The Comptroller's Comments on The Fiscal Year 2003 Executive Budget

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

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EXECUTIVE SUMMARY

The City is facing difficult financial times. While FY 2002 is certain to end with the budget in balance, no such assurances exist for FY 2003. The combination of a recession and the terrorist attacks has left the City in a challenging financial condition. However, working collaboratively, we can confront these extraordinary hardships and achieve fiscal balance.

In financial plan documents issued on his last day in office, the outgoing Mayor claimed that the City faced a FY 2003 deficit of $2.8 billion. In his February 2002 Preliminary Budget for FY 2003, the new Mayor corrected that assertion, identifying a FY 2003 gap of over $4.7 billion. The Executive Budget, released April 17, increased that estimate to nearly $5 billion.

The Comptroller's analysis reveals that the FY 2003 gap has increased by an additional $1.1 billion, bringing the total deficit to more than $6 billion. Revenue shortfalls and overestimations and higher-than-projected expenditures have all contributed to this increase. The Comptroller's analysis also identifies an additional $600 million in risks. The combination of the increased gap and the identified risks raises the deficit by more than $1.7 billion above the FY 2003 Executive Budget estimates.

This looming problem must be addressed collectively and aggressively. The Mayor and the City Council must agree on a budget that reflects these serious fiscal realities. The City's labor unions must also be active participants in identifying savings opportunities. The State and Federal governments cannot forget their role and must give prompt support and approval to a substantial portion of the Mayor's proposed initiatives. Additionally, the State Legislature should grant the City relief through the reinstatement of the commuter tax.

Today's fiscal challenges present the City with an opportunity to address its embedded structural imbalance and achieve long-term fiscal stability. While recognizing the burden this may impose on the City, the long-term benefits are real and will outweigh the hardship.

Table 1. The FY 2003 Executive Budget, $ in millions

Revenues	
Taxes:	
General Property Tax	$8,866
Other Taxes	$13,257
Tax Audit Revenues	$427
Decoupling from Federal Accelerated Depreciation	$128
Miscellaneous Revenues	$4,212
Transitional Finance Authority - 9/11	$1,500
Unrestricted Intergovernmental Aid	$721
Anticipated State & Federal Actions	$630
Other Categorical Grants	$428
Less: Intra-City Revenues	($1,012)
Disallowances Against Categorical Grants	($15)
Subtotal City Funds	**$29,142**
Inter-Fund Revenues	$323
Total City & Inter-Fund Revenues	**$29,465**
Federal Categorical Grants	$4,358
State Categorical Grants	$8,044
Total Revenues	***$41,867***
Expenditures	
Personal Service	$22,370
Other Than Personal Service	$17,618
Debt Service	$2,436
MAC Debt Service	$255
General Reserve	$200
Subtotal Expenditures	**$42,879**
Less: Intra-City Expenses	($1,012)
Total Expenditures	***$41,867***

Source: Message of the Mayor, April 17, 2002

Table 2. Risks to the FYs 2002 and 2003 Budgets, $ in millions

	FY 2002	FY 2003
Baseline Assessment		
Personal Income Tax	($61)	($195)
Other Taxes	($28)	($105)
Airport Rent	$0	($175)
Other Miscellaneous Revenues	$0	($67)
Headcount Savings	$22	$0
Overtime	($51)	($145)
Judgment and Claims	($23)	$0
Collective Bargaining	$0	($40)
Public Assistance	$0	($28)
Pension Costs	$0	($89)
BOE Teacher Support Aid	$0	($49)
Debt Reform-Federal Actions	$0	($255)
Subtotal	**($141)**	**($1,148)**
Federal and State Actions		
Anticipated Federal and State Actions	$0	($328)
Decoupling from Federal Accelerated Depreciation	$0	($128)
Subtotal	**$0**	**($456)**
FY 2002 Risk/Reduction in Surplus Roll	**($141)**	**($141)**
FY 2003 Risk		**($1,745)**

I. THE PROBLEM

New York City will end FY 2002 with its budget in GAAP balance for the 21st consecutive year. The City, however, must close a substantial budget gap if it is to end FY 2003 in balance. The Mayor's Executive Budget for FY 2003, released April 17, 2002, assumes the gap to be nearly $5 billion and includes a wide range of initiatives aimed at resolving this shortfall. The Comptroller's analysis shows the gap to be substantially larger than the Mayor's estimates and questions the City's ability to achieve all of its gap-closing initiatives.

As shown on Table A1 on page 25, in June 2001, when the FY 2002 budget was adopted, the City assumed the FY 2003 gap would be just under $2.8 billion. This assumption was strongly questioned by the City's fiscal monitors. By December 31, after accounting for more than $1 billion in post-9/11 revenue losses, the City had increased its gap estimate by just $81 million. However, in February 2002, when the new Mayor presented his Preliminary Budget for FY 2003, the gap was shown to be more than $4.7 billion.

The Mayor's Executive Budget for FY 2003, released April 17, assumes a gap just short of $5 billion and includes a wide range of initiatives dedicated to closing it. However, as Table 2 on page 2 illustrates, the baseline gap is over $1.1 billion higher than the City's estimates, exceeding $6.1 billion. A combination of revenue shortfalls and overestimations, combined with higher anticipated expenditures is responsible for the difference.

At the same time, shortfalls in the City's Program to Eliminate the Gap (PEG), primarily from assumptions of State and Federal aid, reduce the impact of the gap-closing program by $456 million and a reduced surplus roll from FY 2002 into FY 2003 further exacerbates the situation.

A. Revenue Estimates

The ongoing recession has worsened the City's revenue problems. In the aftermath of the attacks on the World Trade Center and a mild national slowdown, the FY 2003 Executive Budget estimated that tax revenues would be $1.1 billion lower than were projected at the time of adoption of the FY 2002 budget in June 2001. However, recent collections information indicates that tax collections will be even lower than anticipated.

Adding to the revenue problem is the City's assumption that it will receive an additional $175 million in airport rental payments from the Port Authority as well as receive substantial relief from certain other miscellaneous revenue initiatives. Furthermore, it is unlikely that the City will receive the full amount of intergovernmental assistance that it is relying on to close its budget gap.

Tax Revenues

New York City's economy is in a recession that the Comptroller expects to be deeper and more prolonged than the City is projecting. The weakening economy and anticipated sluggish recovery are therefore expected to generate continued lower-than projected tax-revenue collections into FY 2003. The Comptroller sees a risk of $300 million in the FY 2003 Executive Budget tax revenue estimates as well as an $89 million shortfall in FY 2002 as shown in Table 3.

Table 3. Executive Budget FY 2003 Tax Revenue Risks, $ in millions

Tax	FY 2002	FY 2003
Property	0.0	(4.7)
Personal Income	(61.8)	(194.6)
Business	(8.1)	(45.6)
Sales	(19.4)	(62.6)
Commercial Rent	0.0	(0.3)
Mortgage Recording	0.0	13.8
Real Property Transfer	0.0	(3.2)
Utility	0.0	0.0
Other	0.0	(2.8)
Total	**(89.3)**	**(299.9)**

The City's economy continues to show signs of increasing weakness that will affect FY 2003. The Comptroller's recent economic report shows that while the nation's economy is displaying signs of recovery, the City's economic performance continues to slide.[1] The rate of job loss continued to increase through March and the help-wanted index for January and February showed a marked decline. The number of building permits authorized was up for the first quarter of 2002 but this probably reflects the unseasonably warm weather, which allowed construction activity to continue through the winter, rather than an invigorating economy. Construction companies are now reporting a slowdown.

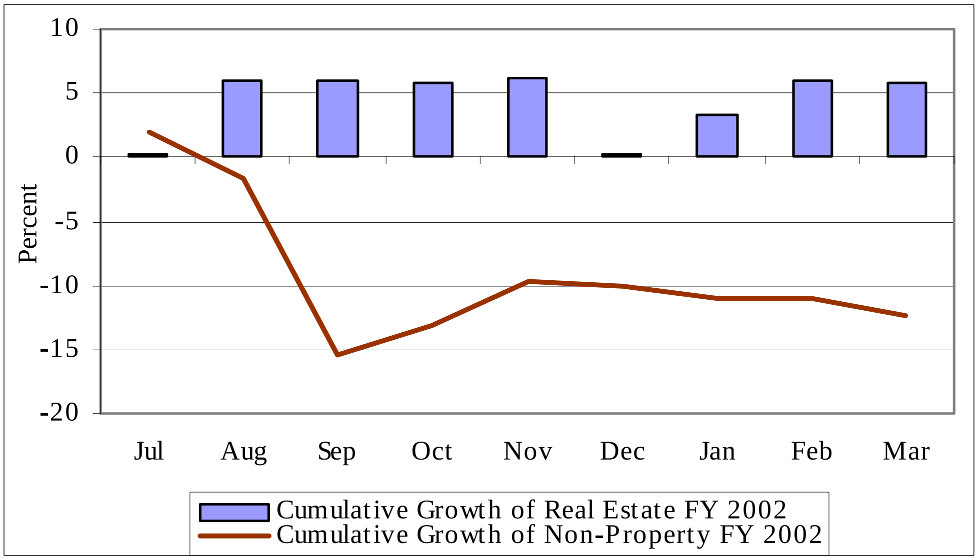
In light of the continued weak performance the Comptroller has lowered his economic forecast for 2003, while the City has become more bullish in its outlook for 2002 and 2003. The City has raised its projection of Gross City Product (GCP) for 2002 from a decline of 4.6 percent in the Preliminary Budget to growth of 0.1 percent in the Executive Budget. The City continues to expect a very sharp recovery in 2003 and has raised its GCP forecast from 4.1 percent to 4.7 percent. The Comptroller is not expecting the City to show signs of recovery before the second half of 2002, and continues to expect slow recovery with GCP growing only two percent in 2003.

Non-property taxes account for about 60 percent of total tax collections. The negative growth in non-property taxes that began in early FY 2002 may well continue

[1] See "The Comptroller's Comments on the Economic Assumptions Underlying the Executive Budget for Fiscal Year 2003," May 2, 2002.

into FY 2003. The decline began before September 11 as illustrated in Chart 1, and current information indicates that this slide will continue through April. Both the Federal and State governments are reporting lower-than-anticipated collections, with overall Federal tax revenue possibly $70 billion lower than expected. The State in turn is reporting a potential shortfall of at least $1.2 billion.

Chart 1. *Cumulative Growth of Property and Non-Property Taxes, FY 2002*



The City increased sales tax estimates for FY 2003 by $58 million in the Executive Budget over its estimate in the Preliminary Budget. Sales tax revenue is expected to grow 5.8 percent in the FY 2003 after declining eight percent in FY 2002. Based on collections to date the Comptroller believes this prediction to be too optimistic. Sales-tax collections remained somewhat resistant to the economic downturn, rising above FY 2001 collections for five of the nine months of FY 2002. After September 11, collections for September and October dropped but rose above FY 2001 for November, January and February. December collections fell below FY 2001 partly because of timing issues and March collections showed a significant drop of 36.5 percent.

Analysis of the decline is revealing. It appears that the strength of collections in earlier months was overestimated. As a result of the extensions granted and the uncertainties following September 11, the State made distributions to the City based upon prior years' collections. The State realized it had over distributed to the City and is now making adjustments. The drop in March collections also reflect a decline in residential utility taxes due to the warm winter as well as a drop in collections from major vendors. Tentative collections for April are being recorded at two percent below FY 2001.

The City is expecting personal income taxes (PIT) to grow 5.7 percent in FY 2003 after declining 16.4 percent in FY 2002. PIT collections may also be overestimated as job losses are expected to grow even if the economy strengthens, since the recovery in jobs usually lags GCP recovery. Unemployment rose to 7.5 percent in March and the forecast range is from 7.1 percent to nine percent for the full year. The higher-than-usual average refund resulting from tax cuts and the weak economy significantly reduced Federal tax collections at the April 15 deadline. This affects State and City collections which are based on the Federal adjusted gross income.

April's PIT tells the tale of the labor market. April's collections are down 54 percent compared to last year and refunds are up 56 percent. The cumulative decline in PIT moved seven percentage points from -14 percent in March to -21 percent in April. PIT accounts for about 22 percent of total collections and wages account for 68 percent of PIT collections. With the negative outlook for the labor market, PIT collections may not recover as well as the City is anticipating. The securities industry has shed jobs for four consecutive months so bonus wages may not recover quickly either. Non-wage income which results mainly from capital gains is not anticipated to show a strong resurgence as the Comptroller is not expecting Wall Street to rebound as quickly as the City. April's estimated payments, for instance, are down 45 percent from last year as capital gains realization is expected to be weak.

Total business taxes are forecasted to grow 3.3 percent in FY 2003 after declining 15 percent in FY 2002. The general corporation tax (GCT) grows 3.6 percent while the banking corporation tax (BCT) declines 10.2 percent and the unincorporated business tax (UBT) grows 8.9 percent. The continued weakening of business taxes will impact FY 2003 collections. Total business tax collections are down 17 percent below FY 2001 for the first nine months of FY 2002. GCT, the biggest business tax, continues to weaken. March is a big month for GCT collections and March collections were down 24 percent. Refunds were up by $31 million but total collections dropped $128 million and there were no timing issues so one can assume that much of this drop was economic. However, in spite of the negative impact of the new Federal depreciation rules, BCT is not expected to decline as much as the City is predicting. Unlike the City, the Comptroller does not foresee the federal funds rate doubling in 2003 and so the interest rate spread is expected to remain wide enough to cushion profits.

There may be a risk to property taxes for FY 2003 as media reports indicates that mortgage default rates, especially among low- and middle-income families, are rising to unprecedented levels in the New York metropolitan area. As job losses continue through FY 2003, this may become problematic. Otherwise real estate collections should remain strong. Furthermore, mortgage rates should remain low enough for refinancing activities to continue and collections may surpass the City's estimate.

The City is projecting that the State will pass legislation to decouple State and City tax law from the Federal government's newly passed accelerated depreciation rules so that they will not negatively impact business tax collections. A risk of $128 million exists if the State does not decouple the City from the new Federal depreciation rules as discussed in "Gap Closing Proposals," beginning on page 7.

Miscellaneous Revenues

The FY 2003 miscellaneous revenues projection of $3.2 billion is 2.6 percent, or $81 million, more than anticipated for FY 2002. This positive change results mainly from an assumption of an increase of rental income from the Port Authority for the use of JFK and LaGuardia airports, to $185 million in FY 2003 from $10 million in FY 2002. Excluding the assumed increased collections from the airports, the miscellaneous revenues projection decreased by $94 million in FY 2003 when compared to FY 2002.

The City faces risks of $242 million from shortfalls in the FY 2003 miscellaneous-revenues projection. First, the assumption of airports rental income incorporates the renewal of leases and the claims of back-rental income for JFK and LaGuardia airports. Since New York City is expected to experience tourism growth in CY 2003, the City is likely to collect rental income of $10 million in FY 2003, similar to the projection for FY 2002. However, if new leases are not negotiated and back-rental claims are not resolved, the budget faces a risk of $175 million.

Second, $67 million in FY 2003 revenues from leases and other sources are questionable. This includes $35 million from the renegotiations of Metrotech leases and $32 million in surplus cash and other actions from the United Nations Development Corporation (UNDC).

Intergovernmental Aid

The City anticipates receiving about $12.4 billion in Federal and State categorical grants in the FY 2003 Executive Budget. Furthermore, the FY 2003 gap-closing program expects additional Federal and State assistance of $800 million. The City expects to realize these assumptions from a menu of proposed Federal and State actions that it values at about $2.2 billion. The majority of these proposals are not likely to occur and, in total, could represent a net risk of $456 million to the FY 2003 Executive Budget.

Gap Closing Proposals

As in the Preliminary Budget, the City continues to expect $800 million in additional Federal and State assistance to help close its budget gap in FY 2003. The City has proposed a menu of $2.2 billion in Federal and State initiatives to meet this target in the Executive Budget. A significant number of the proposals, totaling $984 million, are no-cost actions requiring no additional Federal and State funding.

The City indicates it has already received Federal approval to issue an additional refunding of tax-exempt debt that is expected to provide debt service savings of $150 million. The approval for this initiative was included as part of the recently enacted Economic Stimulus Package. However, the same legislation contains business tax relief provisions that could result in a tax revenue loss of $128 million to the City in FY 2003. The City's business tax laws are currently coupled to Federal laws; hence the Federal tax relief provisions would have a similar impact on the City's business tax revenues. The

City is seeking State authorization to decouple the City's business income tax laws from this change in Federal tax law. If the State fails to grant approval, the enactment of the Federal legislation would provide the City with a significantly smaller net benefit of $22 million.

Many of the anticipated Federal and State actions are also risky. The City has proposed initiatives such as tort reform and enhanced Federal Medicaid funding in previous years without any success, and there is little reason to believe they will be more successful in this fiscal year. There is indication, however, that a number of actions could achieve varying degrees of success when the State adopts its budget. The City could realize potential revenues and savings of up to $322 million from these initiatives, in addition to the $150 million already achieved, leaving a risk of $328 million to the $800 million estimate. Among the proposals that are more likely to receive consideration by the legislature are:

> Debt Finance Reform–The City expects debt service savings through State approval for certain refinancing mechanisms and savings from the update of its amortization schedules for certain capital projects. The Executive Budget assumes savings of $100 million from these actions.
>
> Parking Violation Fine Increase–The City seeks State approval to raise the maximum fines for the most serious parking violations, providing additional revenues of $62 million.
>
> E-911 Land-Line Surcharge–The City proposes to increase the current E-911 surcharge on non-cellular phones from 35 cents to one dollar, raising revenues by $35 million.
>
> Cigarette Tax Increase–The City may also receive approval to raise its cigarette tax by $1.42, from 8 cents a pack to $1.50. The State, however, will claim half of the amount received by the City as an offset to expected State cigarette tax revenue losses due to assumed lowered consumption caused by the higher tax rate. Since the City expected additional revenues of $249 million from this proposal, the Comptroller assumes the net FY 2003 impact will be $125 million.

FEMA Reimbursement

In the Executive Budget, the City has made a slight adjustment to the total projected costs for the World Trade Center (WTC) rescue, recovery, and clean-up efforts. As shown in Table 4, WTC-related expenditures are estimated at almost $2.2 billion, showing a small increase of $3 million since the Preliminary Budget. The Executive Budget has adjusted FEMA reimbursement downward by $6 million, while raising the FEMA reimbursement shortfall by $9 million.

Table 4. Projected WTC-Related Expenditures, $ in Millions

	Executive Projections	Preliminary Projections	Change
Reimbursement Shortfall	$ 497	$ 488	$9
FEMA Reimbursement	1,690	1,696	(6)
Other Reimbursement	7	7	0
Total Expenditures	**$2,194**	**$2,191**	**$3**

The City now projects that the Federal government will not provide reimbursement for $497 million in WTC-related expenditures. The timing of the impact of this shortfall is split into $471 million in FY 2002 and $26 million in FY 2003. The City expects to borrow $2 billion through the NYCTFA in FY 2003 to finance the FEMA reimbursement shortfall ($497 million) and use the remaining proceeds ($1.5 billion) to close its FY 2003 budget gap. The City has already issued $1 billion of NYCTFA notes in FY 2002, which are due in October 2002 and will be repaid with proceeds from NYCTFA Recovery Bonds.

B. Expenditures Projections

The City's baseline expenditures will be more than $600 million higher than projected in the Executive Budget. Overtime costs will be substantially higher than planned and a variety of other greater-than-anticipated expenditures including pension contributions, Board of Education expenditures and public assistance support will add to the overrun. Furthermore, the City will be hard pressed to achieve the full measure of projected debt service savings through debt refundings without incurring substantial outyear dissavings.

Headcount

The Executive Budget has not adjusted the City's headcount projections to reflect the current budgetary situation, since it estimates that FY 2003 will begin with 4,561 more full-time employees than are currently on staff, as shown in the figure to the right.[2] Given the large budget gaps the City is facing, it is unlikely that the City's full-time staffing levels will increase in the near future. The Police and Fire Departments also face the challenge of recruiting and maintaining uniformed personnel levels. Thus, the City will begin FY 2003 with lower headcount than projected, creating FY 2002 savings of $22 million.

	Uniformed	Civilian	Pedagogical	Total Full-Time
3/31/02 Actuals	67,405	84,512	96,555	248,472
6/30/02 Estimates	67,648	88,794	96,591	253,033
Difference	**243**	**4,282**	**36**	**4,561**

[2] A full presentation of the City's headcount projections may be found in Table A2 on page 26.

The City employed 248,472 full-time personnel on March 31, 2002. In FY 2003, the City intends to reduce personnel in almost every agency to cut expenditures. The City already has placed a hiring freeze in effect and plans to offer early retirement and severance packages to reduce its headcount further prior to the end of FY 2003. The Comptroller anticipates that new headcount projections, which reflect the effect of all cuts and reductions, will be included in the FY 2003 Adopted Budget. In addition, the City has formulated a Contingency Plan, discussed on page 23, which includes reductions in uniformed forces, teachers and civilians if expected savings do not materialize or if revenues or Federal or State aid are lower than anticipated.[3]

In recent years, the Police Department has had difficulty attracting new officers, despite their aggressive recruitment practices. The challenge of recruiting new officers made it difficult to increase the uniformed levels in better economic times. The problem is that, under current rules, the City may need at least 40,710 officers at some point during FY 2003 to qualify for funding under the Federal Crime Bill, which partially funded the hiring of a number of officers between FYs 1997 and 2000.[4] A force of 40,710 officers is an increase of 2,969 from the March 31, 2002 level and is unlikely to happen. The Police Department, therefore, is negotiating with the Federal government to reduce required peak uniformed headcount by 1,600, from 40,710 to 39,110 officers.[5] Patrol strength is projected to be supported, however, by the hiring of 800 civilians to release uniformed officers from desk duty. The City will reach its peak police officer headcount of 39,110 on July 1, 2002, when it plans to hire a new police class.

The new peak headcount of 39,110 officers will be threatened if the City has to implement its Contingency Plan, however. The Contingency Plan, if implemented, will delay the new Police class from July 1, 2002 to January 1, 2003 and may not allow hiring of enough officers to reach a peak headcount of 39,110 officers at any time during FY 2003. The City projects that this initiative will save $63 million in FY 2003. The Contingency Plan will also cancel the hiring of the 800 civilians saving the City another $13 million, but is likely to further diminish patrol strength.[6] The City is confident that, if the Contingency Plan has to be implemented, the Federal government will agree to the lowered uniformed police headcount. The City also contends that the planned and contingency reductions in the number of police officers will not contribute towards increased criminal activity in the City.

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[3] Major elements of the Contingency Plan will require City Council approval.

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

[5] The City is arguing that it no longer needs to maintain the 40,710 officer level because it has already fully satisfied the requirements for the first 1,600 officers hired under the program and maintained the higher head count for more than one year beyond the Federal funding period of those 1,600 officers.

[6] The City anticipates using these civilians to release uniformed personnel from desk duty. Thus, if the Contingency Plan is implemented and the 800 civilians are not hired, patrol strength may be diminished.

The Fire Department may face a shortage of firefighters in the next few months. In the normal course of a year, the Fire Department loses close to 600 firefighters through attrition and retirement. However, firefighters are leaving at four times this average in the aftermath of the World Trade Center attacks. In addition, following the City's fiscal crisis of the 1970s, the Department graduated a much larger class in 1982. As a result, the City estimates that about 3,000 firefighters will meet their 20 years of service and be eligible for retirement in 2003. About 100 firefighters, who are on extended limited duty assignments, are also expected to retire. The Department plans to redeploy about 300 firefighters and to hire an additional 1,200 uniformed firefighters beginning in FY 2003 to compensate for its personnel shortage.

For the first time in the City's history, the City has published statistics for part-time employees in the form of full-time-equivalents (FTEs). The City anticipates a reduction of 3,303 FTEs in FY 2003 from actual levels, as illustrated in the figure to the right. These statistics provide a more accurate picture of the City's work force and will become an invaluable management tool in the future.

Full-Time Equivalents			
	2/28/02	6/30/02	6/30/03
	55,663	53,820	52,360
Difference		**(1,843)**	**(1,460)**

Overtime

The FY 2003 Executive Budget allocates $523 million for overtime expenses in FY 2003.[7] The Comptroller projects that the City will spend $145 million more than that, assuming that FY 2003 overtime spending will approximate the average of the last three fiscal years. It is possible that FY 2003 overtime will be even higher, since the City is on track to spend about $797 million in regular non-WTC related overtime for FY 2002, as shown in Table 5. Furthermore, the probable reduction in the number of City employees in FY 2003 could cause increases in the use of overtime. Additionally, depending on the weather, the Department of Sanitation might spend considerably more in snow-related overtime during FY 2003 than in the relatively snow-free FY 2002.

The Police Department, however, projects it will spend less on overtime during FY 2003 since fewer uniformed officers are anticipated to be on staff.[8] Since substantial uniformed police overtime is caused by arrest processing, fewer officers translate to fewer arrests and less overtime. Additionally, overtime for the crime fighting initiative Operation Condor is planned to be reduced in FY 2003 to $40 million, from $62 million in FY 2002, while overtime spending for the Citywide Narcotics Initiative will be scaled back by $11 million.

[7] Between July 1, 2001 and March 31, 2002, the City paid $566.1 million in regular non-WTC overtime. In addition, the City has paid $359.5 million for work directly related to the WTC attacks.
[8] The Department is projected to spend $349 million in regular non-WTC related overtime during FY 2002.

Table 5. FY 2002 Overtime Expenditures, $ in Millions

	3/31/02	WTC To 3/31/02	Reg OT To 3/31/02	Projected To 6/30/02
Police –Uniformed	$ 488.7	$ 241.4	$ 247.4	$ 349
Fire – Uniformed	147.0	54.1	92.9	131
Correction – Uniformed	42.4	3.7	38.7	54
Total Uniformed	$ 727.7	$ 326.0	$ 401.7	$ 565
Total Civilians	$ 197.9	$ 33.5	$ 164.4	$ 232
Total City	**$ 925.6**	**$ 359.5**	**$ 566.1**	**$ 797**

Note: Projection assumes that non-WTC overtime spending patterns for FY 2002 through March 2002 will remain unchanged through the rest of FY 2002.

The Executive Budget revised the planned projections for FY 2002 overtime to $1.1 billion, a $69 million increase from the Preliminary Budget. If WTC related overtime remains the same as on March 31, 2002 and the spending pattern for non-WTC related overtime continues for the rest of the year, the City will spend $1,157 million in total overtime during FY 2002, about $51 million more than currently budgeted.

Labor Reserve

The City faces increased labor costs in FY 2003 from expected labor settlements with the United Federation of Teachers (UFT), the Police Benevolent Association (PBA), the Detectives Endowment Association (DEA), the Uniformed Firefighters Association (UFA) and the Sergeants Benevolent Association (SBA). Although, the Labor Reserve contains funding for settlements with these unions, the cost of the new labor contracts may be higher than currently projected by the City.

Recently, the New York State Public Employment Relations Board (PERB) has put forward non-binding recommendations for wage increases for members of UFT. PERB has recommended a 27-month agreement, which includes wage increases of four percent on the first day of the contract, five percent non-compounded on the first day of the fourteenth or fifteenth month, and one percent, not to exceed $56 million, effective September 2002. PERB also recommended that State funding be used to support an additional six percent wage increase for certain personnel who extend their workday by twenty minutes. As shown in Table 6, this pattern will cost $557 million in FY 2003 creating a $40 million risk in FY 2003 after the prior-year offsets are considered.

Table 6. Potential Cost of UFT Settlement, $ in millions

	FY 2001	FY 2002	FY 2003
Reserved for BOE Contracts	174	378	469
UFT Potential Cost	(147)	(357)	(557)
Funding Risks	**27**	**21**	**(88)**

The current round of labor contracts will expire in FY 2003. The budget makes no reservations for wage increases in FY 2003 and this estimation could pose a risk to the City's budget. A one-percentage point wage increase for City employees will cost approximately $113 million in FY 2003.

Pensions

City's FY 2003 Pension Contributions ($ in millions)	
FY 2003 Executive Budget	$ 1,710
TRS Contingency	70
Additional FY 2002 Investment. Losses	43
Extension of COLA Phase-in Period	(24)
Net FY 2003 Projection	**$ 1,799**

Note: If the City loses its appeal in the Court of Appeals, Teachers' "per session" earnings will become pensionable.

The FY 2003 Executive Budget anticipates that the City's contributions to the five actuarial pension funds will exceed $1.7 billion in FY 2003. However, this projection could change due to several factors as shown in the figure to the right. If the TRS Board of Trustees loses its appeal of a court decision and if investment markets on June 30, 2002 remain at the same level as on April 30, 2002, the City will have to contribute at least $89 million more to the five pension funds in FY 2003.

The City's contributions to the Teachers' Retirement System may increase by about $70 million per year if the Court of Appeals of the State of New York affirms the New York County Supreme Court's decision in favor of the UFT.[9] The UFT originally filed suit claiming that the teachers' "per session" earnings, which are currently excluded from their pensionable final average salaries, should be included. The New York County Supreme Court ruled in favor of the UFT and, on appeal the Supreme Court, Appellate Division affirmed that ruling. The Court of Appeals, the highest court in the State of New York, has agreed to hear the final appeal.

The FY 2003 Executive Budget assumes that pension fund investments will earn two percent during FY 2002. However, in FY 2002 through the end of April, pension investments have lost 3.75 percent. If investment markets stay at the same level on June 30, 2002, then the City's FY 2003 pension contributions will increase by about $43 million.

The City proposes to extend the phase-in period, from five years to ten years, of the cost impact of the Cost of Living Adjustment (COLA) legislation enacted by Chapter 125 of the Laws of 2000.[10] The City has reduced its pension contribution projection for

[9] While no independent analysis has been done on this issue, the $70 million may be understated. The BOE spent $232 million on "per session" activities in 1999. If this total expenditure represents pensionable salaries, the cost will be higher.

[10] This legislation approved a new automatic and permanent COLA formula linked to inflation. The first phase of the COLA commenced in September 2000 and provided an increase averaging about $233 per month to 175,600 eligible retirees and beneficiaries in the City's systems. Currently, as of September each year, eligible retirees will receive automatic increases depending on their retirement allowance and inflation. Each increase will be limited to a maximum of $45 per month. The present value of the benefits

FY 2003 by $276 million for this purpose. However, actual savings from this action is estimated to be $300 million.[11] This initiative will require enabling State legislation.

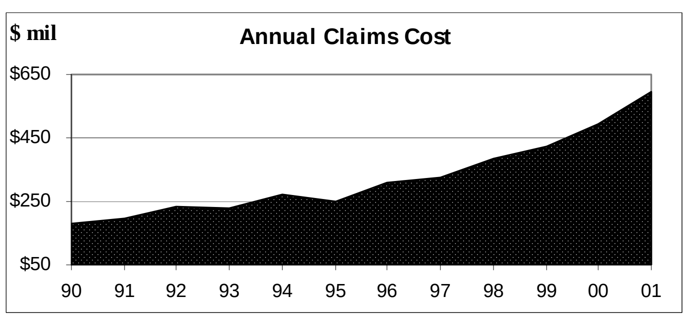
The City also proposes to revise the amortization of schedule of the Unfunded Accrued Actuarial Liability (UAAL) of the Fire Department Pension Fund. This UAAL is scheduled to be fully paid by FY 2010 as part of the City's annual pension contribution. The current proposal would stretch the payment schedule by another ten years to FY 2020, thereby saving about $8 million in FY 2003. This action requires enabling State legislation. The City assumes the legislation will be enacted and has reduced its planned FY 2003 pension contributions by $8 million.

The City's unions may suggest that more savings be found within the City's pension expenditures. The City has asked the unions to propose $500 million in fringe benefit savings for FY 2003. If implemented, the deferral of the impact of the costs of COLA and the revised amortization of the Fire Department Pension Fund UAAL, totaling $308 million, will be part of this $500 million savings. If the unions find other ways of reducing City contributions to the pension funds to satisfy the remaining $192 million in gap-closing assumptions, City pension costs in FY 2003 may be further reduced.

In an effort to lower costs, the City is planning to reduce the number of civilian employees by offering an incentive program to encourage employees in targeted titles to retire. The details and timing of the contemplated early retirement incentive program have not yet been finalized. The City has assumed a net savings of about $50 million in FY 2003 from reduced salary and benefit expenditures. If this program is initiated in FY 2003, as seems probable, it will have no effect on the City's pension costs for FY 2003.

Judgments and Claims

The expected growth in Judgment and Claims (J&C) expenditures could increase FY 2003 costs above the budgeted amount of $588 million. J&C costs grew to $595 million in FY 2001 from $179 million in FY 1990 as shown in the figure to the right, and are anticipated to reach



enacted by this legislation amounted to $8.4 billion (Fiscal Note No. 2000-15, dated June 14, 2000 issued by the Chief Actuary of the New York City Retirement Systems) for the City's five actuarial pension systems. Current indications, however, are that this amount may be lower. In addition, excess assets (the asset cushion) in NYCERS have absorbed part of the resultant cost increase to the employers, and the legislation deferred the remaining cost increase to the employers and phased it in over five years starting in FY 2001.

[11] Based on Fiscal Note No. 2002-11, dated April 29, 2002, issued by the Chief Actuary of the New York City Retirement Systems.

$586 million in FY 2002 creating a risk of $23 million as shown on Table 2 on page 2. These increased costs stem largely from the growth in personal-injury and property-damage claims.

In an effort to curtail the growth in J&C costs, the City has reached an agreement with the Health and Hospital Corporation (HHC) to transfer the costs of judgments and settlements against the corporation in return for funding HHC's debt service. The projected J&C costs of $588 million include $169 million, which will be HHC's liability for J&C costs in FY 2003. Any costs above the amount budgeted for HHC pose a risk to the City. Although, the City and HHC have not released any written agreement on this issue, it is believed that HHC will be more accountable for claims against its facilities. It is anticipated that HHC will be responsible for claims filed after June 30, 2002 and the City will remain liable for all claims and suits filed prior to that date.

In its gap-closing program, the City has included savings of $100 million from tort reform beginning in FY 2003. Similar legislation, which called for reforms such as the capping of award for pain and suffering and the establishment of a medical expense threshold, has been presented, and failed, repeatedly in the past. State legislative approval is required before any tort reforms can be enacted and, as of this date, no action has been taken by the State Legislature to address this issue. The Comptroller's office is currently analyzing J&C data to develop a package of proposed administrative reforms designed to reduce the number and cost of claims filed.

Public Assistance

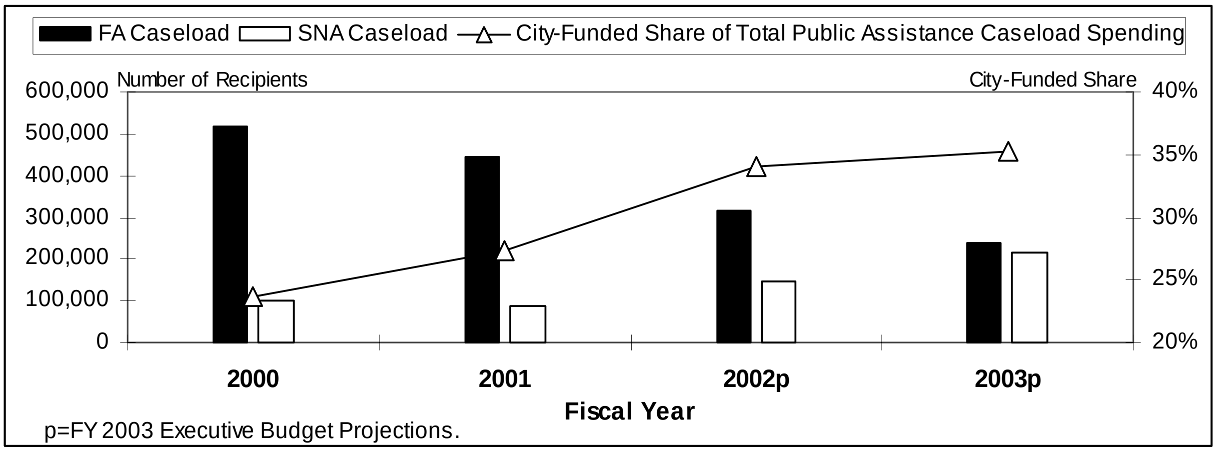
Public assistance caseload continued its decline through March 2002, dropping by about ten percent since the beginning of FY 2002. Although overall caseload shows a net drop, the regular Safety Net Assistance (SNA) segment of the caseload ended its declining trend in September 2001 and has begun rising steadily over the past six months. In the Executive Budget, the City projects the regular SNA caseload to remain level at 83,298 throughout FY 2003. However, the regular SNA caseload reached 86,689 in March. If the current upturn in the regular SNA caseload continues to take hold in the coming months, the City could face a risk of $28 million in its public assistance budget in FY 2003.

During FY 2002, the City's public assistance caseload fell by 50,128 recipients through the third quarter. According to statistics compiled by the Department of Social Services, the March 2002 caseload of 446,985 represents a decline of ten percent from the FY 2001 year-end caseload of 497,113. The City's welfare rolls have undergone a protracted decline since reaching a peak caseload of 1,160,593 in March 1995. The March 2002 caseload is almost 62 percent below this peak. Similarly, monthly grant expenditures have also fallen by about 59 percent over the same period.

The caseload decline in FY 2002 is largely driven by a decreasing number of recipients in the Federally mandated Family Assistance (FA) program. Thus far in FY

2002, the FA caseload has fallen by 170,646 recipients. This decline is partly offset by the caseload increase in the State-mandated SNA program, attributable to a rising regular SNA caseload and transfers into the SNA-5 Year category. The SNA-5 year category was created in December 2001 to enroll recipients who are required to leave the FA program after reaching a five-year lifetime limit in the program. To date, 117,506 former FA recipients have been transferred to the SNA-5 year program. More importantly, the regular SNA caseload is beginning to show signs of a trend reversal. The regular SNA caseload, consisting primarily of single adults, has risen to 86,689 in March 2002, an increase of almost 14 percent, or 10,479 recipients, since September 2001.

Chart 2. *Rising Safety Net Assistance Caseload Leads to Greater City-Funded Share of Public Assistance Caseload Expenditures*



These developments have a significant impact on the financing of public assistance caseload expenditures. As illustrated in Chart 2, the City's public assistance caseload projections show a rising proportion of SNA recipients in FY 2002 and FY 2003. The SNA segment of the caseload is estimated to reach 47 percent in FY 2003, compared to 16 percent in FY 2000. This increase leads to a greater City-funded share of overall public assistance caseload expenditures because there is no Federal funding participation for the SNA program. At the same time, the declining FA caseload leads to a shrinking Federal share in overall funding of public assistance caseload expenditures. In the Executive Budget, the City-funded share of total public assistance caseload spending is projected to increase to 35 percent, compared to 24 percent in FY 2000. Thus, over time, the responsibility of financing public assistance caseload expenditures has been gradually shifted from the Federal government to the City.

The City's public assistance caseload projections remain unchanged in the Executive Budget. As noted above, the regular SNA caseload in March has exceeded the City's projected FY 2002 year-end caseload of 83,298 by about 3,391 recipients, or four percent. There is flexibility in FY 2002 to offset a potential risk in this area because the FA caseload is declining faster than expected, while the transfer of former FA recipients into the SNA-5 year category is lagging behind the City's projection. However, in FY 2003, the rising trend in the regular SNA caseload could result in a risk of $28 million to the City's public assistance budget.

Debt Service

Faced with the continuing burden that the events of September 11 have placed on the City's budget, the FY 2003 debt-service plan is filled with proposed transactions benefiting FY 2003 alone. These include: 1) $405 million in proposed refunding savings; 2) $235 million in Municipal Assistance Corporation savings through use of debt service reserves; and 3) the use of approximately $1.5 billion in NYCTFA proceeds in FY 2003 for gap-closing purposes. In total, the NYCTFA will borrow $2 billion in FY 2003.

Table 7. Changes in Debt Service and Prepayments, FYs 2002-2003, $ in millions

Description	FY 2002	FY 2003	Increase (Decrease)	Percent Changes
FY 2003 Executive Budget and Financial Plan Debt Service	$1,423	$3,487	$2,064	145 %
Net Prepayments	$2,289	$322	($1,967)	–
Net Debt Service after Prepayment Adjustments	$3,712	$3,809	$97	2.6 %
Debt Service as a Percent of Tax Revenues *before* Prepayment Adjustments	6.3 %	14.8 %	8.5 %	134.9%
Debt Service as a Percent of Tax Revenues *after* Prepayment Adjustments	16.3 %	16.1 %	(0.2 %)	(1.2 %)

Source: NYC Office of Management and Budget, FY 2003 Executive Budget, April 2002.
Note: Figures include NYCTFA and TSASC, Inc.

In FY 2003, the City will pay an estimated $3.8 billion in debt service out of $23.6 billion in City tax levy revenues, consuming over 16 cents of every tax dollar.[12] With the net decrease in prepayments in FY 2003 of $1.97 billion, this year the City is no longer able to mask the true cost of debt service. This sharp budgetary increase in debt-service of nearly $2.1 billion single-handedly accounts for about 41 percent of the estimated FY 2003 deficit of $4.985 billion, as shown in Table 7.

($'s in Millions)	
Stated FY2003 Debt Service	$3,487
Prepayment	322
Adjusted Debt Service	$3,809
Projected Debt Service Savings	640
Implicit FY 2003 Debt Service	$4,449

True debt-service costs, as shown in the figure to the right, are more than $4.4 billion when adjusted for proposed FY 2003 savings initiatives of $640 million. While Table 7 demonstrates that debt service adjusted for prepayments rises modestly from FY 2002 and FY 2003, from $3.71 billion to $3.81 billion, this relatively small increase of 2.6 percent is understated as a

[12] Including debt service for G.O., MAC, TSASC, Inc., TFA, interest on short-term notes, and lease-purchase debt, adjusted for the impact of prepayments.

result of two major savings initiatives that reduce FY 2003 appropriated debt service by a combined total of $640 million. When these savings proposals are added back to FY 2003, the implicit debt-service growth from FY 2002 to FY 2003 is almost 20 percent.

As mentioned above, major debt-service savings initiatives in FY 2003 include $405 million in G.O. bond refunding savings, and $235 million for the accelerated use of MAC debt-service fund reserves. Planned refunding savings include the expected benefit of $150 million based upon revised Federal legislation that allows the City to do a second advance refunding of eligible outstanding debt. In order to generate $405 million in FY 2003 savings, refunding actions need to increase debt-service costs in future years. Therefore, if refunding actions are taken which prohibit outyear dissavings, there will be a shortfall of about $255 million.

The estimated MAC net savings of $235 million are an acceleration of a benefit that would occur naturally in FY 2008. If MAC's debt-service fund were left alone, the full benefit of approximately $250 million would be realized in FY 2008. In order to accelerate the benefit to FY 2003 it will cost $15 million in transaction fees, thus reducing the savings to $235 million. In addition, MAC will lose the ability to generate interest earnings of anywhere from $12 to $14 million per year between FYs 2004 and 2008 from the loss of the reserve fund principal. As a result, the amount of City sales tax required to fund MAC's debt-service requirements in FYs 2004 through 2008 will increase by like amounts.

In both the refunding action and the use of MAC debt-service reserves, the savings are reminiscent of the one-year savings achieved in the early 1990's when refunding transactions were highly front-loaded and contained significant outyear dissavings. The Comptroller will critically examine any proposals that contain outyear dissavings. Furthermore, the Comptroller opposes any additional use of NYCTFA recovery bonds beyond the current authorization. Borrowing to meet operating expenditures is what created the fiscal crisis of the 1970's, and that is one old idea we would do well to escape from.

Board of Education

The Executive Budget has increased funding to the Board of Education (BOE) by about $90 million compared to the Preliminary Budget, placing the BOE budget at nearly $11.8 billion in FY 2003. This change is largely due to the recognition of a surplus roll of $92 million from FY 2002. This surplus provides a fair indication that the BOE will achieve budget balance in FY 2002.

Overall, the Board's prospects remain challenging in FY 2003, as both the City and State will need to deal with significant difficulties in their budgets. Already, the BOE budget has been reduced by $358 million as part of the FY 2003 gap-closing program. The PEG reductions, combined with a projected State aid shortfall of $93 million, will necessitate immediate reductions of $451 million by the Board in FY 2003.[13] Further, the City could face a risk of $49 million from a potential shortfall in State teacher support aid and may be subject to write-offs of certain prior year education aid.

Budget Reductions

The Chancellor has outlined a set of proposals that relies significantly on Federal and State assistance to achieve the FY 2003 savings as shown in the figure to the right. Aside from the restoration of the State aid shortfall, the Board is also counting on additional Federal and State revenues of $168 million. While such assumptions may seem reasonable in a normal year, the State's own budget problems cast a degree of uncertainty on these proposals. The BOE expects to realize the remaining savings of $190 million through programmatic reductions. The proposed reductions are mainly comprised of personnel actions that would eliminate 2,685 employees, including 1,016 pedagogical positions. The City has also assigned a target of $115 million to the Board in its FY 2003 contingency reduction program. If the City implements its contingency program as planned, total reductions to the BOE budget could reach $566 million in FY 2003.[14]

FY 2003 Board of Education Budget Problems and Offsets ($ millions)

Problems	
PEG Program	$358
State Aid Shortfall	93
Total Problems	$451
Offsets	
State Aid Restoration	$ 93
Federal and State Actions	168
Programmatic Reductions	190
Total Offsets	$451
Contingency Reductions	$115

Moreover, in response to recent enrollment trends, the City has scaled back its enrollment projection for FY 2003. However, the City has not made the funding adjustments that normally accompany a change in enrollment projections, thus providing the Board with further flexibility in its FY 2003 budget. The State Public Employment Relations Board recently issued a non-binding ruling on the UFT contract situation. See "Labor Reserve" beginning on page 12 for a discussion of UFT contract issues.

Risks to the BOE Budget

The City could face a risk of $49 million in FY 2003 stemming from the Governor's proposal to reduce teacher support aid. If the State fails to restore appropriations for this grant, which is used for supplementing teacher salaries, the City may have to choose between reducing teacher's salaries or funding the shortfall.

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[13] According to BOE estimates, these reductions will be taken in addition to recurring FY 2002 budget cuts of $290 million that have already been absorbed in its baseline projections.

[14] The Board had to overcome a number of funding issues over the course of FY 2002. Based on its own estimates, the BOE has absorbed budget reductions totaling $404 million in FY 2002, including a mid-year budget cut of $114 million in response to the City's deteriorating revenues following the attacks on the WTC.

In FY 2003, about $84 million in prior year education aid receivables could be subject to write-downs by the Comptroller's Office. The Comptroller maintains a policy of writing down prior year claims that are aged ten years or more. The Governor has proposed a $204 million borrowing through the Municipal Bond Bank that would provide the City with the proceeds to retire prior year claims. These proceeds would help the City avert write-downs of prior year claims under the Comptroller's policy in FY 2003 and would supply cash to the City. However, these are not new revenues to the City because the claims represent spending that had already occurred in past years and could not be used for gap-closing proposes under GAAP requirements. Under the Governor's proposal, ongoing State appropriations for prior year claims will be used for debt service payments on the newly issued bonds. The City receives about $33 million annually from the State for this purpose, based on the latest recommended appropriations.

Health and Hospitals Corporation

The Executive Budget assumes an improved outlook for the Health and Hospitals Corporation (HHC) in FY 2003, primarily on the basis of a stronger opening cash balance of $259 million. Although the City still projects an operating deficit of $275 million for HHC in FY 2003–a modest decline of $5 million since the Preliminary Budget–the FY 2003 opening cash balance will significantly offset this shortfall. The City also expects HHC to realize additional revenues of $125 million from Federal and State actions and attrition savings of $50 million that will enable the Corporation to reach a projected ending cash balance of $158 million in FY 2003. The details of these actions, however, are largely unspecified in the FY 2003 Executive Budget.

The stronger opening cash balance in FY 2003 is directly related to the improved financial picture in FY 2002. The City now projects HHC to end FY 2002 with a cash balance that is $96 million larger than the Preliminary Budget estimate. This increase reflects higher Medicaid fee-for-service (FFS) revenue and the delay of certain expenses in FY 2002, lowering HHC's projected operating deficit to $72 million from the $168 million projected in the Preliminary Budget. With an opening cash balance of $331 million in FY 2002, the City anticipates that HHC will carry forward $259 million as its opening cash balance for FY 2003, after adjusting for the FY 2002 operating deficit.

In FY 2003, compared with the Preliminary Budget, overall revenues have increased by $82 million because of more optimistic projections of Medicaid FFS revenue and reimbursement for various services that HHC provides on the City's behalf. The additional revenues are offset by an increase of about $77 million in disbursements, due to the timing of a collective bargaining expense previously budgeted in FY 2002 and higher OTPS costs.

On a positive note, HHC's revenue projection is likely understated in the FY 2003 Executive Budget. The revision of HHC's Medicaid FFS revenue in the Executive Budget is mainly due to a higher revenue base from FY 2002. In FY 2003, the City still maintains a conservative growth rate of two percent for HHC's Medicaid FFS revenue, compared with an assumed growth of six percent for hospital inpatient services in the City's Medicaid budget. Therefore, Medicaid FFS revenue will likely be revised upwards over the course of FY 2003. Moreover, the FY 2003 Executive Budget currently assumes a modest five percent target for enrollment of uninsured patients into the Family Health Plus (FHP) program at HHC. HHC serves about 545,000 uninsured patients at its facilities. HHC could generate additional revenues of about $12 million for each additional percentage point above the expected FHP enrollment rate in FY 2003.

C. CASH FLOW

The FY 2003 Executive Budget projects a seasonal borrowing need of $3 billion. The City plans to meet this need by issuing Revenue Anticipation Notes in the second quarter of FY 2003, maturing in April 2003, and having an interest cost of $65 million. The $3 billion in Notes would be the largest cash flow borrowing since FY 1991 and the greatest short-term interest cost since FY 1996. A borrowing of this size would be 7.1 percent of forecast expenditures. Chart 3 on page 22 shows a history of the City's seasonal borrowings since FY 1980 and the percentage these borrowings were of expenditures.

The February 2002 preliminary budget projected a seasonal borrowing need of $2.4 billion for FY 2003. The revised projection is not only $600 million greater than previously forecast, but twice the FY 2002 actual level and four times the FY 2001 borrowing. This increased estimate of cash flow needs is conservative and reflects the fiscal uncertainty in the FY 2003 Executive Budget. The City hopes that the State budget, when adopted, will contain significant budget help, which could help mitigate cash flow needs.

In addition, the City faces a lower current level of cash on hand compared with the same time last year and an anticipated budget surplus in FY 2002 of $322 million, compared with $2.9 billion in FY 2001, to be used to prepay FY 2003 expenditures.[15] The financial plan for FY 2002 contains $1.4 billion in categorical aid for Federal reimbursement of World Trade Center related expenditures. Through March 2002, $532 million of these reimbursements have been received, making it likely that at the end of FY 2002 a large accounts receivable will be outstanding.

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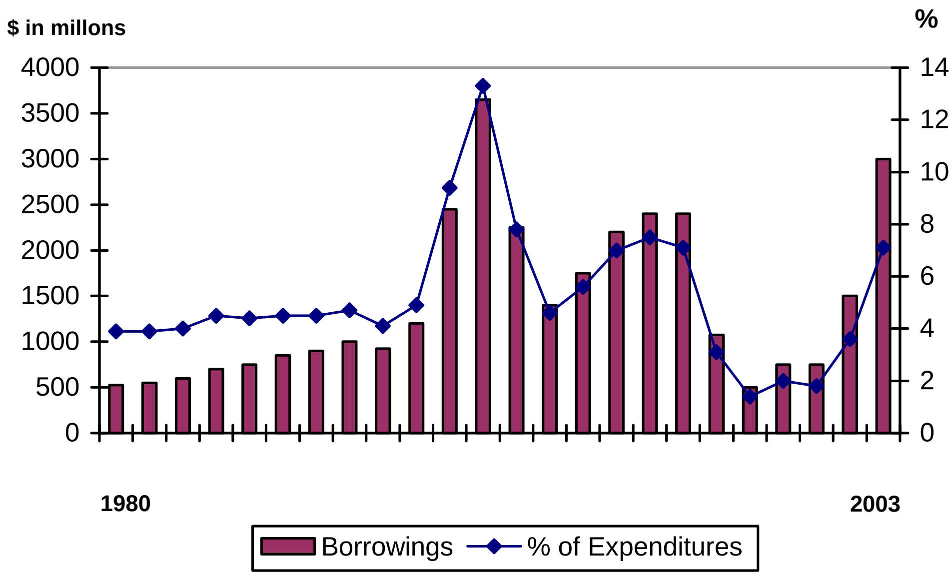
[15] Table 2 on page 2 illustrates that the Comptroller expects the surplus roll to be $141 million lower than the City's expectations.

Chart 3. *Seasonal Borrowings FY 1980-FY 2003*



After the adoption of the budget and the start of FY 2003 it should be possible to better project the size of any cash flow borrowing. The City must monitor its cash position and try to minimize the seasonal borrowing need to the extent the structure of the budget, the timing of the receipt of aid and the implementation of any contingency plan permits. The City should explore borrowing in smaller increments, using Tax Anticipation Notes, as well as, Revenue Anticipation Notes, having more than one maturity and using cash management to lower the size and cost of any note sales.

II. The Solutions

NYCTFA Financing Required by 9/11 Events	$1,500
Agency Reductions	$1,318
State & Federal Actions	$800
Fringe Benefit Cost Containment	$500
Agency Revenue Increases	$339
MAC Debt Service	$250
Decouple Federal Accelerated Depreciation	$128
Sales of Tax Benefits	$100
Early Retirement/Severance	$50
Total Program	**$4,985**

The City has proposed a wide range of actions to close its $5 billion FY 2003 gap. As shown in the figure to the right they include more than $1.3 billion in agency reductions, $800 million in State and Federal actions, $500 million in fringe benefit cost containment and $339 million in agency revenue increases as well as a number of relatively smaller items. The single largest element of the City's gap-closing program is the borrowing of $1.5 billion through the New York City Transitional Finance Authority.

$ in millions	
BOE	$115.1
Health and Welfare	99.1
Police	76.1
Transportation	27.0
Sanitation	12.4
Parks and Recreation	12.2
Correction	10.9
Fire	10.1
All Other Agencies	68.8
Additional Headcount Reduction	68.3
Total Program	**$500.0**

The Mayor has included a $500 million contingency program within his Executive Budget presentation as shown in the figure to the right. The cuts are spread throughout the City's agencies and include large, but unspecified, headcount reductions beyond those expected from the early retirement/severance program included in the gap-closing program.

It is unlikely that the City can achieve all of these savings given that some elements are unlikely to be approved by the City Council, or are programmatically undesirable.

In addition to the solutions put forward by the Mayor, the Comptroller believes that it is necessary to reinstate the tax on commuters who earn their living in the City, but live elsewhere. A preliminary review of the impact of the tax indicates that it would generate approximately $400 million in needed gap-closing assistance in FY 2003.

In 1998, the last year the tax was collected, the after-tax cost to the average commuter living in New York State was $263. For less than a dollar a day, commuters contributed to the delivery of the services that help keep this City going. If reinstituted with a reasonable sunset provision, the commuter tax could serve as an equitable and greatly beneficial source of revenue for the City in this time of need.

The Comptroller has also identified $776.1 million in capital encumbrances that have been inactive since January 2000. If the City's capital plan is reduced by this full amount nearly $1.8 billion in debt service savings may be achieved over the next 35 years. While the FY 2003 impact of about $3.2 million in savings would be relatively modest, savings will grow significantly surpassing $12.4 million in FY 2004, $26.4 million in FY 2005 and reaching nearly $40 million by FY 2006.

Savings would exceed $53.6 million in FY 2007 and remain between $63 million and $66 million between FYs 2008 and 2020. Even as savings decline there would be offsets exceeding $ 35 million annually through FY 2034. Beyond the financial benefits resulting from realization of this initiative, this capital reduction sends a strong signal to the financial community that the City is serious about reducing its growing debt burden.

The city's looming fiscal problems must be addressed collectively and aggressively. The Mayor and the City Council must agree on a budget that reflects these serious fiscal realities. The State and Federal governments must give prompt support and approval to a substantial portion of the initiatives proposed by the Mayor. And the City's labor unions must actively participate in the process as its largest union has already begun to do.

III. APPENDIX

Table A1. Changes to the FY 2003 Estimates, $ in millions

	June 2001	December 31, 2001	February 2002	Changes June-December	Changes June-February
Revenues					
Taxes:					
General Property Tax	$8,938	$8,939	$8,861	$1	($77)
Other Taxes	15,052	13,784	13,861	(1,268)	(1,191)
Tax Audit Revenues	427	427	427	0	0
Tax Reduction Program	(200)	0	0	200	200
Miscellaneous Revenues	4,357	4,313	4,225	(44)	(132)
Unrestricted Intergovernmental Aid	632	630	575	(2)	(57)
Other Categorical Grants		350	372	350	372
Less: Intra-City Revenues	(1,302)	(1,315)	(1,344)	(13)	(42)
Disallowances	(15)	(15)	(15)	0	0
Sub-Total City Funds	$27,889	$27,113	$26,962	($776)	($927)
Inter-Fund Revenues	311	312	318	1	7
Total City & Inter-Fund Revenues	28,200	$27,425	$27,280	($775)	($920)
				0	0
Federal Categorical Grants	4,117	4,157	4,146	40	29
State Categorical Grants	8,036	7,982	7,978	(54)	(58)
Total Revenues	$40,353	$39,564	$39,404	($789)	($949)
Expenditures					
Personal Service	$22,437	$22,502	$23,275	$65	$838
Other Than Personal Service	17,567	17,530	18,278	(37)	711
Debt Service	3,604	3,131	3,256	(473)	(348)
Pay-As-You-Go Capital	135	135	$0	$0	(135)
MAC Debt Service Funding	490	240	505	(250)	15
General Reserve	200	200	200	0	0
Subtotal	$44,433	$43,738	$45,514	($695)	$1,081
				0	0
Less: Intra-City Expenses	(1,302)	(1,315)	(1,344)	(13)	(42)
Total Expenditures	**$43,131**	**$42,423**	**$44,170**	**($708)**	**$1,039**
Surplus/(Deficit) GAAP Basis	**($2,778)**	**($2,859)**	**($4,766)**	**($81)**	**($1,988)**

Table A2. Actual and Projected Headcount

Personnel	March 31, 2002 Actual Workforce	June 30, 2002 Executive Budget	March 31, 2002 & June 30, 2002 Comparison Higher/ (Lower)	March 31, 2002 & June 30, 2002 Percentage Comparison	June 30, 2003 Executive Budget	March 31, 2002 & June 30, 2003 Comparison Higher/ (Lower)	March 31, 2002 & June 30, 2003 Percentage Comparison
Police-Uniformed	37,741	37,898	157	0.4%	36,878	(863)	(2.3%)
Fire-Uniformed	11,241	10,844	(397)	(3.7%)	11,157	(84)	(0.8%)
Corrections-Uniformed	10,516	10,830	314	2.9%	10,655	139	1.3%
Sanitation-Uniformed	7,907	8,076	169	2.1%	7,468	(439)	(5.4%)
Subtotal, Uniformed	**67,405**	**67,648**	**243**	**0.4%**	**66,158**	**(1,247)**	**(1.9%)**
BOE, Instructional	94,292	94,289	(3)	(0.0%)	94,289	(3)	(0.0%)
CUNY, Instructional	2,263	2,302	39	1.7%	2,302	39	1.7%
Subtotal, Peds	**96,555**	**96,591**	**36**	**0.0%**	**96,591**	**36**	**0.0%**
Civilian:							
Police-Civilian	9,298	9,215	(83)	(0.9%)	9,161	(137)	(1.5%)
Fire-Civilian	4,377	4,491	114	2.5%	4,475	98	2.2%
Corrections-Civilian	1,549	1,839	290	15.8%	1,836	287	15.6%
Sanitation-Civilian	2,207	2,140	(67)	(3.1%	2,078	(129)	(6.0%)
BOE, Non-Instructional	8,227	8,226	(1)	(0.0%)	8,226	(1)	(0.0%)
CUNY, Non-Instructional	1,553	1,362	(191)	(14.0%)	1,385	(168)	(12.3%)
Probation	1,556	1,786	230	12.9%	1,488	(68)	(3.8%)
Juvenile Justice	750	913	163	17.9%	825	75	8.2%
Health	2,914	3,523	609	17.3%	3,424	510	14.5%
Environmental Protection	5,378	6,064	686	11.3%	6,064	686	11.3%
Transportation	3,941	4,419	478	10.8%	3,992	51	1.2%
Parks & Recreation	1,910	1,995	85	4.3%	1,961	51	2.6%
General Services	1,554	1,696	142	8.4%	1,746	192	11.3%
Child Services	7,331	7,357	26	0.4%	7,614	283	3.8%
Social Services	12,325	13,201	876	6.6%	12,826	501	3.8%
All Other Civilians	19,642	20,567	925	4.5%	20,290	648	3.2%
Subtotals	**84,512**	**88,794**	**4,282**	**4.8%**	**87,391**	**2879**	**3.3%**
Totals	**248,472**	**253,033**	**4,561**	**1.8%**	**250,140**	**1,668**	**0.7%**

Table A3. Changes to Agency Allocations FY 2002 Compared to FY 2003, $ in thousands

	FY 2002	FY 2003	Change FY 2002-03 Percent	Change FY 2002-03 Dollars
Mayoralty	$127,765	$78,927	(38.2%)	($48,838)
Board of Elections	$76,067	$46,040	(39.5%)	($30,027)
Campaign Finance Board	$56,488	$10,556	(81.3%)	($45,932)
Office of the Actuary	$3,365	$3,733	10.9%	$368
President, Borough of Manhattan	$5,067	$4,171	(17.7%)	($896)
President, Borough of the Bronx	$7,249	$5,907	(18.5%)	($1,342)
President, Borough of Brooklyn	$6,815	$5,039	(26.1%)	($1,776)
President, Borough of Queens	$6,437	$4,824	(25.1%)	($1,613)
President, Borough of S.I.	$4,849	$4,128	(14.9%)	($721)
Office of the Comptroller	$58,883	$46,541	(21.0%)	($12,342)
Dept. of Emergency Management	$0	$2,236	--	$2,236
Tax Commission	$2,103	$2,118	0.7%	$15
Law Department	$94,842	$96,082	1.3%	$1,240
Department of City Planning	$22,623	$19,853	(12.2%)	($2,770)
Department of Investigation	$22,876	$22,128	(3.3%)	($748)
NY Public Library-Research	$9,138	$16,348	78.9%	$7,210
New York Public Library	$46,156	$85,233	84.7%	$39,077
Brooklyn Public Library	$34,271	$62,265	81.7%	$27,994
Queens Borough Public Library	$32,599	$59,643	83.0%	$27,044
Board of Education	$11,687,954	$11,766,704	0.7%	$78,750
City University	$470,948	$458,328	(2.7%)	($12,620)
Civilian Complaint Review BD.	$10,030	$11,160	11.3%	$1,130
Police Department	$3,805,408	$3,361,353	(11.7%)	($444,055)
Fire Department	$1,241,171	$1,069,087	(13.9%)	($172,084)
Admin. for Children Services	$2,409,521	$2,335,317	(3.1%)	($74,204)
Department of Social Services	$5,800,206	$5,759,119	(0.7%)	($41,087)
Dept. of Homeless Services	$548,878	$563,590	2.7%	$14,712
Department of Correction	$890,674	$924,355	3.8%	$33,681
Board of Correction	$932	$873	(6.3%)	($59)
Department of Employment	$144,435	$96,349	(33.3%)	($48,086)
Citywide Pension Contributions	$1,620,172	$1,770,759	9.3%	$150,587
Miscellaneous	$3,936,738	$4,021,161	2.1%	$84,423
Debt Service	$889,763	$2,435,845	173.8%	$1,546,082
MAC Debt Service	$5,000	$255,300	5006.0%	$250,300
Public Advocate	$2,836	$2,062	(27.3%)	($774)
City Council	$47,816	$46,296	(3.2%)	($1,520)
City Clerk	$3,007	$2,618	(12.9%)	($389)
Department for the Aging	$243,836	$209,134	(14.2%)	($34,702)
Department of Cultural Affairs	$125,585	$110,416	(12.1%)	($15,169)
Financial Info. Serv. Agency	$31,204	$33,186	6.4%	$1,982
Department of Juvenile Justice	$111,122	$108,825	(2.1%)	($2,297)
Office of Payroll Admin.	$6,253	$8,784	40.5%	$2,531
Independent Budget Office	$2,673	$2,764	3.4%	$91
Equal Employment Practices Com	$432	$617	42.8%	$185
Civil Service Commission	$489	$593	21.3%	$104
Landmarks Preservation Comm.	$3,617	$3,186	(11.9%)	($431)
Districting Commission	$0	$2,253		$2,253
Taxi & Limousine Commission	$23,435	$22,393	(4.4%)	($1,042)
Commission on Human Rights	$7,765	$7,799	0.4%	$34
Youth & Community Development	$167,162	$142,135	(15.0%)	($25,027)

Table A3 (con't). Changes to Agency Allocations
FY 2002 Compared to FY 2003, $ in thousands

	FY 2002	FY 2003	Change FY 2002(03 Percent	Change FY 2002(03 Dollars
Conflicts of Interest Board	$1,796	$1,701	(5.3%)	($95)
Office of Collective Barg.	$1,519	$1,552	2.2%	$33
Community Boards (All)	$11,986	$11,942	(0.4%)	($44)
Department of Probation	$93,191	$82,130	(11.9%)	($11,061)
Dept. of Business Services	$66,950	$34,140	(49.0%)	($32,810)
Housing Preservation & Dev.	$467,267	$371,369	(20.5%)	($95,898)
Department of Buildings	$56,336	$52,023	(7.7%)	($4,313)
Department of Public Health	$1,069,430	$1,297,329	21.3%	$227,899
Dept. of Mental Health	$660,516	$0	(100.0%)	($660,516)
Health and Hospitals Corp.	$915,471	$920,994	0.6%	$5,523
Dept. of Environmental Prot.	$689,262	$725,015	5.2%	$35,753
Department of Sanitation	$1,040,648	$966,541	(7.1%)	($74,107)
Organized Crime Control Comm.	$2,678	$4,081	52.4%	$1,403
Department of Finance	$192,885	$186,351	(3.4%)	($6,534)
Department of Transportation	$541,873	$488,802	(9.8%)	($53,071)
Dept. of Parks and Recreation	$245,466	$191,794	(21.9%)	($53,672)
Dept. of Design & Construction	$839,743	$86,001	(89.8%)	($753,742)
Dept. of Citywide Admin. Services	$670,588	$722,266	7.7%	$51,678
D.O.I.T.T.	$166,369	$174,111	4.7%	$7,742
Dept. of Records & Info. Serv.	$4,530	$4,035	(10.9%)	($495)
Department of Consumer Affairs	$14,860	$14,196	(4.5%)	($664)
District Attorney (N.Y.)	$81,787	$68,767	(15.9%)	($13,020)
District Attorney (Bronx)	$45,065	$41,218	(8.5%)	($3,847)
District Attorney (Kings)	$74,635	$66,703	(10.6%)	($7,932)
District Attorney (Queens)	$39,687	$35,240	(11.2%)	($4,447)
District Attorney (Richmond	$6,918	$5,901	(14.7%)	($1,017)
Off. Of Prosec. & Spec. Narc.	$16,184	$14,741	(8.9%)	($1,443)
Public Administrator (N.Y).	$962	$1,027	6.8%	$65
Public Administrator (Bronx)	$340	$347	2.1%	$7
Public Administrator (Brooklyn)	$464	$470	1.3%	$6
Public Administrator (Queens))	$353	$363	2.8%	$10
Public Administrator (Richmond	$243	$247	1.6%	$4
Prior Payable Adjustment	($210,000)	$0	(100.0%)	$210,000
General Reserve	$40,000	$200,000	400.0%	$160,000
Energy Adjustment	$0	$0	--	$0
Lease Adjustment	$0	$0	--	$0
OTPS Inflation Adjustment	$0	$0	--	$0
City(Wide Totals	**$42,706,657**	**$42,879,530**	**0.4%**	**$172,873**

Table A4. FY 2003 Executive Preliminary Revenue Detail, $ in millions

	FY 2002	FY 2003	Change FY 2002(03 Percent	Dollar
Taxes:				
Real Property	$8,562	$8,866	3.6%	$304
Personal Income Tax	$4,329	$4,399	1.6%	$70
General Corporation Tax	$1,379	$1,428	3.6%	$49
Banking Corporation Tax	$353	$317	(10.2%)	($36)
Unincorporated Business Tax	$799	$870	8.9%	$71
Sale and Use	$3,370	$3,564	5.8%	$194
Commercial Rent	$375	$364	(2.9%)	($11)
Real Property Transfer	$434	$422	(2.8%)	($12)
Mortgage Recording Tax	$442	$384	(13.1%)	($58)
Utility	$268	$277	3.4%	$9
All Other	$582	$587	0.9%	$5
Tax Audit Revenue	$462	$427	(7.6%)	($35)
Decouple from Federal Depreciation Rule	$0	$128	((	$128
State Tax Relief Program	$632	$645	2.1%	$13
Total Taxes	$21,987	$22,678	3.1%	$691
Miscellaneous Revenue:				
Licenses, Franchises, Etc.	$332	$343	3.3%	$11
Interest Income	$80	$66	(17.5%)	($14)
Charges for Services	$427	$429	0.5%	$2
Water and Sewer Charges	$853	$883	3.5%	$30
Rental Income	$110	$266	141.8%	$156
Fines and Forfeitures	$465	$489	5.2%	$24
Miscellaneous	$852	$724	(15.0%)	($128)
Intra(City Revenue	$1,366	$1,012	(25.9%)	($354)
Total Miscellaneous	$4,485	$4,212	(6.1%)	($273)
Unrestricted Intergovernmental Aid:				
N.Y. State Per Capital Aid	$327	$327	0.0%	$0
Other Federal and State Aid	$354	$394	11.3%	$40
Total Unrestricted Intergovernmental Aid	$681	$721	5.9%	$40
Transitional Finance Authority 9/11	$0	$1,500	((	$1,500
Anticipated State and Federal Aid:				
Anticipated State Aid	$0	$400	((	$400
Anticipated Federal Aid	$0	$230	((	$230
Total Anticipated Aid	$0	$630	((	$630
Other Categorical Grants	$745	$428	(42.6%)	($317)
Inter Fund Agreements	$322	$323	0.3%	$1
Reserve for Disallowance of Categorical Grants	($15)	($15)	0.0%	$0
Less: Intra City Revenue	($1,366)	($1,012)	(25.9%)	$354
TOTAL CITY FUNDS	**$26,839**	**$29,465**	9.8%	$2,626

Table A4 (Con't). FY 2003 Executive Preliminary Revenue Detail, $ in millions

	FY 2002	FY 2003	Change FY 2002(03 Percent	Dollar
Federal Categorical Grants:				
Community Development	$361	$267	(26.0%)	($94)
Welfare	$2,541	$2,318	(8.8%)	($223)
Education	$1,263	$1,237	(2.1%)	($26)
Other	$2,274	$536	(76.4%)	($1,738)
Total Federal Grants	**$6,439**	**$4,358**	**(32.3%)**	**($2,081)**
State Categorical Grants				
Welfare	$1,529	$1,570	2.7%	$41
Education	$5,600	$5,577	(0.4%)	($23)
Higher Education	$161	$164	1.9%	$3
Department of Public Health	$443	$462	4.3%	$19
Other	$329	$271	(17.6%)	($58)
Total State Grants	**$8,062**	**$8,044**	**(0.2%)**	**($18)**
TOTAL REVENUE	**$41,340**	**$41,867**	**1.3%**	**$527**

Glossary of Acronyms

BOE	Board of Education
BCT	Banking Corporation Tax
CRT	Commercial Rent Tax
COLA	Cost of Living Adjustment
CY	Calendar Year
DEA	Detectives' Endowment Association
E-911	Emergency 911
FA	Family Assistance Program
FEMA	Federal Emergency Management Agency
FFS	Fee-for-Service
FTE	Full-Time-Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GCP	Gross City Product
GCT	General Corporation Tax
G.O. Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
JFK	John F. Kennedy Airport
J & C	Judgments and Claims
MAC	Municipal Assistance Corporation
MRT	Mortgage Recording Tax

NYC	New York City
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
OT	Overtime
OTPS	Other Than Personal Services
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap (an action that is part of a gap closing program)
PERB	Public Employment Relations Board
PIT	Personal Income Tax
PS	Personal Services
PPU	Period of Probable Usefulness
RPTT	Real Property Transfer Tax
SBA	Sergeants Benevolent Association
SNA	Safety Net Assistance
TRS	Teachers' Retirement System
TSASC	Tobacco Settlement Asset Securitization Corporation
UAAL	Unfunded Accrued Actuarial Liability
UBT	Unincorporated Business Tax
UFA	Uniformed Firefighters Association
UFT	United Federation of Teachers
UNDC	United Nations Development Corporation
WTC	World Trade Center