between revenue and spending projections leaves HHC with a gap of $612 million in FY 2006, about $94 million more than the June Plan estimates. To maintain a positive cash balance, HHC is expected to rely heavily on Federal and State actions. The January Plan reflects a gap-closing program of $460 million that would enable the Corporation to end FY 2006 with a cash balance of $163 million. Federal and State actions constitute $275 million of this total, with indications that a significant portion of the revenues will be comprised of proceeds from Medicaid settlements and indigent care pools. The balance of the gap-closing actions consists of $100 million in productivity savings and $85 million in other revenue actions. The City has not provided specific details on these actions. However, the City has indicated that it is working with HHC to identify actions to meet the gap-closing targets in the January plan.

Moving forward, spending is expected to continue to outpace revenues, resulting in budget gaps ranging from $486 million to $636 million in FYs 2007-09. The City's projections show that revenues will be relatively stagnant at about $4.3 billion in each of these years. However, planned spending will range from $4.78 billion in FY 2007 to $4.96 billion in FY 2009. HHC expects to maintain a positive cash balance over this span through gap-closing programs of $485 million to $560 million annually. Federal and State actions will remain key components of HHC's gap-closing measures, reaching $350 million each year beginning in FY 2008.

Debt Service

The January Modification contains $4.52 billion in debt service costs in FY 2006, a decrease of $4 million from the October Modification estimate. Debt service is projected to grow to $5.94 billion by FY 2009. This is an increase of $1.42 billion, or 31 percent from the projected FY 2006 level. As shown in Table 14, over the period general obligation (GO) debt service is projected to grow the most with an increase of $1.28 billion, followed by an increase of $109 million in debt service for debt issued by the Dormitory Authority of the State of New York (DASNY) and other conduit issuers (also

[17] City services revenues are mainly comprised of City payments for various subsidies and for services that the Corporation renders on the City's behalf.

referred to as lease-purchase debt). These two components of debt service account for 98 percent of total growth.

The $4.52 billion in debt service contained in the FY 2006 Preliminary Budget represents an increase of $176 million, or 4.0 percent, from FY 2005. Major elements of the increase from FY 2005 are GO debt service in the amount of $170 million, NYCTFA debt service in the amount of $31 million, and lease-purchase debt service in the amount of $96 million. These increases are partially offset by a decrease in some categories of debt service, primarily the reduction in MAC debt service stemming from the defeasance of MAC bonds.

Table 14. Annual Debt Service Costs

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	Changes FYs 2006-09
City GO Bonds[1]	$3,169	3,822	$4,105	$4,448	$1,279
NYCTFA	956	977	982	988	32
TSASC	92	92	99	100	8
MAC	10	10	10	0	(10)
DASNY and Other Conduit Issuers	296	346	404	405	109
Total Debt Service	**$4,523**	**$5,247**	**$5,600**	**$5,941**	**$1,418**

SOURCE: January 2005 Financial Plan, Office of Management and Budget.
[1]Includes interests on short-term notes.

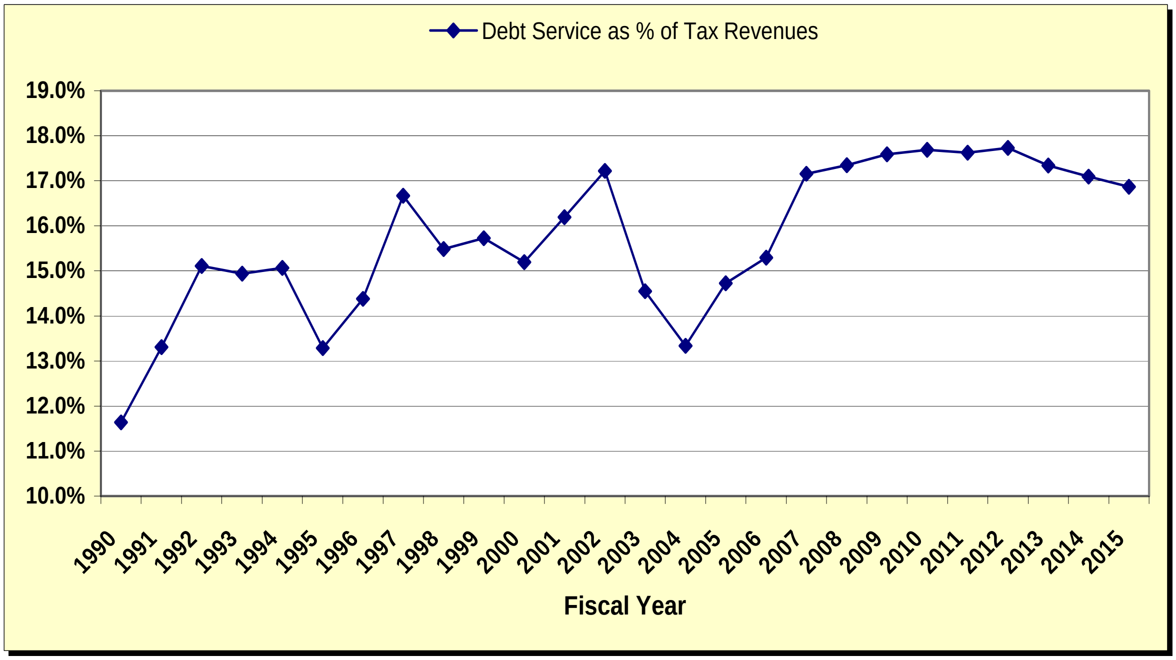
Debt Burden

An important measure of the burden debt service is placing on the operating budget is total debt service as a percent of local tax revenues. This ratio is estimated to be 15.3 percent in FY 2006, increasing to 17.6 percent by FY 2009.[18] The ratio is projected to remain stable at an average of about 17.5 percent from FY 2010 to FY 2015 assuming local tax revenue growth of 4.0 percent per year.

The 2.3 percentage point increase in the ratio from FY 2006 to FY 2009 is a result of the difference between the higher average annual rate of growth in debt service compared with the rate of growth in tax revenues. Chart 2 shows the impact of total debt-service growing at an estimated average annual rate of 8.1 percent from FY 2005 to FY 2009 compared with the projected average annual tax revenue growth of only 3.4 percent over the same period.

[18] Debt service includes GO, TSASC, NYCTFA, and lease-purchase debt. In addition, tax revenues include tobacco settlement revenues and retained PIT taxes for NYCTFA.

Chart 2. Debt Service as a Percent of Tax Revenues



SOURCE: FYs 1990-2004 Annual Financial Reports NYC Office of Comptroller, and January 2005 Financial Plan Modification, Office of Management and Budget, January 2005.

General Obligation Bonds

GO debt service is the largest component of total debt service, as shown in Table 15. It is projected to grow from $3.17 billion in FY 2006 to $4.45 billion in FY 2009, increasing its share of total debt service from 70.1 percent to 74.9 percent. Of the $1.28 billion in GO debt service growth over the financial plan period, planned GO bond issuances of $17.4 billion account for $1.25 billion and other charges account for the remainder.

Table 15. Components of Debt Service by Percent Share, FY 2006

	FY 2006	FY 2009
City General Obligation Bonds	70.1%	74.9%
Transitional Finance Authority	21.1	16.6
TSASC	2.0	1.7
MAC	0.2	0.0
DASNY and Other Conduit Issuers	6.6	6.8
Total Debt Service	**100.0%**	**100.0%**

SOURCE: January 2005 Financial Plan, Office of Management and Budget and adjusted for prepayments.

Municipal Assistance Corporation

The City is no longer responsible for the payment of Municipal Assistance Corporation (MAC) debt service. The Sales Tax Asset Receivable Corporation (STAR) issued debt in the first half of FY 2005, secured by State appropriations to the Local Government Assistance Corporation (LGAC) that effectively retired MAC debt.[19] An amount of $10 million per year is budgeted for FYs 2006-2008 for MAC's administrative costs and its funding of two State fiscal monitoring bureaus.

Transitional Finance Authority

Estimated debt-service costs for NYCTFA are $955.6 million in FY 2006 growing to $988.4 million by FY 2009. NYCTFA's share of total debt service is projected to decline from 21.1 percent in FY 2006 to 16.6 percent by FY 2009. There are no planned issuances of NYCTFA debt over the financial plan period because the debt has reached the NYCTFA statutory debt limit.[20] If proposed legislation to increase the NYCTFA's bonding cap is approved, about one-half of scheduled GO borrowing from FY 2006 to FY 2009 would be carried out by the NYCTFA. The likelihood of the proposed legislation's passage is unclear at this time.

TSASC, Inc.

Estimated debt-service costs for TSASC are $92.4 million in FY 2006 growing to $100.2 million by FY 2009. Total estimated tobacco revenue receipts in FY 2006 are $207 million, leaving residual tobacco revenues of approximately $115 million after accounting for debt service. In addition, the plan assumes the release of $123.7 million from a trapping account for use in the general fund.[21] There is no planned issuance of TSASC debt for general capital purposes in the foreseeable future.

Lease-Appropriation Debt Service

Estimated debt-service costs for conduit issuers, such as the Dormitory Authority of the State of New York (DASNY) and the newly-created Hudson Yards Infrastructure Corporation (HYIC), total $296 million in FY 2006. These expenses account for 6.6 percent of total debt service, growing to a projected $405 million, or 6.8 percent of total debt service by FY 2009.

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[19] See discussion of STAR debt in "Debt Service" beginning on page 24 of the *State of the City's Economy and Finances 2004*, dated December 14, 2004.

[20] The only remaining NYCTFA debt capacity is $470 million, available under the special $2.5 billion Disaster Recovery Bond authorization.

[21] The trapping account is discussed in "Miscellaneous Revenues" beginning on page 11.

Hudson Yards Infrastructure Corporation

At the beginning of FY 2005, the Hudson Yards Infrastructure Corporation was incorporated as a not-for-profit local development corporation. The HYIC is expected to issue $3 billion in bonds over the next several years to finance development of the Hudson Yards district in Manhattan. The district is bounded by 43rd Street to the North, 11th Avenue on the West, by 27th and 30th streets to the South, and by 7th and 8th Avenues to the East. Proceeds of the bonds are expected to fund a $2 billion project for the extension of the number 7 line of the New York City Transit system to 34th Street and 11th Avenue. In addition, bond proceeds will finance the construction of a platform between 34th and 35th Streets, which will allow for 24 million square feet of office towers, major cultural institutions, and 13,000 units of residential housing. The City expects payments-in-lieu-of-taxes (PILOTs) to provide a revenue stream to support HYIC on commercial developments and other developer payments.

In October 2004, the Comptroller wrote a letter to the Mayor in which he stated his concerns regarding the proposed financing structure for the HYIC. In particular, the letter noted that the unprecedented use of the NYCTFA to back some of the HYIC's debt creates a backdoor borrowing mechanism because it commits City revenues to the project without the oversight protections inherent in the City's capital budgeting process. Subsequently, the City Council and Mayor agreed that interest payments on HYIC debt not covered by PILOTs or any other project-related revenue sources will be paid by the City. The administration estimates that general fund support will not be required after FY 2015 as the development becomes financially self-sustaining. The City's general fund debt-service obligation is projected to begin at $6 million in FY 2005 and grow to $162 million by FY 2009 before declining to $26 million in FY 2015. The debt service support is subject to the approval of the City Council in June of each fiscal year.

Financing Program

The financing program for FYs 2005-2009 totals $21.5 billion after subtracting issuance for the New York City Water Finance Authority (NYCWFA), whose debt service is funded by a dedicated revenue stream. Planned GO debt issuance is $21.2 billion over the period, nearly all of the total financing program.

Planned borrowing for other conduit issuers for FYs 2005 through 2009 totals $217 million, and TSASC borrowing for the Transportation Infrastructure Financing and Innovation Act related to the rehabilitation of the ferry terminals accounts for the remaining $49 million.[22] Although contained in the debt service budget in the lease-purchase unit of appropriation, debt issuance for the HYIC is not formally reflected in the financing program.

[22] Conduit issuers include such entities as the Dormitory Authority of the State of New York, the New York State Housing Finance Agency, and the City University Construction Fund.

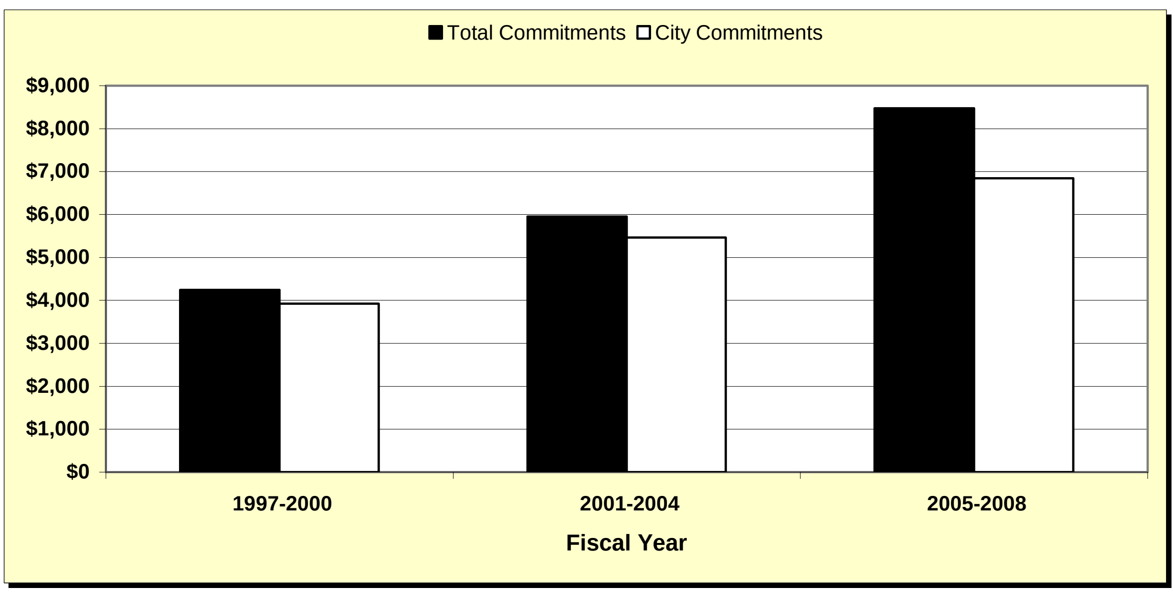
C. CAPITAL PLAN

Total funds capital commitments in the FYs 2005-2008 January Capital Commitment Plan is $37.1 billion over the four-year period. City funds account for $30.6 billion of total commitments. After adjusting for $3.2 billion of reserves for unattained commitments, these projections decline to $33.9 billion in all funds and $27.4 billion in City funds.[23] This represents an increase of 8.7 percent in City funds and 3.1 percent in all funds from the September Capital Plan. Average annual planned commitment levels remain historically high at $8.5 billion per year in all funds and $6.8 billion per year in City funds. As shown in Chart 3, actual commitments averaged $4.2 billion per year between FYs 1997-2000, and $6.0 billion per year between FYs 2001-2004.

Consistent with previous four-year capital plans, three major program areas comprise 60 percent of all planned capital commitments during FYs 2005-2008. The three program areas are: 1) environmental protection; 2) mass transit, highways, roads, and bridges; and 3) education. Other areas of significance are housing and economic development, sanitation, parks and cultural affairs, hospitals, and technology and computer equipment purchases.

Chart 3. Capital Commitments Continue to Increase

($ in millions)



SOURCE: FY 2005 January Capital Commitment Plan, Office of Management and Budget, January 2005.

[23] The reserve for unattained commitments is the estimated amount of contract registrations that are *not likely* to occur in a given fiscal year.

Programmatic Review

The January Capital Plan reflects an increase of $1.0 billion in all-fund commitments driven mainly by an increase of $2.2 billion in City fund commitments. The plan actually recognizes a net decline of $1.2 billion in non-City fund commitments primarily because of the withdrawal of about $1.3 billion in assumed State support for education projects. The increase of $2.2 billion in the City-funded Capital Plan for FYs 2005-2008 from September to January is primarily concentrated in the program areas of environmental protection, economic development, technology and equipment, the Department of Parks, and HHC. These five program areas represent 94 percent of City-funded capital plan increases from September to January in FYs 2005-2008. The major capital program areas are described below.

Environmental Protection

Driven largely by Federal and State mandates, the Department of Environmental Protection (DEP) continues to account for a large part of the plan. The City expects to commit $8.9 billion in DEP capital contracts. This accounts for 23.9 percent of the January Capital Commitment Plan, and is $734 million higher than in September as shown in Chart 4. Water mains, water pollution control plants, and water supply projects account for 85 percent of DEP's capital program.

Education

All funds capital commitments for Education total $9.6 billion from FY 2005 to FY 2008, or 25.8 percent of total citywide estimated commitments as shown in Chart 4. This compares with $10.8 billion, or 30.3 percent of total commitments in September. The decrease is due primarily to the elimination of the assumption of $1.3 billion in State support in FY 2005. In FYs 2001-2004, education commitments were $5.4 billion, or 22.6 percent of total commitments. The current plan is composed of $9.3 billion of commitments for the Department of Education, and $257 million for the City University of New York (CUNY). Highlights of the current education plan include new capacity of over 70 schools and approximately 60,000 new seats, technological enhancement to connect every classroom to the Internet, and significant interior and exterior building system upgrades.

The CUNY capital plan is focuses on upgrade and maintenance of the community college physical plant. This includes such projects as rehabilitation and replacement of roofs, windows, and doors, and purchase and installation of electronic data processing equipment.

Transportation

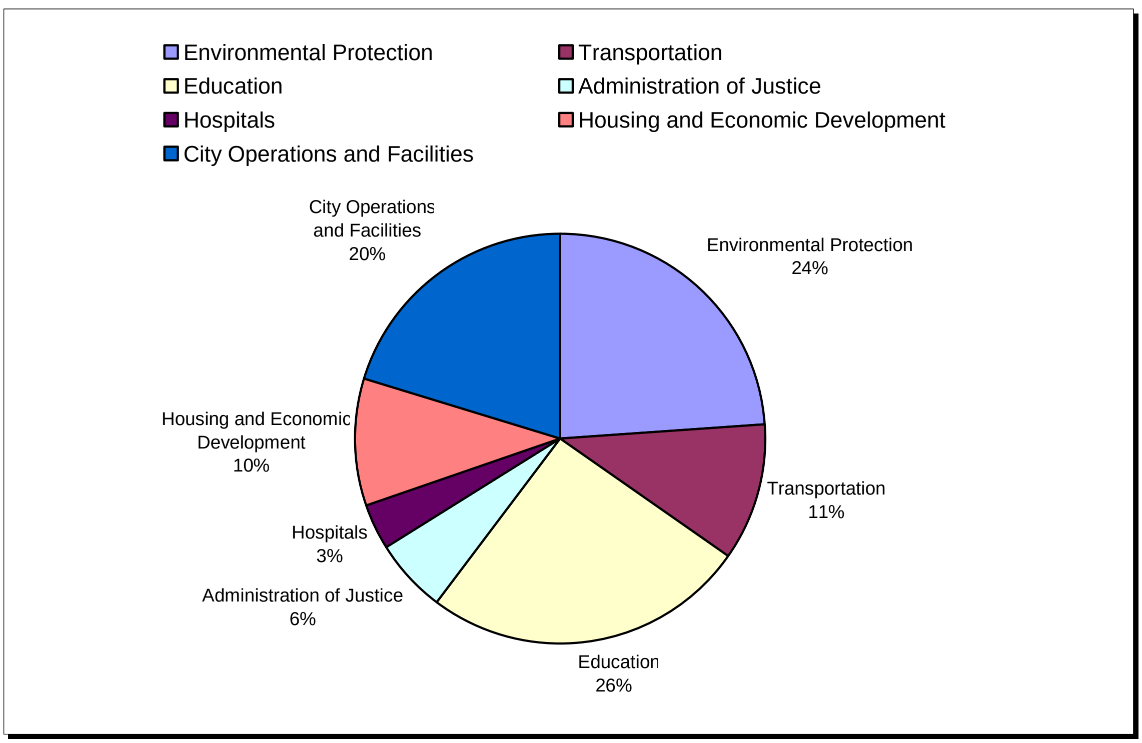
The transportation program is composed of two distinct elements: projects for mass transit administered by the Metropolitan Transportation Authority (MTA) on behalf of New York City Transit; and the Highways and Bridges program administered by the Department of Transportation (DOT).

The January Capital Plan for FYs 2005-2008 contains $342 million in capital commitments for mass transit projects, and $3.6 billion for DOT programs. Combined, these areas comprise 10.7 percent of the January Plan as shown in Chart 4.

Mass transit commitments are concentrated in FY 2005 with commitments totaling $140 million. Commitments in the latter years of FYs 2006-2008 total $202 million over the three-year period. This compares with $698 million over FYs 2001-2004. Support to the MTA for capital work at New York City Transit (NYCT) constitutes a small portion of the NYCT's overall capital program of over $12 billion. MTA bonds and other federal grants support a significant portion of NYCT's capital needs.

The January Plan for FYs 2005-2008 contains $3.6 billion, or 9.8 percent of January Plan commitments, for street resurfacing, highway reconstruction, and bridge rehabilitation that is managed by the City's DOT. This category accounts for $2.5 billion in FYs 2001-2004, or 10.4 percent of total capital commitments. Both bridges and highways projects experienced minor increases from the September Plan.

Chart 4. January 2005 Capital Plan, FYs 2005-2008, Shares of $37.1 billion



SOURCE: January 2005 Capital Commitment Plan, Office of Management and Budget, January 2005.

Over FYs 2005-2008, the DOT projects the reconstruction of 390 lane miles of highway roads and the resurfacing of approximately 3,450 lanes of streets throughout the City.

City Operations and Facilities

The category of city operations and facilities contains over 15 City agencies and quasi-governmental entities, including the Department of Sanitation, the Fire Department, the Department of Parks, public buildings, public libraries and cultural institutions. The January Capital Plan for this category consists of $7.5 billion, or 20.2 percent of total capital commitments. This program area was increased $801 million, or 12 percent from the September Capital Plan. This has increased from FYs 2001-2004 when actual commitments totaled $6.3 billion.

With $1.3 billion allocated for FYs 2005-2008, the capital program for the Department of Sanitation comprises 3.4 percent of total commitments. This compares with $1.2 billion in the September Capital Plan, or an increase of $67 million. Over one-half of the Sanitation capital commitments are in FY 2005, with $493 million of contracts registered for the rehabilitation of marine transfer stations.

The January Capital Plan contains $819.3 million for public libraries and cultural affairs. This represents 2.2 percent of total citywide commitments. The commitment plan includes $54.4 million in funding for the New York Public Library, $60.6 million for the Brooklyn Public Library, $22.3 million for the Research Libraries, and $50.9 million for the Queens Public Library. The Department of Cultural Affairs (DCA) capital plan totals $631.1 million between FYs 2005-2008, or 1.7 percent of total commitments.

Other highlights within this category include the Department of Citywide Administrative Services functions of public building renovations, citywide equipment purchases, and citywide computer equipment purchases. The January Plan for FYs 2005-2008 contains $510.7 million for a variety of public buildings projects, $689.5 million for equipment purchases citywide, and $1.37 billion for computer equipment. Combined, these project types comprise just below 7.0 percent of the January Plan total.

Administration of Justice

Capital projects under the administration of justice category account for 5.8 percent of the FYs 2005-2008 Capital Plan. Projects for court facilities comprise the largest share of this category at $1.2 billion or 3.1 percent of total citywide commitments between FYs 2005-2008, followed by $575 million for the Department of Correction, and $404 million for the Police Department. Two-thirds of court facility projects are scheduled in FY 2005.

Housing and Economic Development

The categories of housing and economic development account for $3.7 billion of capital commitments between FYs 2005-2008, or 10 percent of total commitments. This is a $755 million, or 25.7 percent, increase from the September Capital Plan.

Housing accounts for $1.9 billion in capital commitments, or 5.2 percent of total commitments. Programs offering of assistance to private owners and the disposition of vacant and occupied in-rem housing account for 78 percent of housing capital commitments between FYs 2005-2008.

The January Plan contains $1.75 billion for economic development between FYs 2005-2008, or 4.7 percent of total capital commitments. This represents an increase of $638 million, or an increase of 57 percent from the September Plan. The highlights of the Plan include $350 million for the Javits Convention Center expansion and $292 million for modernization and reconstruction of piers and waterfront spaces citywide.

Hospitals

Capital commitments for hospitals in the January Modification for FYs 2005-2008 total $1.1 billion, or 3.0 percent of total commitments. This represents an increase of $165 million from the September Plan. The City's capital commitment to HHC has increased significantly because HHC has agreed to assume responsibility for costs related to medical malpractice suits in exchange for the City's assumption of the majority of HHC's capital program debt obligation.

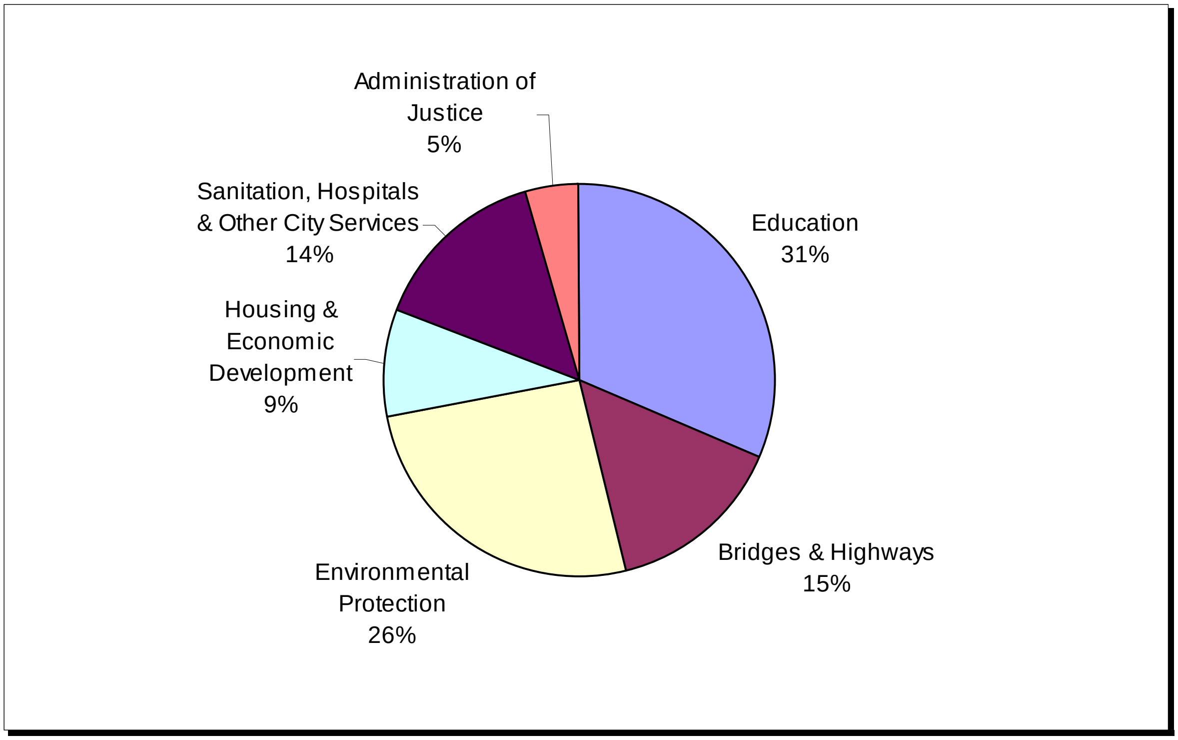
Major projects that will continue to dominate the hospitals plan include the Office of the Chief Medical Examiner DNA lab, Bellevue Hospital remodeling, Harlem Hospital reconstruction, and Kings County Hospital Phase II redevelopment plan.

Preliminary Ten-Year Capital Strategy

The Preliminary Ten-Year Capital Strategy is a Charter-mandated biennial report that documents the projected capital programs for all City agencies over the next ten years.

The proposed Preliminary Ten-Year Capital Strategy (PTYCS) for FYs 2006-2015 is $60.8 billion, of which $51.5 billion is in City funds. This is $11.5 billion more than the Ten-Year Capital Strategy (TYCS) presented in April 2003 for FYs 2004-2013, or an increase of 23 percent. Three program areas—education, HHC, and technology and equipment—account for 93 percent of the increase from the TYCS issued in April 2003. The PTYCS is comprised of eight major groups by agency, and by three broad categories of underlying capital work. (See Appendix A3 for further details.)

Chart 5. January 2005 Capital Strategy, FYs 2006-2015, Shares of $60.8 billion



Programmatic Review

As shown in Chart 5, projected capital commitments in the PTYCS remain concentrated in the areas of education, bridges and highways, and environmental protection. These three program areas combined account for 72 percent of the PTYCS. The remaining 28 percent in capital commitments consists primarily of capital projects for administration of justice, housing and economic development, sanitation, hospitals, and other City services.

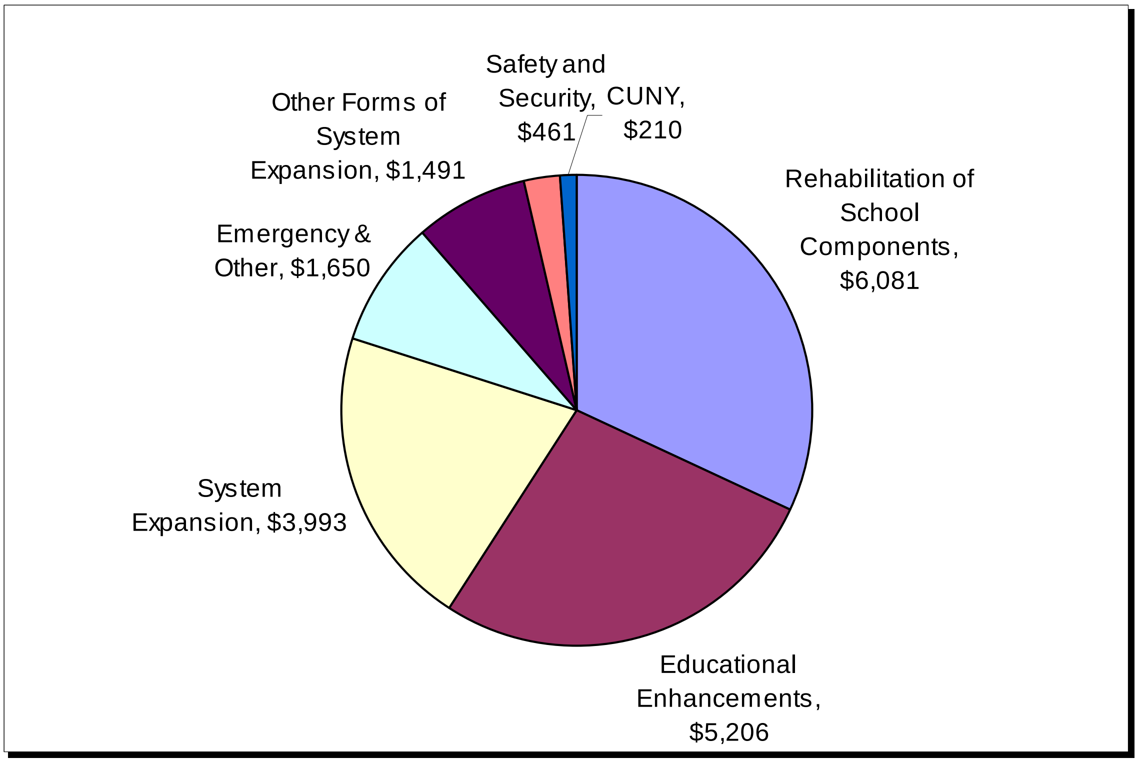
Education

Projected capital commitments for education total $19.1 billion, or 31 percent of the entire PTYCS. This is $9.2 billion more than the April 2003 TYCS, or an increase of 93 percent. The PTYCS contains $18.9 billion for the Department of Education, as well as $210 million for the City University of New York (CUNY). Almost $6.6 billion of the overall capital program for the Department of Education is dependent on State funding support. It is unclear if such significant State funding support will be forthcoming.

As shown in Chart 6, the PTYCS for Education is comprised of seven major categories: 1) $6.1 billion for the rehabilitation of school components; 2) $5.2 billion for educational enhancements; 3) $4 billion for new schools; 4) $1.6 billion for emergency, unspecified, and miscellaneous; 5) $1.5 billion for other forms of system expansion; 6) $461 million for safety and security; and 7) $210 million for CUNY.

Chart 6. Capital Strategy for Education, FYs 2006-2015, Shares of $19.1 billion

($ in millions)



The $6.1 billion for the rehabilitation of school components category will be used to maintain roofs and parapets, resurface floors, install new windows and lighting features and re-develop existing playgrounds. Other critical projects include asbestos and lead paint removal and coal furnace conversions.

The estimated $5.2 billion for educational enhancements include new and refurbished science labs, computer network upgrades and enhanced Internet access. The planned $4 billion in capital commitments for system expansion will construct 76 new schools and provide an additional 63,000 classroom seats.

Although $1.6 billion is dedicated to the category of emergency, unspecified, and miscellaneous, more program detail is not currently available for this area. In general, it will cover capital-eligible administrative costs, emergency projects, research and development, and prior-plan completion costs. The $1.5 billion allocated for other forms of system expansion will be used for leases, building additions, transportables, modular classrooms, new athletic fields and playgrounds.

Capital projects for CUNY are primarily for the construction of new buildings; rehabilitation of electrical, mechanical, heating ventilating and air conditioning systems; interiors and exteriors of buildings; security systems, and access for the disabled.

Bridges and Highways

Projected capital commitments for bridges and highways total $8.9 billion, or 14.6 percent of the entire PTYCS. This is a $618 million increase from the April 2003 TYCS, or an increase of 7.5 percent.

The PTYCS for bridges totals $4.7 billion, or 7.7 percent of the total plan. Four major categories comprise the bridges program: 1) $2.1 billion for the reconstruction of bridges rated “fair”; 2) $1.5 billion for bridge life extension; 3) $514 million for reconstruction of the East River bridges; and 4) $330 million for reconstruction of “poor” bridges.

The reconstruction of “fair” bridges category will address the needs of 66 bridge structures by FY 2015. A total of 74 bridge structures in the category of bridge life extension are scheduled for major rehabilitative work by FY 2015. All bridges in this category are rated “fair.”

The reconstruction of all four East River bridges will be either completed or in the final stages of work by FY 2011. The only remaining work on these bridges will be the seismic retrofit of the four East River bridges, planned for commitment in FY 2011 with implementation of the reconstruction in subsequent fiscal years. The category of “poor” bridge reconstruction with $330 million in planned commitments will provide for the registration of capital contracts for the reconstruction, and/or demolition of all bridges currently rated “poor” by FY 2008.

The PTYCS for highways contains $3.1 billion of anticipated capital commitments, or 5.0 percent of the total plan. This represents an increase of $221 million from the TYCS in April 2003, or an increase of 7.8 percent. The major elements of the highways PTYCS are street reconstruction for $1.6 billion, street resurfacing for $935 million, and sidewalk & ramp reconstruction of $456 million.

Planned commitments for street reconstruction will enable the reconstruction of 223 linear miles of streets, citywide. This includes federal funding for the reconstruction of streets in and around the World Trade Center (WTC).

Planned commitments for street resurfacing will provide the resources for the resurfacing and milling of 2,424 linear miles of streets and City-owned arterial highways. An estimated $328 million of capital commitments will provide for approximately 46.8 million square feet of sidewalks, and $128 million will enable the installation of pedestrian ramps at 42,150 street corners throughout the City.

Environmental Protection

Projected capital commitments for environmental protection total $15.8 billion, or 26 percent of the entire PTYCS. This is a $743 million decline from the April 2003 TYCS, or a decrease of 4.5 percent.

DEP is primarily responsible for the management of the City's water supply system, as well as the collection, treatment, and disposal of waste and storm water. The five project types that support this objective are water pollution control, water mains, sewers, water supply and equipment.

The PTYCS for water pollution control totals $6.2 billion and includes $3.1 billion for the stabilization of wastewater treatment plants, $1.1 billion for plant upgrades and reconstruction of individual components within wastewater treatment facilities, $955 million for consent decree upgrading and reconstruction, and $731 million for water quality mandates.

The PTYCS for projects related to water mains totals $4.1 billion and consists of four major projects: $1.3 billion for the Croton Filtration project, $1 billion for water quality preservation projects, $699 billion for trunk and distribution main extensions, and $524 million for the upstate Dam Safety program. The PTYCS for projects related to sewers totals $1.6 billion and consists of two major projects: $1 billion for extensions to accommodate new housing and commercial development, and $398 million for the replacement of chronically failing components of the sewer system.

The PTYCS for projects related to water supply projects totals $3.2 billion and consists primarily of two major projects: $1.7 billion for the Kensico reservoir/New York City water tunnel, and with $1 billion for the research and development of alternate water supplies.

The PTYCS for equipment related purchases sums to $790 million and consists of four major projects. There are planned commitments of $280 million for utility relocations of sewer and water main projects, $148 million for the purchase and reconstruction of field facilities citywide, $133 million for various conservation efforts, and $112 million for landfill remediation.

Housing and Economic Development

Projected capital commitments for housing and economic development total $5.4 billion, or 8.9 percent of the entire PTYCS. This is a $1 billion increase from the April 2003 TYCS, or an increase of 22.9 percent.

Housing accounts for $4 billion of commitments over the ten-year period, or 6.6 percent of the total PTYCS. The major categories of the housing PTYCS are assistance to private owners, new housing construction, and occupied in-rem rehabilitation/ privatization.

Various programs, including Article 7A, Article 8A, the participation loan program, and supportive housing loan programs, will provide $2 billion in assistance to private owners. Existing City programs such as Nehemiah, ANCHOR, mixed use, and the New Ventures Incentive Program will provide $972 million for new construction of housing units to low and moderate-income homeowners and renters. Approximately $585 million will be provided to fund the rehabilitation of City-owned units and their sale to private not-for-profit and tenant-based organizations.

Other City Services

Projected capital commitments for other City services total $6.1 billion, or 10 percent of the entire PTYCS. This is a $2.1 billion increase from the April 2003 TYCS, or an increase of 53 percent. This category includes projects related to public buildings, parks, social services, cultural institutions and libraries, data processing, hospitals and the Fire Department.

Capital projects related to public works and buildings account for $1 billion in the PTYCS, or 1.7 percent of the Plan. Parks and recreation projects account for another $1 billion. Social Services projects comprise about $773 million of the PTYCS and includes the Department of Homeless Services ($257 million), the Department of Health ($193 million), Human Resources Administration ($176 million), and Administration for Children's Services ($147 million).

Estimated commitments to cultural institutions citywide total $405 million, and public libraries account for $77 million of the PTYCS. Projects related to the purchase and installation of data processing equipment account for $1.5 billion of the PTYCS, or 2.4 percent of the Plan. Projects related to the renovation, rehabilitation, and other system requirements of the Fire Department total $444 million in the PTYCS, or 0.7 percent of the total Plan. Capital projects at various hospitals citywide total $767 million. This is a significant increase from the prior ten- year plan as the City assumes greater responsibility for the financing of HHC's capital program.

Administration of Justice

Projected capital commitments for the administration of justice total $2.7 billion, or 4.5 percent of the entire PTYCS. This is a $397 million decline from the April 2003 TYCS, or a decrease of 12.6 percent. The administration of justice includes the Department of Correction, the Police Department, Courts and Juvenile Justice.

Capital commitments are estimated to be $1.5 billion for the Department of Correction, $659 million for the Police Department, $555 million for court facilities citywide, and $17 million for Juvenile Justice.

Sanitation

Projected capital commitments for the Department of Sanitation (DOS) total $2 billion, or 3.3 percent of the entire PTYCS. This is a $255 million decline from the April

2003 TYCS, or a decrease of 11.2 percent. Major categories in the DOS PTYCS include garages and facilities, and equipment purchases.

Approximately 48 percent, or $967 million of the DOS PTYCS is allocated to equipment acquisition. This is primarily for the purchase of sanitation vehicles of all kinds, including collection trucks and street sweepers. About 45 percent, or $911 million of the DOS strategy is dedicated to the construction and reconstruction of garages throughout the City.

Mass Transit

Projected capital commitments for mass transit total $723 million, or 1.2 percent of the entire PTYCS. This is a $25 million decline from the April 2003 TYCS, or a decrease of 3.3 percent.

The City capital funding in the PTYCS of New York City Transit (NYCT) projects consists of $350 million of track work projects, $318 million in miscellaneous transit improvement projects and $5 million for the Staten Island Railway. The NYCT, a subsidiary of the Metropolitan Transportation Authority (MTA), has its own proposed calendar year Capital Plan for 2005-2009. The City's contributions constitute a small part of the NYCT's $12 billion Capital Plan. The MTA Capital Plan has yet to be approved by the Capital Planning Review Board in Albany.

Broad Project Descriptions Underlying the Preliminary Ten-Year Capital Strategy

All projects contained in the strategy can be classified into three broad categories: 1) State of Good Repair; 2) Program Expansion; and 3) Programmatic Replacement.

The PTYCS contains $28.5 billion to maintain assets in a state of good repair. This comprises 47 percent of the strategy and contains such items as East River and other bridge reconstruction, the rehabilitation or reconstruction of schools, highway reconstruction and resurfacing, the rehabilitation of in-rem housing and other housing support, and the rehabilitation of public buildings and systems.

Planned commitments to effectuate program expansions total $17.8 billion. This comprises 29 percent of the strategy and contains such items as new school construction, assistance to owners of private housing, neighborhood-based and other housing initiatives, the Croton filtration project, the Kensico reservoir/NYC water tunnel and sewer extensions for new development.

Commitments in the general category of programmatic replacements reflect the remaining $14.5 billion in the PTYCS. This comprises 24 percent of the strategy and contains such items as water pollution control plant stabilization, consent decree upgrades and construction, water main replacements and dam safety program, water quality mandates and preservation, citywide computer procurements, and purchases of sanitation equipment.

V. The FYs 2006-2009 Financial Plan

While the City has presented a balanced FY 2006 budget, multi-billion dollar gaps continue to exist in the outyears of the financial plan. The FYs 2006-2009 Financial Plan shows gaps in excess of $3 billion in each of FYs 2007 through 2009.

The reason for the persistence of outyear gaps is twofold. First, over the financial plan period expenditures are growing faster than revenues. Expenditures are projected to grow 8.9 percent from FY 2006 to FY 2009 while revenues are expected to grow 6.9 percent. Second, the FY 2006 budget is balanced with the help of more than $2 billion in non-recurring actions that do not provide any budget relief beyond FY 2006. As such, even if revenue and expenditure growth rates were equal over the remainder of the plan, the gap would continue to grow because baseline expenditures will once again be higher than revenues. This structural gap is compounded by the divergent growth rates in expenditures and revenues.

A. REVENUE TRENDS

As shown in Table 16, revenues are projected to grow 6.9 percent from $49.2 billion in FY 2006 to $52.6 billion in FY 2009. Tax revenues are projected to show double-digit growth with property tax revenue growing the fastest at 18.6 percent over the financial plan period. In contrast, non-tax revenues are projected to decline 4.0 percent over the same period, driven by an 86.7 percent drop in anticipated State and Federal aid.

Table 16. Projected Revenue Growth
FYs 2006-2009

($ in millions)

		Growth				
	FY 2006	**FY 2007**	**FY 2008**	**FY 2009**	**FYs 2006-09**	**FY 2009**
Property Tax	$12,498	5.8%	7.1%	4.7%	18.6%	$14,826
PIT	6,381	(0.6%)	5.2%	6.0%	11.0%	7,079
Other Non-Property Tax	10,490	3.0%	3.9%	3.8%	11.0%	11,649
Total Tax Revenues	**$29,369**	**3.5%**	**5.6%**	**4.7%**	**14.3%**	**$33,554**
Miscellaneous Revenue	$3,374	(7.0%)	1.2%	0.8%	(5.1%)	3,201
Others	1,266	(2.1%)	(0.2%)	0.5%	(1.7%)	1,244
Unrestricted Aid	562	0.0%	0.0%	0.0%	0.0%	562
Anticipated State & Federal Aid	750	(73.3%)	(50.0%)	0.0%	(86.7%)	100
Federal Categorical Grant	4,839	(1.3%)	(0.2%)	0.0%	(1.5%)	4,765
State Categorical Grant	9,057	0.2%	0.7%	0.4%	1.3%	9,179
Total Non-Tax Revenues	**$19,848**	**(4.3%)**	**(0.1%)**	**0.4%**	**(4.0%)**	**$19,051**
Total Revenue	**$49,217**	**0.3%**	**3.4%**	**3.1%**	**6.9%**	**$52,605**

SOURCE: NYC Office of Management and Budget; NYC Office of the Comptroller.
NOTE: PIT revenue includes the portion of PIT retained for NYCTFA debt service.

The strong tax revenue projections are fueled by a continued positive outlook for the national and local economies. Property tax revenues are expected to grow the most over the financial plan period, averaging 5.5 percent growth annually over this period. This can be attributed to the value of the "pipeline" which will continue to increase billable values even if the growth in property values slows down. PIT collections, after declining 1.0 percent in FY 2006 and 0.6 percent in FY 2007 due to the expiration of the temporary tax increase, are expected to recover rapidly in FYs 2008 and 2009. Business taxes are projected to grow 4.6 percent a year and to strengthen toward the end of the plan period. Sales tax revenues are forecast to decline in FY 2006 because of legislative changes, and then grow strongly by more than 4.0 percent annually.

While projections for most tax revenues have increased, real-estate transaction related tax revenues have been revised downward in FY 2006. This is mainly due to recent indications of a slow-down in transactions. From FY 2006 through FY 2009, real-estate transaction related taxes are expected to grow an average of 4.3 percent.

B. EXPENDITURE GROWTH

After adjusting for prepayments, expenditures are projected to grow 8.9 percent, or 2.0 percentage points above revenue growth, from $51.2 billion in FY 2006 to $55.8 billion in FY 2009.[24] As Table 17 shows, the growth in expenditures is driven by debt service and non-discretionary spending on pensions, health insurance, Medicaid and Judgments and Claims (J&C). Together, spending in these areas is projected to grow 24.8 percent over the financial plan period, more than three and one-half times the projected growth rates of revenues. Most of the growth occurs in FY 2007 when spending in these areas is expected to rise 10 percent. Growth slows to 7.9 percent in FY 2008 and 5.2 percent in FY 2009.

Table 17. Projected Expenditure Growth

($ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009	FYs 2006-09	FY 2009
Pensions	$3,758	10.6%	9.3%	(1.6%)	19.0%	$4,473
Health Insurance	2,925	8.6%	9.4%	8.2%	28.5%	3,759
Medicaid	5,067	5.3%	7.1%	7.5%	21.3%	6,148
Debt Service	4,430	16.4%	6.7%	6.4%	32.1%	5,851
J & C	641	5.4%	6.3%	7.1%	20.0%	769
Subtotal	**$16,821**	**10.0%**	**7.9%**	**5.2%**	**24.8%**	**$21,000**
Other Fringe Benefits	$2,565	1.5%	1.8%	1.4%	4.9%	$2,691
Salaries and Wages	17,309	0.2%	(0.7%)	0.1%	(0.5%)	17,225
Public Assistance	2,365	(0.5%)	0.0%	0.0%	(0.5%)	2,354
Other OTPS	12,160	1.0%	1.2%	0.7%	2.9%	12,515
Subtotal	**$34,399**	**0.5%**	**0.2%**	**0.4%**	**1.1%**	**$34,785**
Total	**$51,220**	**3.6%**	**2.9%**	**2.2%**	**8.9%**	**$55,784**

SOURCE: NYC Office of Management and Budget; NYC Office of the Comptroller
NOTE: Debt Service includes NYCTFA debt service. Expenditures adjusted for prepayments.

[24] Expenditures are adjusted for prepayments and include NYCTFA debt service.

The remaining expenditure areas are projected to grow 1.1 percent from FY 2006 to FY 2009, or an annual growth rate of 0.4 percent. Spending on other fringe benefits, which consist of expenditures related to the Federal Insurance Contribution Act (FICA), unemployment insurance, supplemental welfare benefits, and workers' compensation is projected to grow the fastest in this group with growth of 4.9 percent over the plan period. Wages and salaries are projected to remain relatively flat at $17 billion, reflecting the City's assumption that the next round of collective bargaining will be funded solely with productivity savings. Public Assistance (PA) caseload continues to decline and the January 2006-2009 Financial Plan has accounted for this trend by holding caseload at the projected FY 2006 year-end level. Overall, PA expenditure is expected to remain flat after a slight dip of 0.5 percent in FY 2007.

VI. Economic Overview

U.S. economic conditions improved in 2004 compared with the three prior years. At the beginning of 2004, the nation faced uncertainties relating to the war in Iraq, most notably expressed as higher oil prices. Starting on June 30, 2004, the Federal Reserve addressed inflation concerns by raising the overnight target fed funds rate five times in 2004 and again in February 2005. These increases brought the fed funds rate from one percent to 2.5 percent, close to the 2004 U.S. inflation rate of 2.7 percent.

Fears of inflation led to concerns regarding higher long-term interest rates in 2004. The capital markets were apparently reassured by Fed tightening and after peaking at an average of 5.56 percent during the week of May 10-14, 2004, the 20-year Treasury rate fell 0.95 of a percentage point to an average of 4.61 percent in the week of February 14-18, 2005.

Both the nation and the City in 2004 enjoyed growth in gross product and jobs. The City emerged from its long recession that began in the first quarter of 2001 and continued for nearly three years. However, the City's recovery continued to be weaker than the nation's, which had been growing steadily since the fourth quarter of 2001. U.S. Gross Domestic Product (GDP) in 2004 grew the fastest since 1999 and job gains were the highest since 2000.

The positive economic trend for both the City and the nation is expected to continue but should moderate in 2005 and 2006. Higher short-term interest rates and large U.S. budget and trade deficits will restrain growth.

A. U.S. ECONOMY: 2004 STRONG, 2005 AND 2006 WEAKER

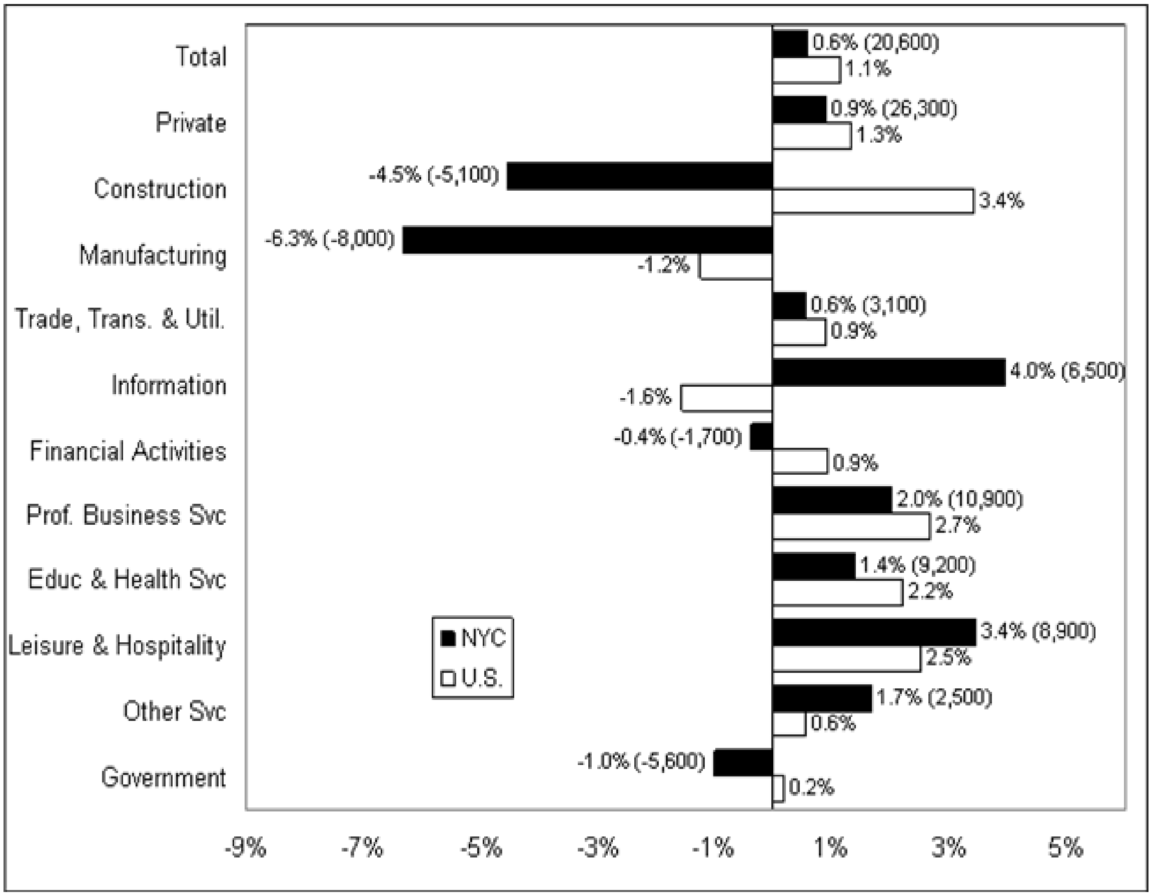
The U.S. economy continued to grow in 2004. GDP increased by 4.4 percent, the highest growth rate since 1999. Although private investment showed the largest percentage increase in 2004, consumer spending made the largest contribution to GDP growth.

Consumer spending grew 3.8 percent in 2004, the greatest increase since 4.7 percent in 2000. Private investment rose 12.9 percent, the greatest increase since 13.6 percent in 1994. Government expenditure rose 2.0 percent, compared with 2.8 percent in 2003. The 2004 trade deficit of $586.4 billion was a record, an increase of $67.9 billion or 13 percent over 2003.

Consumer spending contributed 2.67 percentage points, or three-fifths, of the GDP growth rate. Private investment contributed 1.96 percentage points and government expenditure contributed 0.37 of a percentage point. The continuing sizable excess of imports over exports – the trade deficit – deducted 0.61 of a percentage point from GDP growth.

Payroll jobs increased by about 1.5 million, the largest one-year growth since 2000. Except for manufacturing and information, the United States added jobs in every industrial sector, as shown in Chart 7.

Chart 7. NYC and U.S. Job Growth, Percent Change, 2004 vs. 2003



SOURCE: NYS Department of Labor.
Note: Jobs are based on annual averages of monthly data. Job growth in thousands is shown in parentheses.

The U.S. unemployment rate fell to 5.5 percent, the lowest since 2001. Civilian employment increased 1,516,000 and the number of unemployed fell 625,000. The labor force increased 891,000 suggesting that some of the 1.8 million "marginally attached" U.S. workers (those neither working nor having looked for work within the previous 12 months) returned to the job market.

The U.S. inflation rate rose to 2.7 percent, the highest rate since 2001. Reflecting the fact that a war was under way in an oil-producing region, energy prices rose 10.9 percent. The core inflation rate, which includes all items except food and energy, rose only 1.8 percent.

GDP is projected to grow in 2005 and 2006, but at a slower rate than in 2004. One reason for slower projected growth is that personal income – as measured by seasonally adjusted average weekly earnings – has been showing weakness, which included a 1.0 percent drop on an annualized basis in January 2005. In addition, rising interest rates reduce the likelihood that consumer spending in 2005 will play the prominent role in the economy that it did in 2004. Lower-than-expected U.S. labor-market numbers for December and January also suggest that 2005 will be weaker than 2004. The latest labor-force-participation rate numbers show decline – fewer workers are looking for work, and the number of discouraged workers in January 2005 was higher than in January 2004. The seasonally adjusted labor-force-participation rate was 65.8 percent, the lowest since June of 1988.

The business-investment component of the economy is similarly discouraging. The Institute for Supply Management (ISM) index fell to 55.3 in February 2005, the lowest since September 2003. Productivity grew at an annual rate of 0.8 percent in the fourth quarter of 2004, the smallest gain since the first quarter of 2001. Forecasts for capital expenditures indicate a lower rate of investment than in 2004.

In the government sector, the President is seeking to reduce the growth of Federal spending through reductions in Medicaid and other programs. If the cuts are implemented, they will marginally reduce the fiscal stimulus of a budget deficit that is projected in the $400-$500 billion range. Congress is expected to reduce the size of some proposed cuts and a higher military budget may cancel out cuts in other programs.

Table 18 shows the Comptroller's Office's and the City's forecasts for selected U.S. economic indicators. The Comptroller projects a slightly higher GDP growth rate for 2005 than the Mayor, but both show declining growth – slower in 2005 than 2004, and slower in 2006 than 2005. Both show growth in the range of 1.6 million to 2.2 million net new jobs per year, but the Comptroller's Office projects a larger increase in 2006 whereas the Mayor projects the larger increase in 2005.

Inflation fell to 3.0 percent in January 2005, compared with 3.3 percent in December. At the same time, job growth has remained low compared with previous postwar recoveries at this stage of the business cycle. The Fed has suggested that its goal of raising the fed funds rate to one of "neutrality" will mean three more quarter-percentage-point increases. But in testimony to Congress on February 16-17, Federal Reserve Chairman Alan Greenspan dropped references to a "measured pace" of increases, leaving room for future increases to depend on current data on inflation and the economy. The Comptroller's Office projects an inflation rate in 2005 that is lower, but not as low as the Mayor projects.

The Comptroller's Office projections for the unemployment rate in 2005 and 2006 are for small declines in each year, whereas the Mayor shows no significant change from the rate in 2004.

Table 18. Selected U.S. Economic Indicators Annual Averages, Actual 2004 and Forecast 2005-2006

	2004	2005 Forecast		2006 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GDP Change (%)	4.4	3.6	3.5	3.5	3.2
Jobs Change (Millions)	1.5	1.8	2.2	2.1	1.6
Inflation Rate (%)	2.7	2.5	2.2	2.3	1.7
Unemployment Rate (%)	5.5	5.3	5.4	5.2	5.5
Federal Funds Rate (%)	1.35	3.25	3.0	3.75	3.6
10-Year T-Notes (%)	4.27	4.7	4.7	5.3	5.2

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

The Comptroller's Office projections of interest rates are slightly higher than the Mayor's for the fed funds rate and also slightly higher in 2006 for 10-year Treasury Notes. The possibility that the euro could become a rival to the U.S. dollar as a reserve currency – a possibility that was given some credence by the jittery market response in February to news reports that Asian central banks were diversifying its reserves away from the dollar – contributes a risk that could add to upward pressures on interest rates in 2006.

B. THE NEW YORK CITY ECONOMY

The City's economic growth lagged the nation's in 2004. Gross City Product (GCP) rose 3.0 percent, well below GDP growth of 4.4 percent. The percentage increase in NYC jobs was also less than the increase in the nation's jobs, and lagged ten of the 19 largest metro areas in 2004. Chart 7 on page 46 shows the change in jobs for the City and the United States from 2003 to 2004.

The City's job gains were below those of the nation in all sectors except three: information, leisure-hospitality, and other services. On the positive side, the NAICS-designated information industry – which includes publishing, motion picture and sound recording, broadcasting (including the Internet), telecommunications and data processing services – seems to be a growing presence in NYC. While the United States lost 50,000 jobs in the information sector, NYC gained 6,500 jobs, a 4.0 percent increase over 2003.

There were several negative trends in 2004. First, NYC lost 6.3 percent of its manufacturing jobs – more than five times the percentage loss of manufacturing jobs in the United States as a whole. Second, the financial-activities sector is losing jobs despite the U.S. increase in such jobs. While the United States added 75,000 jobs in financial activities (an increase of 0.9 percent), NYC lost 1,700 jobs (a decline of 0.4 percent). Third, despite the large number of new City building permits (102,961 permits authorized in 2004, 8.0 percent more than 2003), NYC lost 5,100 construction jobs in 2004 while the United States gained 230,000 jobs.[25]

Although the NYC unemployment rate fell to 7.1 percent, it nevertheless ranked the highest among the 20 largest metro areas. In 2004, 49,500 more New Yorkers had jobs than in 2003, as the number of unemployed residents fell 45,100 and the labor force increased 4,300. However, the inflation rate jumped to 3.5 percent, the highest level since 1992. The core inflation rate, which includes all items except food and energy, was 2.9 percent, the highest since 2002. Energy prices increased 10.2 percent in 2004, on top of a 15 percent increase in 2003. Housing prices rose 4.2 percent, food and beverage prices increased 4.1 percent, services increased 3.9 percent, transportation 3.3 percent, and medical care 3.2 percent. Even apparel and upkeep prices, which had declined in each of the six previous years, rose 1.8 percent.

Personal income tax collections, which are used as a proxy for personal incomes, showed large gains. PIT collections increased 23.4 percent in 2004, the fastest growth in at least last ten years; estimated taxes increased 58.8 percent, also the fastest growth in at least a decade, and withholding increased 12 percent, the fastest since 1998. These increases reflect the temporary tax increases enacted in 2003 which added two new income brackets with higher tax rates.[26] The increase in PIT collections in 2004 reflects delayed impacts of the temporary tax increase in 2003, as well as higher 2004 personal incomes of NYC residents.

The Manhattan commercial real estate market activity showed signs of improvement in 2004. Overall vacancy rates in Manhattan fell to 11 percent in the fourth quarter of 2004 from 12.5 percent in the fourth quarter of 2003. Overall rental rates in Manhattan also fell to $39.55 per square foot in the fourth quarter of 2004 from $40.53 per square foot in the fourth quarter of 2003.

Wall Street profits, as measured by the net income of the New York Stock Exchange (NYSE) member firms were $9 billion during the first nine months of 2004. If they continue at the same rate in the fourth quarter, profits will be $12 billion for the entire year.

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[25] The NYS Department of Labor will release revised employment data for 2004 on March 9, 2005.

[26] Prior to January 1, 2003 the top income tax rate was 3.65 percent. A temporary tax increase effective January 1, 2003 added two new tax brackets. A tax rate of 4.25 percent was applied to the first bracket of single filers with taxable incomes of $100,000, head of household filers with taxable incomes of $125,000 and joint filers with taxable incomes of $150,000. A tax rate of 4.45 percent was applied to the second bracket, which consists, of all filers with taxable incomes of $500,000 or more. The first rate of 4.25 percent was reduced to 4.175 percent in 2004 and 4.05 percent in 2005. The temporary tax increase is scheduled to sunset in 2006 when the rate will revert to 3.65 percent.

The City's Economic Assumptions

The City's recovery is expected to continue in 2005 and 2006. The City's leading economic indicators improved in the fourth quarter of 2004 and for the full year 2004. These leading indicators consist of two indices. The business conditions index is a gauge based on NYC purchasing managers' buying plans. The number of building permits authorized shows the level of construction in the pipeline. On a year-over-year basis, both indicators increased in the fourth quarter of 2004, as shown in Table 19, although doubts about the outlook are raised by the negative current-conditions and six-month-outlook numbers in the National Association of Purchasing Management – New York (NAPM-NY) survey.

Table 19. Leading Economic Indices, NYC, 2004 over 2003 and 4Q04 over 4Q03

	2004 over 2003	4Q04 over 4Q03
1. Business Conditions Index (1996=100)	**+26.2%**	**+37.7%**
Current Conditions	**+32.8%**	**-5.7%**
Six-Month Outlook Index	**+5.3%**	**-27.7%**
2. Number of Building Permits Authorized	**+8.0%**	**+3.3%**

SOURCE: National Association of Purchasing Management-New York (Business Conditions Index), and NYC Dept. of Buildings (permits).

The Comptroller's Office projects that the City's GCP will grow 2.3 percent in 2005 – less than the 3.0 percent growth in 2004 and slightly slower than the Mayor's forecast of 2.4 percent. The Comptroller's Office forecasts an economic rebound in 2006 with 3.2 percent growth, while the Mayor forecasts slower growth than in 2005. Table 20 provides a summary and comparison of selected economic forecasts by the Comptroller's Office and Mayor for the City for 2005 and 2006.

Table 20. Selected NYC Economic Indicators
Annual Averages, Actual 2004 and Forecast 2005-2006

	2004	2005 Forecast		2006 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GCP Change (%)	3.0	2.3	2.4	3.2	2.2
Jobs Change (thousands)	20.6	21.0	43.9	30.0	37.4
Unemployment Rate (%)	7.1	6.9	N/A	6.2	N/A
Inflation Rate (%)	3.5	3.3	2.7	3.0	2.2

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

Appendix I — Revenue and Expenditure Details

Table A1. FY 2006 Preliminary Budget Revenue Detail

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2005-09 Percent	Dollar
Taxes:							
Real Property	$11,688	$12,498	$13,221	$14,161	$14,826	26.8%	$3,138
Personal Income Tax	$5,658	$5,647	$5,582	$5,904	$6,284	11.1%	$626
General Corporation Tax	$1,754	$1,817	$1,916	$2,023	$2,136	21.8%	$382
Banking Corporation Tax	$441	$438	$433	$432	$440	(0.2%)	($1)
Unincorporated Business Tax	$959	$996	$1,040	$1,089	$1,139	18.8%	$180
Sale and Use	$4,205	$4,046	$4,211	$4,384	$4,591	9.2%	$386
Commercial Rent	$445	$457	$469	$482	$495	11.2%	$50
Real Property Transfer	$885	$555	$571	$601	$623	(29.6%)	($262)
Mortgage Recording Tax	$818	$517	$533	$566	$593	(27.5%)	($225)
Utility	$309	$311	$310	$309	$309	0.0%	$0
Cigarette	$126	$121	$118	$115	$112	(11.1%)	($14)
Hotel	$251	$264	$277	$291	$306	21.9%	$55
All Other	$453	$456	$420	$422	$396	(12.6%)	($57)
Tax Audit Revenue	$525	$512	$509	$509	$509	(3.0%)	($16)
Tax Initiatives Program	$0	$0	$0	$0	$0	0.0%	$0
State Tax Relief Program	$784	$734	$763	$774	$795	1.4%	$11
Total Taxes	**$29,301**	**$29,369**	**$30,373**	**$32,062**	**$33,554**	**14.5%**	**$4,253**
Miscellaneous Revenues:							
Licenses, Franchises, Etc.	$371	$364	$360	$362	$360	(3.0%)	($11)
Interest Income	$96	$88	$102	$117	$124	29.2%	$28
Charges for Services	$557	$527	$512	$512	$512	(8.1%)	($45)
Water and Sewer Charges	$928	$921	$938	$959	$979	5.5%	$51
Rental Income	$921	$174	$170	$170	$170	(81.5%)	($751)
Fines and Forfeitures	$716	$712	$711	$711	$710	(0.8%)	($6)
Miscellaneous	$1,342	$588	$345	$344	$346	(74.2%)	($996)
Intra-City Revenue	$1,268	$1,206	$1,205	$1,205	$1,205	(5.0%)	($63)
Total Miscellaneous	**$6,199**	**$4,580**	**$4,343**	**$4,380**	**$4,406**	**(28.9%)**	**($1,793)**
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	$327	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$235	$235	$235	$235	$235	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$562**	**$562**	**$562**	**$562**	**$562**	**0.0%**	**$0**
Anticipated State and Federal Aid:							
Anticipated State Aid	$0	$500	$200	$100	$100	0.0%	$100
Anticipated Federal Aid	$0	$250	$0	$0	$0	0.0%	$0
Total Anticipated Aid	**$0**	**$750**	**$200**	**$100**	**$100**	**0.0%**	**$100**
Other Categorical Grants	$897	$934	$916	$921	$927	3.3%	$30
Inter-Fund Agreements	$357	$347	$339	$332	$332	(7.0%)	($25)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra-City Revenue	($1,268)	($1,206)	($1,205)	($1,205)	($1,205)	(5.0%)	$63
TOTAL CITY FUNDS	**$36,033**	**$35,321**	**$35,513**	**$37,137**	**$38,661**	**7.3%**	**$2,628**

Table A1 (Cont'd). *FY2006 Preliminary Budget Revenue Detail*

($ in millions)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2005-09 Percent	Dollar
Federal Categorical Grants:							
Community Development	$312	$243	$243	$243	$243	(22.1%)	($69)
Welfare	$2,238	$2,030	$2,029	$2,028	$2,028	(9.4%)	($210)
Education	$1,928	$1,808	$1,808	$1,808	$1,808	(6.2%)	($120)
Other	$1,085	$758	$696	$686	$686	(36.8%)	($399)
FEMA Insurance	$1,000	$0	$0	$0	$0	(100.0%)	($1,000)
Total Federal Grants	**$6,563**	**$4,839**	**$4,776**	**$4,765**	**$4,765**	**(27.4%)**	**($1,798)**
State Categorical Grants							
Welfare	$1,799	$1,875	$1,863	$1,863	$1,863	3.6%	$64
Education	$6,181	$6,272	$6,304	$6,363	$6,399	3.5%	$218
Higher Education	$177	$178	$178	$178	$178	0.6%	$1
Department of Health and Mental Hygiene	$434	$428	$432	$436	$441	1.6%	$7
Other	$408	$304	$297	$298	$298	(27.0%)	($110)
Total State Grants	$8,999	$9,057	$9,074	$9,138	$9,179	2.0%	$180
TOTAL REVENUE	$51,595	$49,217	$49,363	$51,040	$52,605	2.0%	$1,010

Table A2. FY 2006 Preliminary Budget Expenditure Detail

($ in thousands)

	FY 2005	FY 2006	FY 2007	FY2008	FY2009	Change FYs 2005-09 Percent	Dollar
Mayoralty	$77,686	$73,542	$73,586	$73,407	$73,407	(5.5%)	($4,279)
Board of Elections	$73,433	$73,122	$68,622	$68,622	$68,622	(6.6%)	($4,811)
Campaign Finance Board	$8,967	$17,819	$17,819	$17,819	$17,819	98.7%	$8,852
Office of the Actuary	$4,782	$4,732	$4,732	$4,732	$4,732	(1.0%)	($50)
President, Borough of Manhattan	$3,921	$3,108	$3,108	$3,108	$3,108	(20.7%)	($813)
President, Borough of the Bronx	$5,722	$4,466	$4,466	$4,466	$4,466	(22.0%)	($1,256)
President, Borough of Brooklyn	$5,385	$3,905	$3,905	$3,905	$3,905	(27.5%)	($1,480)
President, Borough of Queens	$5,045	$3,672	$3,672	$3,672	$3,672	(27.2%)	($1,373)
President, Borough of S.I.	$3,947	$3,113	$3,113	$3,113	$3,113	(21.1%)	($834)
Office of the Comptroller	$58,365	$57,264	$57,313	$57,313	$57,313	(1.8%)	($1,052)
Dept. of Emergency Management	$21,458	$4,740	$4,799	$4,799	$4,799	(77.6%)	($16,659)
Tax Commission	$2,405	$2,325	$2,325	$2,325	$2,325	(3.3%)	($80)
Law Department	$118,404	$115,353	$108,685	$108,685	$108,685	(8.2%)	($9,719)
Department of City Planning	$20,480	$19,278	$19,278	$19,278	$19,278	(5.9%)	($1,202)
Department of Investigation	$20,451	$19,577	$19,577	$19,577	$19,577	(4.3%)	($874)
NY Public Library-Research	$9,948	$15,250	$15,250	$15,250	$15,250	53.3%	$5,302
New York Public Library	$51,275	$80,728	$80,728	$80,728	$80,728	57.4%	$29,453
Brooklyn Public Library	$38,021	$59,820	$59,820	$59,820	$59,820	57.3%	$21,799
Queens Borough Public Library	$36,098	$56,458	$56,458	$56,458	$56,458	56.4%	$20,360
Department of Education	$13,758,415	$13,746,292	$13,851,127	$13,912,621	$14,020,791	1.9%	$262,376
City University	$594,270	$520,759	$518,354	$518,139	$518,156	(12.8%)	($76,114)
Civilian Complaint Review Bd.	$9,734	$8,522	$8,522	$8,522	$8,522	(12.5%)	($1,212)
Police Department	$3,609,752	$3,499,267	$3,519,735	$3,521,977	$3,522,060	(2.4%)	($87,692)
Fire Department	$1,223,542	$1,144,598	$1,159,578	$1,159,421	$1,158,068	(5.4%)	($65,474)
Admin. for Children Services	$2,219,296	$2,095,777	$2,096,629	$2,096,267	$2,096,267	(5.5%)	($123,029)
Department of Social Services	$7,168,823	$7,245,802	$7,515,973	$7,900,216	$8,335,686	16.3%	$1,166,863
Dept. of Homeless Services	$726,666	$698,863	$682,528	$682,528	$682,528	(6.1%)	($44,138)
Department of Correction	$818,581	$793,904	$786,206	$786,206	$786,206	(4.0%)	($32,375)
Board of Correction	$899	$853	$853	$853	$853	(5.1%)	($46)
Department of Employment	$0	$0	$0	$0	$0	0.0%	$0
Citywide Pension Contributions	$3,242,613	$3,894,230	$4,293,728	$4,680,549	$4,608,903	42.1%	$1,366,290
Miscellaneous	$6,024,793	$5,139,441	$5,547,157	$5,855,114	$6,169,121	2.4%	$144,328
Debt Service	$3,862,586	$1,760,735	$4,167,969	$4,508,640	$4,852,960	25.6%	$990,374
M.A.C. Debt Service	$129,667	$10,000	$10,000	$10,000	$0	(100.0%)	($129,667)
NYCTFA Debt Service*	$525,091	$955,567	$977,185	$982,721	$988,364	88.2%	$463,273
Public Advocate	$3,204	$1,845	$1,845	$1,845	$1,845	(42.4%)	($1,359)
City Council	$47,836	$46,518	$46,518	$46,518	$46,518	(2.8%)	($1,318)
City Clerk	$3,072	$3,003	$3,003	$3,003	$3,003	(2.2%)	($69)
Department for the Aging	$233,096	$197,665	$197,575	$197,575	$197,575	(15.2%)	($35,521)
Department of Cultural Affairs	$124,285	$101,137	$101,137	$101,137	$101,137	(18.6%)	($23,148)
Financial Info. Serv. Agency	$39,677	$48,916	$44,820	$42,301	$42,301	6.6%	$2,624
Department of Juvenile Justice	$99,364	$96,718	$96,718	$96,718	$96,718	(2.7%)	($2,646)
Office of Payroll Admin.	$10,397	$10,488	$10,441	$10,441	$10,441	0.4%	$44
Independent Budget Office	$2,745	$2,715	$2,715	$2,715	$2,715	(1.1%)	($30)
Equal Employment Practices Com	$612	$515	$515	$515	$515	(15.8%)	($97)

Table A2 (Cont'd). *FY2006 Preliminary Budget Expenditure Detail*

($ in thousands)

	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	Change FYs 2005-09 Percent	Dollar
Civil Service Commission	$582	$582	$582	$582	$582	0.0%	$0
Landmarks Preservation Comm.	$3,932	$3,555	$3,555	$3,555	$3,555	(9.6%)	($377)
Districting Commission	$0	$0	$0	$0	$0	0.0%	$0
Taxi & Limousine Commission	$26,783	$25,836	$25,185	$25,185	$25,185	(6.0%)	($1,598)
Commission on Human Rights	$6,906	$6,782	$6,782	$6,782	$6,782	(1.8%)	($124)
Youth & Community Development	$250,891	$211,106	$207,344	$207,619	$207,619	(17.2%)	($43,272)
Conflicts of Interest Board	$1,492	$1,349	$1,349	$1,349	$1,349	(9.6%)	($143)
Office of Collective Barg.	$1,586	$1,586	$1,586	$1,586	$1,586	0.0%	$0
Community Boards (All)	$12,601	$12,512	$12,512	$12,512	$12,512	(0.7%)	($89)
Department of Probation	$79,194	$77,406	$77,406	$77,406	$77,406	(2.3%)	($1,788)
Dept. of Small Business Services	$118,285	$92,147	$87,293	$87,293	$87,293	(26.2%)	($30,992)
Housing Preservation & Dev.	$541,751	$443,976	$441,536	$441,536	$441,536	(18.5%)	($100,215)
Department of Buildings	$66,379	$60,490	$59,586	$58,300	$56,734	(14.5%)	($9,645)
Department of Public Health & Mental Hygiene	$1,445,962	$1,469,221	$1,484,654	$1,500,879	$1,516,744	4.9%	$70,782
Health and Hospitals Corp.	$1,102,021	$892,775	$1,049,095	$1,035,737	$1,025,061	(7.0%)	($76,960)
Dept. of Environmental Prot.	$773,817	$746,764	$745,214	$745,214	$745,214	(3.7%)	($28,603)
Department of Sanitation	$1,036,155	$1,039,370	$1,081,355	$1,081,116	$1,081,559	4.4%	$45,404
Business Integrity Commission	$5,215	$5,591	$5,591	$5,591	$5,591	7.2%	$376
Department of Finance	$206,432	$199,702	$200,936	$201,004	$201,004	(2.6%)	($5,428)
Department of Transportation	$571,894	$515,021	$516,949	$516,949	$516,949	(9.6%)	($54,945)
Dept. of Parks and Recreation	$280,315	$262,395	$263,009	$256,521	$256,521	(8.5%)	($23,794)
Dept. of Design & Construction	$90,941	$88,013	$88,013	$88,013	$88,013	(3.2%)	($2,928)
Dept. of Citywide Admin. Services	$765,272	$750,939	$751,737	$750,419	$750,477	(1.9%)	($14,795)
D.O.I.T.T.	$235,030	$266,621	$265,705	$266,467	$266,467	13.4%	$31,437
Dept. of Records & Info. Serv.	$4,194	$3,779	$3,779	$3,779	$3,779	(9.9%)	($415)
Department of Consumer Affairs	$15,163	$14,128	$14,228	$14,228	$14,228	(6.2%)	($935)
District Attorney - N.Y.	$80,572	$63,891	$63,891	$63,891	$63,891	(20.7%)	($16,681)
District Attorney – Bronx	$44,365	$37,787	$37,787	$37,787	$37,787	(14.8%)	($6,578)
District Attorney – Kings	$73,168	$64,263	$64,263	$64,263	$64,263	(12.2%)	($8,905)
District Attorney - Queens	$39,198	$33,231	$33,231	$33,231	$33,231	(15.2%)	($5,967)
District Attorney - Richmond	$7,062	$5,677	$5,677	$5,677	$5,677	(19.6%)	($1,385)
Off. Of Prosec. & Spec. Narc.	$15,212	$13,557	$13,557	$13,557	$13,557	(10.9%)	($1,655)
Public Administrator - N.Y.	$1,040	$1,002	$1,002	$1,002	$1,002	(3.7%)	($38)
Public Administrator - Bronx	$338	$338	$338	$338	$338	0.0%	$0
Public Administrator - Brooklyn	$465	$465	$465	$465	$465	0.0%	$0
Public Administrator - Queens	$363	$363	$363	$363	$363	0.0%	$0
Public Administrator - Richmond	$282	$282	$282	$282	$282	0.0%	$0
Prior Payable Adjustment	($200,000)	$0	$0	$0	$0	(100.0%)	$200,000
General Reserve	$100,000	$300,000	$300,000	$300,000	$300,000	200.0%	$200,000
Energy Adjustment	$12,850	$48,226	$49,043	$41,174	$38,016	195.8%	$25,166
Lease Adjustment	$0	$18,912	$34,932	$50,609	$67,989	0.0%	$67,989
OTPS Inflation Adjustment	$0	$0	$38,032	$73,980	$110,970	0.0%	$110,970
City-Wide Totals	**$51,594,778**	**$49,216,203**	**$53,080,745**	**$54,604,930**	**$55,784,483**	**8.1%**	**$4,189,705**

Appendix II — Ten-Year Capital Strategy

Table A3. Ten-Year Capital Strategy

($ in thousands)

Agency Program	April 2003 Ten-Year Capital Strategy City Funds	April 2003 Ten-Year Capital Strategy All Funds	% of Total	January 2005 Ten-Year Capital Strategy City Funds	January 2005 Ten-Year Capital Strategy All Funds	% of Total	Increase (Decrease) Total Funds
Education	$9,754,582	$9,754,582	19.8%	$12,319,457	$18,882,852	31.1%	$9,128,270
Bridges	$3,435,734	$4,497,488	9.1%	$3,538,168	$4,706,541	7.7%	$209,053
Housing	$3,209,805	3,670,047	7.4%	$3,455,649	$3,902,735	6.4%	$232,688
Water Pollution Control	$6,325,708	$6,525,708	13.2%	$6,001,607	$6,151,607	10.1%	$(374,101)
Highways	$2,662,483	$2,840,106	5.8%	$2,923,584	$3,061,177	5.0%	$221,071
Water Mains	$4,195,752	$4,195,752	8.5%	$4,098,907	$4,098,907	6.7%	$(96,845)
Sanitation	$2,261,492	$2,274,742	4.6%	$2,019,467	$2,019,467	3.3%	$(255,275)
Correction	$1,422,335	$1,426,085	2.9%	$1,511,706	$1,515,456	2.5%	$89,371
Courts	$1,209,104	$1,209,744	2.5%	$554,098	$554,738	0.9%	$(655,006)
Sewers	$1,310,845	$1,310,857	2.7%	$1,560,632	$1,560,632	2.6%	$249,775
Public Buildings	$965,404	$965,504	2.0%	$1,049,207	$1,049,207	1.7%	$83,703
Mass Transit	$748,140	$748,140	1.5%	$723,313	$723,313	1.2%	$(24,827)
Water Supply	$3,938,471	$3,938,471	8.0%	$3,193,739	$3,193,739	5.3%	$(744,732)
Economic Development	$641,621	$641,621	1.3%	$1,389,547	$1,389,547	2.3%	$747,926
Parks & Recreation	$602,289	$623,317	1.3%	$973,203	$1,007,790	1.7%	$384,473
Traffic	$292,366	$509,937	1.0%	$424,549	$663,103	1.1%	$153,166
Fire	$444,838	$444,838	0.9%	$443,581	$443,581	0.7%	$(1,257)
Police	$483,093	$483,093	1.0%	$658,966	$658,966	1.1%	$175,873
Cultural Affairs	$419,346	$422,511	0.9%	$405,238	$405,238	0.7%	$(17,273)
Technology	$451,465	$451,465	0.9%	$1,440,769	$1,485,769	2.4%	$1,034,304
DEP Equipment	$495,337	$567,900	1.2%	$696,168	$790,441	1.3%	$222,541
Franchise Transportation	$25,856	$240,910	0.5%	$22,727	$231,837	0.4%	$(9,073)
Hospitals	$217,907	$217,907	0.4%	$766,943	$766,943	1.3%	$549,036
Homeless Services	$227,164	$227,164	0.5%	$256,697	$256,697	0.4%	$29,533
Human Resources	$111,915	$165,523	0.3%	$116,668	$175,610	0.3%	$10,087
Children's Services	$127,256	$143,978	0.3%	$133,010	$147,164	0.2%	$3,186
Housing Authority	$111,086	$111,086	0.2%	$142,396	$142,396	0.2%	$31,310
Health	$97,004	$97,004	0.2%	$193,172	$193,172	0.3%	$96,168
CUNY	$119,445	$156,858	0.3%	$169,934	$210,317	0.3%	$53,459
Ferries	$74,659	$81,959	0.2%	$129,409	$133,909	0.2%	$51,950
Transportation Equipment	$71,808	$71,808	0.1%	$58,426	$63,418	0.1%	$(8,390)
Real Property	$47,312	$47,312	0.1%	$52,984	$52,984	0.1%	$5,672
New York Public Library	$78,836	$78,836	0.2%	$23,665	$23,665	0.0%	$(55,171)
Brooklyn Public Library	$35,609	$35,609	0.1%	$25,591	$25,591	0.0%	$(10,018)
Aging	$29,085	$29,085	0.1%	$28,440	$28,440	0.0%	$(645)
Queens Public Library	$27,471	$27,471	0.1%	$23,795	$23,795	0.0%	$(3,676)
Juvenile Justice	$23,328	$23,328	0.0%	$16,486	$16,486	0.0%	$(6,842)
New York Research Library	$9,122	$9,297	0.0%	$4,382	$4,382	0.0%	$(4,915)
Grand Total	**$46,705,073**	**$49,267,043**	**100.0%**	**$51,546,280**	**$60,761,612**	**100.0%**	**$11,494,569**

Glossary of Acronyms

AIRA	Actuarial Investment Return Assumption
BERS	Board of Education Retirement System
BSA	Budget Stabilization Account
CFE	Campaign for Fiscal Equity, Inc.
COLA	Cost of Living Allowances
COPS	Community Oriented Policing Services
CUNY	City University of New York
CY	Calendar Year
DASNY	Dormitory Authority of the State of New York
DCA	Department of Cultural Affairs
DC 37	District Council 37
DEP	Department of Environmental Protection
DOC	Department of Correction
DOE	Department of Education
DOS	Department of Sanitation
DOT	Department of Transportation

DSS	Department of Social Services
FEMA	Federal Emergency Management Agency
FHP	Family Health Plus
FICA	Federal Insurance Contribution Act
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
GRS	Gabriel, Roeder, Smith & Company
HHC	Health and Hospitals Corporation
HPD	Housing Preservation and Development
HYIC	Hudson Yards Infrastructure Corporation
ISM	Institute for Supply Management
J&C	Judgments and Claims
LGAC	Local Government Assistance Corporation

MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
NAICS	North American Industry Classification System
NAPM – NY	National Association of Purchasing Mangement – New York
NYC	New York City
NYCERS	New York City Employees Retirement System
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
NYCWFA	New York City Water Finance Authority
NYS	New York State
NYSE	New York Stock Exchange
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PA	Public Assistance
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap
PERB	Public Employment Relations Board

PILOT	Payment-in-Lieu-of-Taxes
PIT	Personal Income Tax
PS	Personal Services
PTYCS	Preliminary Ten-Year Capital Strategy
SBE	Sound Basic Education Grant
S&P	Standard and Poor's
STAR, Corp.	Sales Tax Asset Receivable Corporation
STAR	School Tax Relief Program
TRS	Teachers' Retirement System
TSR	Tobacco Settlement Revenues
TSASC	Tobacco Settlement Asset Securitization Corporation
TYCS	Ten-Year Capital Strategy
U/A	Unit of Appropriation
UFA	Uniformed Firefighter's Association
UFT	United Federation of Teachers
U.S.	United States
WTC	World Trade Center