The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2003 and the Financial Plan for Fiscal Years 2002—2006

The City of New York
Office of the Comptroller
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MARCH 2002

Prepared by the New York City Office of the Comptroller, Bureau of Fiscal and Budget Studies
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EXECUTIVE SUMMARY

On February 13, the Mayor released his modification of the FY 2002 budget and FYs 2002-05 Financial Plan, along with his preliminary budget for FY 2003. These documents clearly layout the difficulties facing the city. The Comptroller agrees with the Mayor that the city is on course toward FY 2002 budget balance but faces severe and immediate budget gaps beginning with the 2003 fiscal year which starts this July.

The city ended the last fiscal year, 2001, with a $2.9 billion surplus, which was used to prepay a portion of this year's expenses. That surplus, combined with a $2.5 billion gap-closing program, has supplied much of the funding necessary to achieve current-year budget balance. In addition, the city intends to borrow $488 million, through the New York City Transitional Finance Authority (NYCTFA), to cover certain expenses stemming from the destruction of the World Trade Center complex.

The Mayor projects that the city will end FY 2002 with a $260 million surplus, which will be used to assist in balancing the FY 2003 budget. This report finds that the city may generate up to $300 million in additional resources in the remainder of the current fiscal year, raising the surplus roll to over $500 million.

However, even with this projected increase in the surplus roll, the city is still facing a FY 2003 budget deficit exceeding $4.5 billion. The Mayor has proposed a gap-closing program which contains substantial risks and relies heavily on non-recurring actions to balance next year's budget, including borrowing an additional $1.5 billion to support operating expenses, through the NYCTFA. Beyond FY 2003, the budget gaps continue to grow. Even after implementation of the City's FY 2003 gap-closing program, based on our analysis of the spending and revenue assumptions in the financial plan, the budget gap in FY 2006 could still exceed $5.5 billion.

While the preliminary budget is a spending plan that will be subject to much debate and discussion, analysis of the document finds nearly $1.8 billion in risky assumptions and more than $1 billion in non-recurring actions apart from the $1.5 billion in NYCTFA borrowing. The reliance on non-recurring actions of this magnitude to help close the FY 2003 budget gap means fewer such resources will be left to address budget gaps in the outyears of the financial plan.

Although the Comptroller's Office is projecting revenues somewhat higher than the city's over the term of the financial plan, the outlook for New York City's economy, is less promising than for the nation's. The slowdown in the local economy in the second half of 2001 was much more severe, and the damage to the city and its infrastructure from the terrorist attacks suggests that the city's recovery is likely to lag the nation's.

In this period of recovery and fiscal stress we must not fall prey to easy solutions that offer short term benefits without regard to long term costs. When non-recurring actions are used to support recurring spending the problem is not solved, but merely delayed and deferred. When money is borrowed costs are transferred to the future. As we discuss, debate, review and revise proposed solutions to the city's fiscal problems we must not create greater difficulties in the years to come.

At the same time, the city faces real and pressing needs. City infrastructure was greatly neglected in the decade following the fiscal crisis of the mid-1970's leading to dilapidated roads, bridges and schools in dire need of repair. In order to bring its infrastructure to a state of good repair the city has spent far more in recent years than it would have normally expended on scheduled maintenance and replacement of physical assets. The result is debt service growing at twice the rate of revenues, projected to consume 20 cents of every dollar in tax revenue by FY 2006. If we use the opportunity to refinance debt to gain immediate budgetary relief, we must ensure that we are not increasing future debt service levels and limiting our ability to maintain the city's physical facilities.

Furthermore, as we address our enormous fiscal problems we must not forget that the need for low and middle income housing has not diminished and the need for all neighborhoods to receive their fair share of city services has not faded either.

It is important that the city's resources are managed efficiently and that services are provided in the most efficient and cost effective manner. It is vital that we design coherent and sustainable tax, debt, and spending policies.

I. ASSESSMENT OF THE FEBRUARY PLAN

The City’s economy entered a recession in the first quarter of 2001, with the Gross City Product (GCP) dropping by 1.6 percent. The September 11th attack on the World Trade Center deepened the City's recession; GCP declined by 3.9 percent in the fourth quarter. The City, therefore, in the February Plan, lowered its tax-revenue projections by approximately $800 million in FY 02 and by $1.3 billion in FY 03. The projected FY 03 gap was raised to $4.8 billion in the Preliminary Budget, up from $3.1 billion in the 2001 June Plan.

To close the FY 03 budget gap, the City uses $3.041 billion of one-shot actions. By far the largest of these one-shot actions is $1.5 billion of new Transitional Finance Authority (TFA) bonds or notes to replace revenues lost because of the WTC attack and the ensuing deepened recession.

The reliance on non-recurring actions of this magnitude to help close the FY 03 budget gap means fewer such resources are left to address budget gaps in the out-years. The City recognized FY 04-06 budget gaps that average $2.9 billion, but the gaps could be even larger because the City's estimates are based on a number of risky assumptions that may not materialize. In a worse-case scenario, the gaps could average close to $5 billion.

A. FY 03

As prescribed by law, the City projects a balanced budget in FY 03. However, a balanced budget depends on a number of risky assumptions that could total as much as $1.884 billion. Though the City may be able to find additional resources in FY 03, these resources may not be enough to offset these risks. Consequently, the City may still have a budget gap in FY 03 of $1.014 billion. (See Table 1.) The resources and risks identified by the Comptroller’s Office are as follows:

1. Additional Resources: $870 million.

Higher-than-Anticipated FY 02 Budget Surplus: $293 million. The Comptroller’s Office expects the City to end FY 02 with a surplus of $553 million, which is $293 million higher than anticipated by the City. These resources will be rolled into FY 03 to help close the projected gap.

Write-Off of Prior-Years’ Liabilities: $250 million. Each year the City accrues liabilities that eventually do not materialize. In subsequent years, these liabilities are written off. Such liabilities are likely to approach $250 million in FY 03.

Tax Revenue: $327 million. The Comptroller’s Office projects $327 million more in tax revenues than projected in the Preliminary Budget because of its more favorable assumptions about the economy in 2002 and 2003 as highlighted in Section III.

2. Risks: $907 million to $1.884 billion

Prior-Year Rents from the Port Authority (PA): At Risk $135 million. The City expects $135 million in rental revenue from the PA for prior-year rental claims for JFK and LaGuardia airports. For many years the City has claimed that the PA owes rent from prior years; however, the City has been unable to reach an agreement with the PA.

Table 1. *Comptroller's Office Estimate of Resources and Risks to Preliminary Budget, Fiscal Year 2003, $ millions*

	FY 03	
	Worse Case	**Better Case**
RESOURCES:		
Additional FY 02 Budget Surplus	$293	$293
Overestimation of Prior-Year Liabilities	250	250
Tax Revenues	327	327
TOTAL RESOURCES (1)	$870	$870
RISKS:		
Federal and State Actions	($488)	($488)
Fringe-Benefit Cost Containment	(214)	0
Baseline Refunding Savings	(300)	0
Prior-Year Airport Rents	(135)	(135)
Current Airport Rent from the Port Authority	(47)	(47)
Sales of Tax Benefits	(100)	0
Public Assistance Caseload	(15)	0
Emergency 911 Revenue	(45)	(10)
Next Round of Wage Increases	(227)	0
Potential FY 02 Pension Losses	(86)	0
Overtime	(227)	(227)
TOTAL RISKS (2)	($1,884)	($907)
GAP TO BE CLOSED IN PRELIMINARY BUDGET (3)	$0	$0
COMPTROLLER'S OFFICE PROJECTED GAP (4)=(2)+(3)-(1)	($1,014)	($37)

Sources: NYC Comptroller's Office and NYC OMB.

Current Rent from the Port Authority: At Risk $47 million. The Preliminary Budget includes receipt of $50 million in rent from the Port Authority. The receipt of these revenues depends largely on the PA agreeing with the City on the back-rent claims. If the City does not recover back-rent claims, the amount of rent the PA will pay for the airports is likely to be much lower.

State and Federal Aid: At Risk $488 million. The Preliminary Budget includes $800 million in new State and Federal aid. In the past, the City has put forward many of these proposals, including tort reform, restoration of State budget cuts in prior-years, and higher reimbursement for the Medicaid program from the Federal government, without success. However, certain components of the City's relief package, including the debt reform and higher fines for parking violations are more likely to gain approval. Also, the City is requesting to raise its cigarette tax to $1.50 per pack from 8 cents per pack. The State may not authorize the full increase since it is also relying on an increase to $1.50 per pack in its own cigarette tax for budget relief.

Fringe-Benefit Cost Containment: At Risk $0 to $214 million. The Preliminary

Budget relies on $500 million in reduced fringe-benefit costs to help balance the budget. Of this amount, $286 million would be realized through proposals to phase-in the cost of automatic cost of living adjustments (COLA) for public-employee retirees over a longer period, and refinancing unfunded accrued liabilities of the Fire Pension Fund. These proposals must be negotiated with labor unions and must be approved by the State. Approval is viewed as costless (to the State and the unions) and is therefore considered likely. The City has not formally specified how it would achieve the balance of the $500 million in fringe-benefit savings. Consequently, these savings are categorized as a risk.

Debt-Restructuring Program : At Risk $0 to $300 million. The Preliminary Budget includes $300 million in lower debt service in FY 03 from the implementation of a debt-restructuring program of the City's General Obligation bonds. To achieve savings of this magnitude, the refunding program may have to be structured in a way that raises debt-service costs in the out-years. The City has not presented a formal plan as to how it will achieve this savings.

Sale of Tax Benefits: At Risk $0 to $100 million. The City expects to realize $100 million from selling depreciation rights to an asset owned by the City, allowing a private entity the benefit of the tax write-off. This will be done through lease/leaseback arrangements. The City would retain ownership of the underlying asset, but the tax ownership is transferred to the private entity. The City has not yet formally identified properties in which tax rights are to be sold.

E-911 Surcharge on Land-Line and Wireless Phones: At Risk $10 million to $45 million. The City has presented several proposals to raise revenues from surcharges placed on land-line and wireless phones. The City is seeking to increase the surcharge on all telephones lines to $1 from 35 cents to fund both the capital and the operating costs of the E-911 program. This proposal may gain approval from the State. The City is also hoping to collect $10 million from the State as its fair share of the E-911 surcharge on wireless telephones. This proposal is unlikely to gain approval from the State. However, the State Executive Budget includes a proposal that allows localities to increase the current surcharge on wireless phones from 70 cents to $1. If the City opts into the program, the Governor's proposal would provide the City $9 million in additional resources.

Overtime: At Risk $227 million. The Preliminary Budget assumes about $476 million for overtime, $110 million below the level anticipated in the February Plan for FY 02, after adjustments for spending related to the attack on WTC. In FY 01, the City spent $733 million on overtime, in part to fund the police anti-crime efforts. Growth in overtime spending is unlikely to slow in FY 03, since spending so far in FY 02 is at a rate that will surpass the FY 01 record even after adjustment for the WTC costs.

Future Labor Settlements: At Risk $0 to $227 million. Currently the City assumes no funding for wage settlements with employees beyond FY 02. A new wage settlement at the rate of local inflation would pose a risk to the City budget of $227 million. However, if the City and the Unions were to agree to a settlement similar to the one that covered fiscal years 1995 to 2000. Without any wage increases in the first two years of the contract, there would not be a risk to the City budget until FY 05.

FYs 00-02 Wage Settlements: The unions representing police, firefighters, and teachers are seeking wage increases higher than those agreed to by the City, the District Council 37 (DC 37) and the Uniformed Forces Coalition for the FYs 00-02 period. The City faces a potential risk of $81 million a year for each percentage point increase above the wage settlement agreed to by the (DC 37) and the City for FYs 00-02.

Public Assistance: At Risk $0 to $15 million. The number of recipients in the NY State Safety Net Assistance (SNA) program has risen in recent months. If the current trend in SNA caseload continues, the City could face a risk of $15 million in its public assistance budget in FY 03.

Pension Costs: At Risk $0 to $86 million. As of February, the City's pension systems earned a negative 4.3 percent, consisting of a loss of 8.7 percent in domestic equities and 10.5 percent in international equities, offset by a gain of 6.1 percent in domestic fixed income. The City assumes that pension investments will earn 8 percent. If the returns remain negative at the February level on June 30, 2002, additional appropriations of $86 million will be required in FY 03.

B. The Out-Years: FYs 04-06

For the out-years of the Plan, the City forecasts budget gaps of $2.574 billion in FY 04, $2.926 billion in FY 05, and $2.889 billion in FY 06. As stated before, the Financial Plan assumes no wage increases after FY 03. In addition, the value of many of the risks identified in FY 02 will grow in the out-years. If provisions are made for wage increases and other risks, the out-year budget gaps would grow instead to $4.406 billion in FY 04, $4.952 billion in FY 05, and $5.565 billion in FY 06. (See Table 2.)

Table 2. *Comptroller's Office Estimate of Resources and Risks to February Plan, Fiscal Years 2004 to 2006, $ millions*

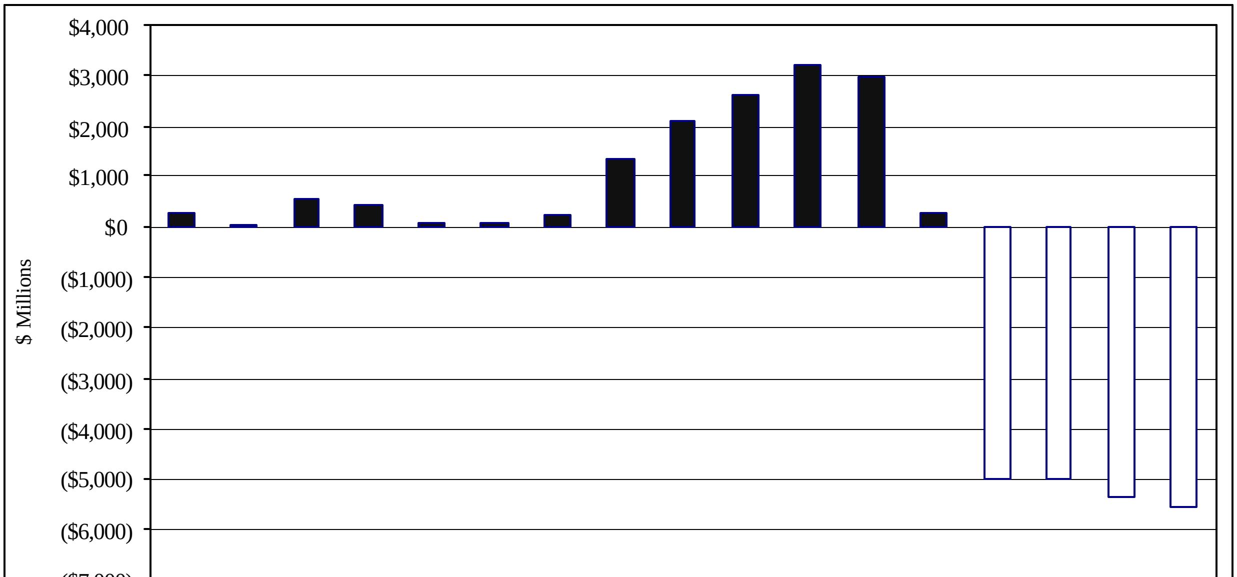
	FY 04		FY 05		FY 06	
	Worse Case	**Better Case**	**Worse Case**	**Better Case**	**Worse Case**	**Better Case**
RESOURCES:						
Overestimation of Prior-Year Liabilities	$250	$250	$250	$250	$250	$250
Tax Revenues	229	229	278	278	186	186
TOTAL RESOURCES (1)	$479	$479	$528	$528	$436	$436
RISKS:						
Federal and State Actions	($392)	($392)	($392)	($392)	($392)	($392)
Fringe-Benefit Cost Containment	(318)	0	(310)	0	(374)	0
Back Rental Income for Airports	(280)	(280)	(245)	(245)	0	0
Airport Rental Income from the Port Authority	(47)	(47)	(47)	(47)	(47)	(47)
OTB Sale	(250)	(250)	0	0	0	0
Public Assistance Caseload	(15)	0	(15)	0	(15)	0
Emergency 911 Revenue	(45)	(10)	(45)	(10)	(45)	(10)
Next Round of Wage Increases	(697)	0	(1,233)	(227)	(1,749)	(697)
Overtime	(267)	(267)	(267)	(267)	(267)	(267)
TOTAL RISKS (2)	($2,311)	($1,246)	($2,554)	($1,188)	($2,889)	($1,413)
GAP TO BE CLOSED IN FEBRUARY PLAN (3)	($2,574)	($2,574)	($2,926)	($2,926)	($3,112)	($3,112)
COMPTROLLER'S OFFICE PROJECTED GAP (4)=(2)+(3)-(1)	**($4,406)**	**($3,341)**	**($4,952)**	**($3,586)**	**($5,565)**	**($4,089)**

Sources: NYC Comptroller's Office and NYC OMB.

II. FEBRUARY PLAN RECONCILATION

In the February Plan, the City projects a budget surplus of $260 million in FY 02, before discretionary transfers. The City generated budget surpluses that averaged $2.441 billion in FYs 97-01, ranging from a low of $1.367 billion in FY 97 to a high of $3.192 billion in FY 00. Having missed the opportunity to address its structural budget imbalance in a strong economic climate, the City must now contend with baseline budget gaps that exceed $5 billion every year between FY 03 and FY 06. (See Chart 1.)

Chart 1. *NYC Budget Surpluses Fiscal Years 1990 to 2002 and Out-Year-Budget Gaps, Fiscal Years 1990 to 2006, $ millions*



	90	91	92	93	94	95	96	97	98	99	00	01	02*	03*	04*	05*	06*
Surpluses/(Gaps)	$253	$27	$570	$412	$72	$71	$229	$1,367	$2,086	$2,620	$3,192	$2,949	$260	($5,026)	($5,033)	($5,356)	($5,565)

*Projected
Note: FYs 03-06 budget gaps are before gap-closing programs.
Source: NYC Office of the Comptroller, Comprehensive Annual Financial Report, FYs 90-01, and OMB, FY 02 February Plan.

This section describes the changes between the June and the February Plans. Since the budget was adopted in June 2001, the City's financial condition has deteriorated, with projected baseline budget gaps of $1.026 billion for FY 02 and $4.8 billion for FY 03.

A. FY 02

After reviewing the nature of the FY 02 gap, this section analyzes the composition of the FY 02 spending plan.

1. Baseline Gap Analysis

When the budget was adopted in June 2001, the City projected a FY 02 surplus of $345 million and a gap of $3.1 billion in FY 03. Changes made in FY 02 after budget adoption indicate that the budget surplus will be $260 million, assuming the successful implementation of a $1.286 billion agency-reduction program.

A number of factors led to the deterioration of the FY 02 budget since its adoption in June. In July, the City reached a labor agreement with the Uniformed Forces Coalition, estimated to cost an additional $152 million in FY 02. Moreover, the City revised downward its expectations of Federal and State assistance by $233 million. The City also acknowledged that it was unable to complete the sale of the Off-Track Betting Corporation in FY 02, leaving a shortfall of $250 million in the FY 02 budget. As a result of these changes, the City was faced with a FY 02 gap of about $600 million by the end of the summer.

The WTC attack on September 11 plunged the City's economy more deeply into a recession (NYC's GCP and jobs were negative starting in the first quarter of 2001), causing the City to scale back its expectations of tax revenues by $792 million in FY 02 and $1.3 billion in FY 03. To help mitigate the impact, the City Council decided to roll back the scheduled reduction in the personal income tax surcharge, thereby providing the City with $172 million in resources in FY 02 and $349 million in FY 03.

The budget gap widens further in the February Plan, with the City providing additional funding for a number of programs, including Medicare Part B. An additional $100 million is allocated to the Judgments and Claims budget to take account of the rising cost of claims. The City also raises its allocation for health insurance and social services by a total of $277 million.

In sum, between the June Plan and the February Plan, FY 02 revenue projections have been reduced by $1.3 billion, reflecting the impact of the WTC attack on tax revenues, the PIT surcharge and other changes. (See Table 3.) Expenditures have been reduced by only $71 million, simply because of the positive impact of increased debt-service savings, write-off of prior-year liabilities, the partial use of the general reserve, and reduced pension contributions. As result of these changes, the City recognizes a baseline FY 02 budget gap of $1.026 billion in the February Plan. To close the baseline gap, the City proposes a $1.286 billion agency-reduction program. The successful implementation of this program will generate enough resources to produce a surplus of $260 million, which is allocated to the Budget Stabilization Account. These resources will be used to prepay FY 03 debt service, thereby reducing the FY 03 projected budget gap by $260 million.

2. FY 02 Surplus Reestimate

Based on its assessment of the Financial Plan, the Comptroller's Office projects that the FY 02 budget surplus may reach $553 million, $293 million more than anticipated by the City. This forecast assumes higher tax revenues of $293 million. In addition, the City can potentially write-off additional liabilities from prior fiscal years, and, as accustomed will use $60 million of the $100 million allocated to the General Reserve. However, these potential resources may be partly offset by higher overtime spending of as much as $200 million.

3. Structure of the FY 02 Budget

The February Plan projects revenues of $41.296 billion, with tax revenues accounting for close to 53 percent of projected revenues and Federal and State aid for

Table 3. *Changes Between June Plan and February Plan, $ millions*

	FY 02	FY 03	FY 04	FY 05
Budget Surplus (Gap) in FY 02 Adopted Budget (1)	$345	($3,123)	($2,611)	($2,236)
Revenue Changes				
Tax Revenues	(792)	(1,303)	(1,176)	(1,255)
PIT Surcharge	172	349	370	390
Non Tax-Revenues	(197)	121	(24)	(37)
OTB Sale	(250)	0	250	0
State and Federal Programs	(233)	(246)	(266)	(266)
Subtotal (2)	**($1,300)**	**($1,079)**	**($846)**	**($1,168)**
Spending Changes				
Pension Costs	81	(57)	(208)	(311)
Uniformed Coalition Agreement	(152)	(170)	(176)	(181)
Agency Spending	(160)	(218)	(210)	(225)
Debt-Service Savings	277	441	65	5
Write-Off of Prior-Year Liabilities	210	0	0	0
Health Insurance Cost	(120)	(200)	(280)	(375)
Medicare Part B	(33)	(42)	(62)	(73)
Judgments and Claims	(100)	(105)	(110)	(115)
Education	(17)	(147)	(150)	(150)
Health and Welfare	(157)	(326)	(445)	(527)
General Reserve	100			
Subtotal (3)	**($71)**	**($824)**	**($1,576)**	**($1,952)**
Baseline Budget Gap to Be Closed in February Plan (4)=(1)+(2)+(3)	($1,026)	($5,026)	($5,033)	($5,356)
Gap Closing Program				
Agency-Reduction Program	1,286	1,866	1,334	1,280
State and Federal Aid	0	800	500	500
Fringe-Benefit Cost Containment	0	500	525	550
Early Retirement/Severance Program	0	100	100	100
TFA Borrowing	0	1,500	0	0
Subtotal (5)	**$1,286**	**$4,766**	**$2,459**	**$2,430**
Budget Surplus/(Gap) (6)=(4)+(5)	260	(260)	(2,574)	(2,926)
Budget Stabilization Account (7)	(260)	260	0	0
February Plan Budget Gaps (8)=(6)+(7)	**0**	**0**	**(2,574)**	**(2,926)**

Source: NYC, Comptroller’s Office and OMB, FY 02 Adopted Budget, June 2001 and February Plan, 2002.

36.6 percent. Approximately 51 percent, or $20.890 billion, of resources is allocated to education and human resources. Projected education spending of $11.703 billion is about

$174 million more than appropriated in the Adopted Budget. Projected spending for human resources totals $9.187 billion, including $5.766 billion for the Department of Social Services and $2.321 billion for the Administration of Children Services. Projected spending for the administration of justice is $5.308 billion in the February Plan, $447 million more than appropriated in the Adopted Budget. (See Table 4.) Most of this increase results from WTC-related overtime expenditures by the Police Department.

Table 4. *Revenues and Expenditures, Fiscal Year 2002 Adopted Budget and February Plan, $ millions*

Revenues and Expenditures	**Adopted Budget (a)**	**February Plan (b)**	**Share of Budget (c)**	**Better/(Worse) (d)=(b)-(a)**
Property Taxes	$8,478	$8,536	20.7%	$58
Personal Income Tax	4,514	4,412	10.7%	(102)
Sales Tax	3,710	3,378	8.2%	(332)
Other Taxes and Revenues	5,244	5,339	12.9%	95
Miscellaneous Revenues	4,663	4,506	10.9%	(157)
State Aid – Categorical	7,941	8,029	19.4%	88
Federal Aid – Categorical	4,442	6,264	15.2%	1,822
State Aid – Unrestricted	706	832	2.0%	126
Total Revenues	**$39,698**	**$41,296**	**100.0%**	**$1,598**
Education	$11,529	$11,703	28.3%	($174)
Human Resources	9,095	9,187	22.3%	(92)
Administration of Justice	4,861	5,308	12.9%	(447)
Debt Service and BSA*	1,252	948	2.3%	304
Health and Mental Health	2,522	2,573	6.2%	(51)
Pensions	1,454	1,620	3.9%	(166)
Environmental Protection	1,691	1,791	4.3%	(100)
Fire	1,106	1,199	2.9%	(93)
All Other**	5,735	6,493	15.7%	(758)
Higher Education	453	474	1.2%	(21)
Total Expenditures	**$39,698**	**$41,296**	**100.0%**	**($1,598)**

*BSA=Budget Stabilization Account.
**Includes Certain Fringe Benefits
Source: NYC, Comptroller's Office and OMB, FY 02 Adopted Budget, 2001 and February Plan, 2002.

B. FY 03

This section reviews the nature of the FY 03 gap, the proposed cuts, and then the shares of FY 03 revenues and spending.

1. Baseline Gap Analysis

The Preliminary Budget for FY 03 identifies a budget gap of $4.766 billion, up from $3.1 billion in June. The increase in the gap is largely explained by the revision to tax revenues resulting from the recession and the WTC attack and rising costs of health insurance and social services. (See Table 3.)

The FY 03 gap-closing program consists of: (1) a $1.866 billion agency-reduction program; (2) $1.5 billion in borrowing from the TFA; (3) $800 million in additional State and Federal assistance; (4) $500 million in fringe-benefit savings, including the phasing-in of certain pension liabilities over a longer period; and (5) $100 million in savings from the implementation of an enhanced early-retirement/severance program. (See Table 3.)

2. General Make-Up of the Agency-Reduction Program

The $1.866 billion agency-reduction program proposed by the City includes $291 million in new revenue initiatives, $250 million in funding from MAC, and $27 million in procurement savings. Of the remaining $1.297 billion, close to 12 percent is composed of funding shifts, i.e., substitutions of Federal and State funds for City funds. (See Table 5.)

Table 5. *City Programs to Be Funded with Federal and State Grants, $ thousands*

Agency	Program	Program Amount	Agency Total
Police	Federal Reimbursement	$5,000	
	Housing Subsidies	28,064	
	WTC OTPS Reimbursement	3,040	$36,104
Sanitation	WTC Reimbursement	4,657	$4,657
Correction	Illegal Alien Reimbursement	30,000	$30,000
Administration of Childrens Services	Federal Training Reimbursement	3,741	
	Federal Reimbursement	13,175	$16,916
Department of Social Services	Federal Funding for AIDS Clients	10,529	
	Prior Year Federal Claims	20,600	
	Prior Year NY State Claims	14,308	$45,437
Department of Homeless Services	Prior Year NY State Claims	3,950	$3,950
Department of Finance	State Funding for STAR	1,500	$1,500
Department of Transportation	CHIPs Funding	7,707	
	FEMA Reimbursement	4,878	
	State Funding for Private Buses	2,629	$15,214
Expected Federal & New York State Funding			**$153,778**

Source: February Plan, 2002.

When the remainder of the agency reduction program is examined, $838.7 million can be attributed to direct budget cuts. Apart from the Board of Education, which is allocated $347.9 million in direct reductions, the largest cuts are found in the Administration for Children's Services, the Department of Sanitation and the Police Department. (See Table 6.)

Table 6. *Proposed Cuts in the February Plan, $ thousands*

Agency	Program	Program Amount	Agency Total
Police	Savings in Personal Services (PS) budget	$4,000	
	Personal Services (PS) Re-estimate	10,000	
	Unfilled positions in cadet program	4,581	
	Cut Uniformed Officers and Redeployment	43,688	$62,269
Fire	Civilianization and Redeployment efficiencies	33,352	
	Reduce Other Than PS (OTPS) Spending	1,750	$35,102
Sanitation	Reduce waste export costs	21,538	
	Sanitation workers surplus	4,400	
	Temporary Suspension of Metal, Glass, and Plastic Recycling Program	51,393	$87,681
	Civilianization and Redeployment efficiencies	10,350	
Correction	Overtime savings	2,000	
	OTPS savings	3,000	
	Uniform PS surplus and reduction	36,087	
	Facilities Closures	5,021	$46,108
Administration for Children's Services	Reduce Day Care Expansion	79,800	
	Reestimate Funding for Programs	15,118	$94,918
Department of Social Services	Automation Initiative	4,100	$4,100
Department of Aging	Increase Program Efficiencies	23,588	
	Administrative Reductions	1,200	$24,788
Public Health	Agency Savings	5,250	
	Contract Reductions & Efficiencies	50,614	$55,864
Board of Education	Budget Reduction	344,295	
	Contract Reduction	3,587	$347,882
Libraries	Reduction in Operating Subsidies	39,318	$39,318
Cultural Affairs	15 percent Reduction to Cultural Programs	19,128	19,128
All Other Agencies	Proposed Cuts	21,625	$21,625
Total Expense Reductions			**$838,738**

Source: February Plan, 2002.

3. Structure of FY 03 Budget

For FY 03, the City projects revenues of $41.398 billion, $102 million greater than the FY 02 budget. The projection of Federal categorical aid is $4.6 billion in FY 03, down from the FY 02 projection of $6.264 billion. Federal aid in FY 02 is artificially high because it includes $1.525 billion in disaster assistance directly related to the WTC attack. Tax revenues will account for approximately 54 percent of FY 03 revenues, with property taxes accounting for 25 percent of the total. (See Table 7.)

The City's higher projection of expenditures in FY 03 reflects increased spending for debt service. In FY 03, debt-service expenditures are projected to be $2.807 billion compared with $948 million for FY 02. FY 02 debt service is artificially low as a result of the prepayment in FY 01 of the FY 02 debt service with the FY 01 budget surplus. The BOE budget is projected to be $11.677 billion, or $26 million lower than the recommended spending in FY 02. FY 03 spending for the administration of justice is projected to be $4.864 billion, $444 million lower than the projected FY 02 spending because it excludes the one-time extraordinary costs related to heightened Police activities in the aftermath of the WTC attack. The budget of the Police Department for FY 03 declined to $3.289 billion from $3.705 billion in FY 02.

Table 7. *Revenues and Expenditures, Fiscal Year 2003 Preliminary Budget, $ millions*

Revenues and Expenditures	Preliminary Budget	Share of Budget
Property Taxes	$8,861	25.4%
Personal Income Tax	4,424	12.7%
Sales Tax	3,506	10.1%
Other Taxes and Revenues	6,535	18.7%
Miscellaneous Revenues	4,476	12.8%
State Aid – Categorical	8,383	24.0%
Federal Aid – Categorical	4,606	13.2%
State Aid – Unrestricted	607	1.7%
Total Revenues	**$41,398**	**100.0%**
Education	$11,677	28.2%
Human Resources	9,080	21.9%
Administration of Justice	4,864	11.8%
Debt Service and Budget Stabilization Account	2,807	6.9%
Health and Mental Health	2,412	5.8%
Pensions	2,006	4.9%
Environmental Protection	1,661	4.0%
Fire	1,067	2.6%
All Other, including Certain Fringe Benefits	5,384	14.9%
Higher Education	440	1.1%
Total Expenditures	**$41,398**	**100.0%**

Sources: NYC Comptroller’s Office and OMB, February Plan FY 02.

C. FYs 04-06

The February Plan projects revenues of $40.763 billion in FY 04, $41.625 billion in FY 05, and $42.753 billion in FY 06. For each year, revenues fall short of projected expenditures of $43.337 billion in FY 04, $44.551 billion in FY 05, and $45.865 billion in FY 06. As a result, the City faces budget gaps of $2.574 billion in FY 04, $2.926 billion in FY 05, and $3.112 billion in FY 06.

The budget gaps in FYs 04-06 reflect the impact of spending reductions for City agencies and non-tax revenue increases of $1.334 billion in FY 04, $1.280 billion in FY

05 and $1.278 billion in FY 06. However, the gaps may be understated because they do not reflect wage-and-benefit increases that may be negotiated for FYs 03-06.

The City expects to close the remaining budget gaps through the use of additional State and Federal aid, agency-reduction programs, transportation-related initiatives, management and procurement efficiencies, and savings from the Department of Sanitation. (See Table 8.) At this point the City has not provided specific details of the plan to close the out-year budget gaps.

Table 8. *Fiscal Years 2004 to 2006 Budget Gaps, $ millions*

	FY 04	**FY 05**	**FY 06**
Remaining Gaps to be Closed, February Plan	($2,574)	($2,926)	($3,112)
Agency Reduction Programs	$1,874	$1,801	$1,687
Federal and State Actions	500	500	500
Transportation-Related Initiatives	100	500	800
Management and Procurement Efficiencies	50	75	75
Sanitation Savings	50	50	50

Source: NYC, OMB, February 2002 Plan.

III. ECONOMIC OVERVIEW

The unusually long U.S. economic boom that began in 1992 seems to have ended in the second quarter of 2001. Although job losses continued in the fourth quarter of 2001, real Gross Domestic Product (GDP) turned up in the fourth quarter and the pace of U.S. recovery is expected to pick up in 2002.

The outlook for NYC's economy is, however, less promising than for the nation's. The City's economy began its recovery from the last recession later than the nation's, in 1993. During the first half of 2001, the City's economy was already showing signs of a slow down. By the second half of 2001, the City's economy declined more rapidly than the rest of the nation. The damage to the City's infrastructure from the WTC attack suggests that the City's recovery is again likely to lag the nation's.

A. The U.S. Economy, 2001-2003

The U.S. economy officially entered a recession in the second quarter of 2001. Although the Federal Reserve was exceptionally aggressive in using monetary policy to combat the recession, the September 11 attack wiped out the modest signs of recovery that had been appearing in the second half of 2001.

Starting in January 2002, some indicators have improved, suggesting that the recovery may have begun in fourth-quarter 2001. For instance, real GDP was up 1.4 percent in the fourth quarter as a result of increases in government and consumer spending. But private investment fell 23.7 percent in the fourth quarter and jobs fell 2.6 percent from the previous quarter.

Some positive signs could also be found in fourth-quarter investments and jobs data. Excess inventories declined, which bodes well for industrial production in 2002. Also, the unemployment rate fell to 5.5 percent in February 2002 from 5.8 percent in December 2001 and non-farm payroll jobs rose by 66,000 in February 2002, compared with a decline of 130,000 in December 2001.

Finally, the International Supply Management index, formerly known as the National Association of Purchasing Managers index, rose to 49.9 in January from its low of 39.5 in October 2001. Although the index number is still below 50, a sign of economic slowdown, the upward trend in the index is a positive sign. These signals are not very strong and most of them are preliminary (i.e., they will be revised), but they have a positive psychological impact on business behavior and on private-sector investment.

More promising signs of recovery are found in the money and capital markets. The Federal Reserve's aggressive monetary policy of 11 interest-rate cuts in 2001 has resulted in an upward sloping yield curve, which is a positive sign for recovery. The yield curve was inverted between June 2000 and March 2001.

Also, the November 2001 liquidity shortage has eased. The quality yield spread, measured by the difference between Baa corporate-bond yields and 30-year Treasury yield, although still too high, has declined to 242 basis points in January 2002 from 269 basis points in November 2001.

Finally, inflation is very low. After a rate of 2.8 percent for all of 2001, the inflation rate was only 1.1 percent in January 2002, mostly because of a 15.7 percent decline in energy prices.

On the other hand, consumer confidence fell to 94.1 in February from 97.8 in January. Both components of the index fell- the present situation index fell to 94.8 from 98.1, and the expectation index fell to 93.6 from 97.6. These numbers reflect the soft labor market and concerns about the impact of the collapse of Enron on confidence in the financial markets.

Based on the above analysis, the Comptroller's Office is predicting a moderate U.S. economic recovery in 2002, with an overall positive GDP increase for the year. (See Table 9.)

Table 9. *Selected U.S. Economic Indicators, Actual 2001 and Forecasts for 2002-2003*

	2001	2002 Forecasts		2003 Forecasts	
	Actual	Comp	City	Comp	City
GDP Change, %	1.2	2.9	0.5	3.4	4.1
Jobs (mil.), Chg.	0.5	0.4	-0.4	1.2	1.5
Inflation Rate, %	2.8	2.1	1.8	2.5	2.4
Wage Rate, %	5.0	3.0	2.9	4.3	4.3
Unemployment Rate, %	4.8	5.7	6.2	5.7	5.7
Fed Funds Rate, %	3.9	2.6	2.5	3.5	4.5
10-Yr T Notes, %	5.0	5.3	5.2	5.6	5.8

Source: Actual=preliminary averages of U.S. data for 2001 from Department of Commerce, Bureau of Labor Statistics (BLS), and Federal Reserve Board of Governors. Comp=forecasts for 2002-2003 by the NYC Comptroller's Office. City=forecasts for 2001-2003 by the NYC OMB in the January Plan FY02. Inflation=Change in Consumer Price Index.

B. The NYC Economy, 2002-2003

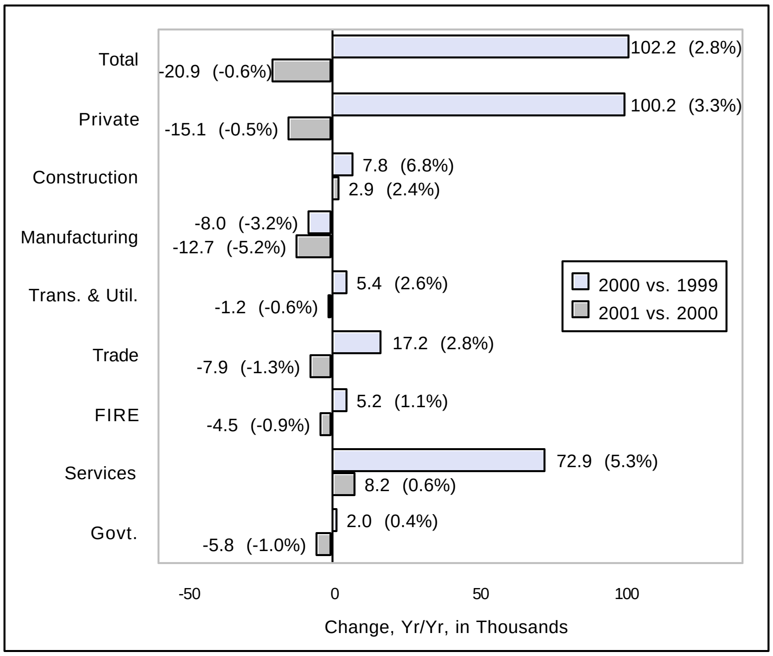
Based on revised employment data, the City entered a job recession in the first quarter, and was dragged more deeply into the recession in the fourth quarter by the WTC attack. The combination of the dramatic decline in payroll jobs in the fourth quarter, a rise in the civilian unemployment rate, the loss of income, the shutdown of many downtown businesses, and the slow pace of recovery in the travel industry, all contributed to making the City's fourth quarter much weaker than the nation's.

After eight years of job growth, NYC jobs declined by 20,900 in 2001, a significant drop from the gain of 102,200 in 2000. The private sector lost 15,100 jobs in

2001 compared with a gain of 100,200 jobs in 2000 and the public sector lost 5,800 jobs in 2001 compared with a gain of 2,000 in 2000.

Within the private sector, only services and construction were up. Services were up by 8,200 because of an increase of 4,600 in health services, 4,400 in social services, and 2,600 in legal. However, these gains were offset by a loss of 13,200 in business services, 1,200 in engineering and management, and 200 in motion pictures and amusement places. Construction was up by 2,900. (See Chart 2.)

Chart 2. *NYC Job Growth ('000) and Percent Change, 2001/2000 and 2000/1999*



Source: NYS Department of Labor, release of March 5, 2002.

Manufacturing in 2001 was down by 12,700 jobs, wholesale and retail trade was down by 7,900 jobs, FIRE sector was down by 4,500 jobs, and transportation and utility lost 1,200 jobs. Within the FIRE sector, banking was down 4,600 and insurance was down by 500, but the securities sector was up by 1,200 and real estate was up by 400.

The public sector lost 5,800 jobs as a result of a loss of 5,000 jobs in the Federal Government and 1,100 jobs in local government. The loss was partly offset by a gain of 400 jobs in state government.

The City's residents lost 61,200 jobs in 2001, compared with a gain of 139,200 in 2000. The number of unemployed rose by 8,800 and labor force shrank by 52,400. The average unemployment rate was 6.1 percent in 2001 compared with 5.7 percent in 2000. Labor-force-participation rate fell to 58.1 percent in 2001 from 59.7 percent in 2000 and the employment/population ratio fell to 54.6 percent in 2001 from 56.3 percent in 2000.

The travel and tourist industry suffered severely in 2001. The average hotel-occupancy rate was 74.2 percent in 2001, the lowest since the 1993 rate of 69.9 percent. The average daily room rate was $206.60 in 2001, the lowest since the 1997 rate of $192.50.

Also, according to a report by NYC & Company, the total number of visitors to NYC fell by 14.3 percent in 2001 over 2000 and the number is expected to grow by only 0.8 percent in 2002. Visitor spending fell by 12.2 percent in 2001 and is expected to fall by another 0.9 percent in 2002.

The only positive economic number was the City's inflation rate, which was 2.5 percent in 2001, lower than the 3.1 percent in 2000. The core rate was 2.7 percent, the highest since 2.9 percent in 1996. Energy prices were up 0.6 percent in 2001 from 16.0 percent in 2000. Prices of apparel and upkeep in 2001 fell, for the fourth consecutive year, by 5.2 percent.

The City's three leading indicators were mixed when compared on a year-over-year basis. While the help-wanted advertising index and initial unemployment claims significantly deteriorated, the number of authorized building permits increased.

The help-wanted-advertising index fell by 38.6 percent to 31.1 in 2001. This index is sensitive to labor-market conditions and provides a gauge of changes in the demand for workers. Initial unemployment claims, which measure the number of first-time applicants for unemployment insurance, were up for the first time in five years. They rose by 12,827 per month. The number of building permits issued was up by 264 or 0.3 percent in 2001, the smallest increase since a decline of 0.7 percent in 1995.

Overall, the Comptroller's Office projects a continuing weak economy in 2002, but a chance for recovery in or after the third quarter. (See Table 10.)

Table 10. *Selected NYC Economic Indicators, Actual 2001 and Forecast for 2002-2003*

	2001	2002 Forecasts		2003 Forecasts	
	Actual	Comp	City	Comp	City
GCP Change, %	-0.2	-3.2	-4.6	3.0	4.1
Jobs ('000), Change	-20.9	-65.0	-116.0	25.0	22.1
Unemployment Rate, %	6.1	6.8	Na	6.0	na
Wage Rate, %	4.7	1.0	-0.4	4.0	4.0
Inflation Rate, %	2.5	2.2	2.1	2.5	2.5

Source: Actual=preliminary NYC data for 2001 from NYC Department of Labor and BLS. Comp=forecasts by the NYC Comptroller's Office. City=forecasts by NYC OMB in the February Plan.

C. Comments on the February Plan Economic Assumptions

The February Plan foresees a slight recovery in 2002, and a much stronger recovery in 2003. The reasons for slow recovery are a slow rate of private investment and consumer spending. Private investment is hindered by excessive inventory and consumer spending is dampened by the losses in the stock market and high consumer debt.

The City's economy is expected to recover much more slowly than the nation's, because the City economy will suffer from its severely damaged infrastructure.

IV. REVENUES

Total revenues in the February Plan are projected at $41.296 billion for FY 02, $41.398 billion in FY 03, $40.763 billion in FY 04, and $41.625 billion in FY 05. In every year, these estimates represent increases over the December 31 Plan projections. The increases are 0.5 percent for FY 02, 6.5 percent for FY 03, 2 percent for FY 04, and 1.3 percent for FY 05. The largest increase, in FY 03, is mostly explained by new TFA borrowing.

A. Tax Revenues

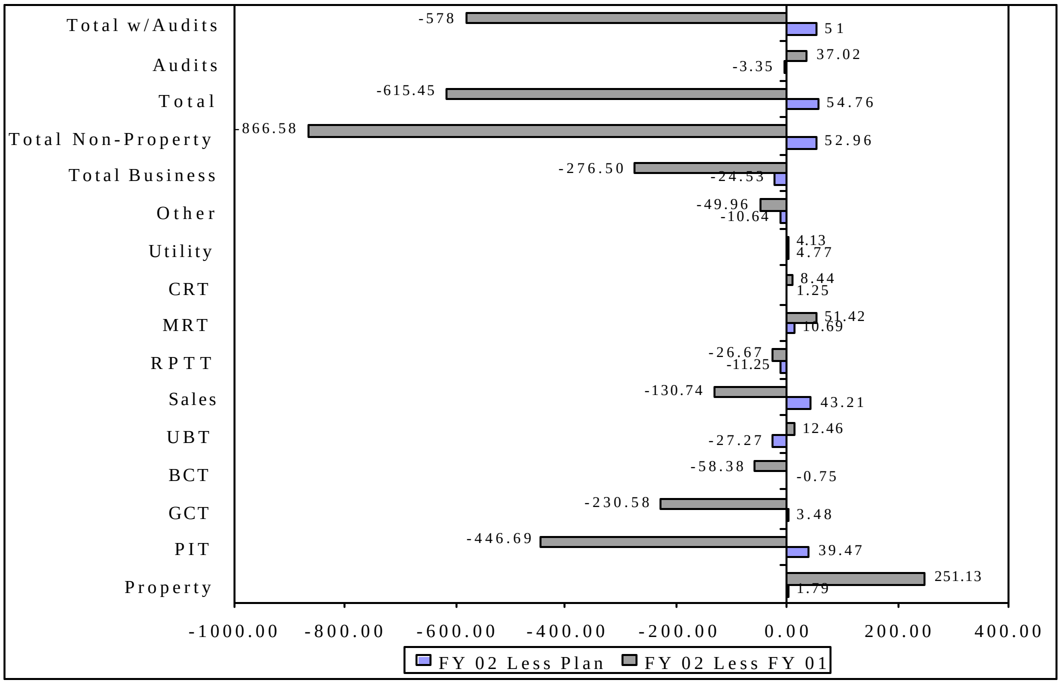
Tax revenues are the largest share of total revenues. The February Plan changes tax-revenue forecasts from the December Plan by small amounts - 0.1 percent for FY 02, 0.2 percent for FYs 03 and 04, and 0.3 percent FY 05, with no change to the FY 06 forecast. The forecasts do not reflect refunds, audit collections and the School Tax Relief program (STAR), but include net lien property sales and the portion of personal income tax (PIT) revenues that goes toward the TFA.

1. Year-to-Date Collections, FY 02 through January

Total tax revenue collections for the first seven months of FY 02 are $14.84 billion. They exclude refunds, audit collections and STAR, but include net lien property sales and the TFA. Although collections are $54.8 million, or 0.37 percent, ahead of the February Plan projection, actual collections are $615.4 million, or 4 percent below collections for the same period FY 01. Audit collections for July through January are $213 million, $3.4 million less than planned. (See Chart 3.)

General property-tax revenues are on target with the February Plan expectations for July through January and ahead of FY 01 by 3.3 percent. Property taxes continue to grow. Property taxes are determined in January for the upcoming fiscal year and do not fluctuate on a monthly basis with economic conditions because increases and decreases in Classes 2 and 4 property values are phased into billable assessments over five years. This pipeline provides a cushion to the property tax. As a result, the property tax in FY 02 has remained strong despite the recession and, unlike non-property taxes, is consistently doing better than in FY 01 on a cumulative basis. (See Charts 4a and 4b.)

Chart 3. *Actual Taxes Collected, Less February Plan Projections Fiscal Year 2002; and Actual Taxes, Fiscal Year 2002 Less Fiscal Year 2001, First Seven Months, $ millions*



Source: OMB, February Plan FY 02 and actual collections; differences computed by the NYC Comptroller's Office. CRT=Commercial Rent Tax. MRT=Mortgage Recording Tax. RPTT=Real Property Transfer Tax. PIT=Personal Income Tax. GCT=General Corporation Tax. BCT=Banking Corporation Tax. UBT=Unincorporated Business Tax. Audits=revenues from tax audits of prior years' returns. Business=GCT + BCT + UBT. Non-property=all but property.

Chart 4a. *Cumulative Growth of Property Taxes, First Seven Months, Fiscal Years 2001 and 2002*

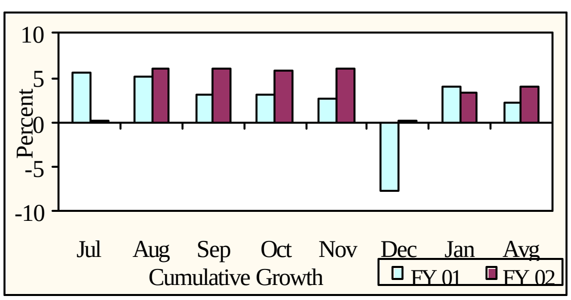
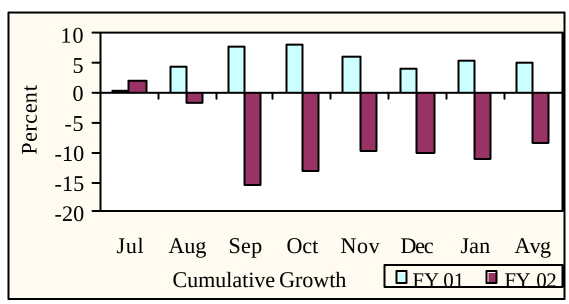


Chart 4b. *Cumulative Growth of Non-Property Taxes, First Seven Months, Fiscal Years 2001 and 2002*



Source: Derived from data from OMB. Monthly Comparison are with year-earlier data.

FY 02 non-property taxes are down from FY 01. The declines for September through November were anticipated because of postponements of payments related to September 11. But despite December deadlines, collections have not picked up and the rates of decline for December and January have increased. Non-property taxes are currently $53 million above the February Plan, but $866.6 million, or 11 percent, below FY 01 for the first seven months. Better-than-expected collections for property taxes offset $251 million of the drop in non-property taxes, for a net drop of $615.5 million in total taxes. Property taxes have been increasing as a share of all City taxes. Property taxes accounted for 41 percent of the first seven months' collections in FY 00, 49 percent in FY 01, and 53 percent in FY 02.

Personal-income-tax revenues of $2.85 billion for the first seven months of FY 02 are 1.4 percent higher than planned, but 13.6 percent lower than collections for the same period in FY 01. The decline in PIT of $446.7 million accounts for 51.5 percent of the total drop in non-property taxes. PIT is beginning to account for a higher share of the drop in non-property taxes, which is a concern since PIT has been bringing in an increasing share of total and non-property tax revenues over time. (See Charts 5a and 5b.)

Chart 5a. *PIT, Business and Sales Taxes as a Fraction of the Cumulative Drop in Non-Property Taxes, Fiscal Year 2002*

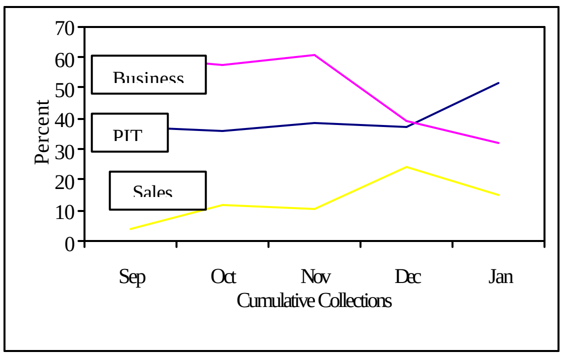
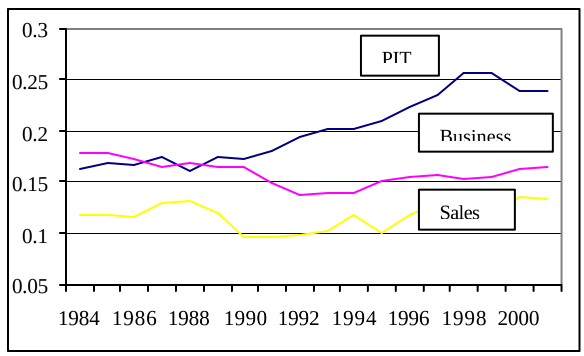


Chart 5b. PIT, Business and Sales Taxes as a Fraction of Total Taxes, 1984 to 2001



Source: Derived from data from OMB.

Business taxes as a group are also doing poorly because of the drop in earnings, 2 percent below Plan for the first seven months of FY 02 and 19 percent below FY 01 collections for the same period. The general corporation tax (GCT) is down 27.6 percent and the banking corporation tax (BCT) is down 25.8 percent. Both continue the negative trend since the start of FY 02. The unincorporated business tax (UBT) is up 3.2 percent, showing positive cumulative gains for the past two months.

Sales taxes are ahead of the February Plan by 2.3 percent, but below FY 01 collections for the first seven months by 6.3 percent. Cumulative growth has been negative since September, but collections for January are higher than January FY 01 by 20.9 million, the largest monthly gain since the beginning of FY 02.

Real-estate-related taxes. The mortgage recording tax (MRT) is the only non-property tax consistently doing well relative to FY 01. Monthly collections are above FY 01 for six of the past seven months and currently stand at 24 percent above FY 01 and 4.2 percent above the February Plan. Most of this is driven by refinancing activities as people take advantage of the drop in interest rates. The commercial rent tax (CRT) is also doing well, 0.7 percent above Plan and 4.6 percent above FY 01. The real property transfer tax (RPTT) is 4.8 percent below Plan and 10.7 percent below FY 01.

2. Forecasts

This section describes both the City and the Comptroller's Office tax-revenue forecasts.

a. City Tax-Revenue Forecasts

The City has not adjusted its forecasts much since the December 31 Plan. The first December Plan (December 4) lowered the June Adopted Budget forecasts by $1.1 billion, or 5.1 percent, for FY 02 and by $1.6 billion for FY 03, to adjust for the effect of the September 11 attack and the recession. The December 31 Modification made adjustments for the reinstated PIT surcharge and for better forecasts of FIRE-sector profits, raising forecasts by $332 million, or 1.6 percent, for FY 02 and by $397 million for FY 03. The February Plan further increases these forecasts by $24 million, or 0.1 percent, for FY 02 and by $35 million for FY 03. To date, the City has lowered tax-revenue projections by $759 million for FY 02 and $1.18 billion for FY 03 since the June Plan. The revisions are in non-property taxes. Overall, the most significant revisions are in sales taxes, followed by other taxes, PIT, and the business taxes. Other taxes reflect lowered forecasts for hotel occupancy and loss of $29.7 million in payments in lieu of taxes (PILOT) from the World Trade Center in FY 03. (See Table 11.)

Table 11. *City's Forecasts for Fiscal Years 2002 and 2003, $ millions*

	Dec4 Less June		**Dec31 Less Dec4**		**Feb Less Dec31**		**Total Change**	
	FY 02	**FY 03**	**FY 02**	**FY 03**	**FY 02**	**FY 03**	**FY 02**	**FY 03**
Non-Property	($1,115)	($1,614)	$322	$397	($24)	$113	($817)	($1,104)
Property	-	1	10	-	48	(78)	58	(77)
PIT	(305)	(592)	223	371	(107)	(72)	(189)	(293)
Business	(255)	(330)	61	10	82	138	(112)	(182)
GCT	(113)	(184)	46	5	-	86	(67)	(93)
BCT	(95)	(66)	-	-	49	-	(46)	(66)
UBT	(47)	(80)	15	5	33	52	1	(23)
Sales	(228)	(392)	32	12	(136)	(13)	(332)	(393)
CRT	(3)	2	-	-	14		11	2
MRT	(17)	(28)	3	2	73	40	59	66
RPTT	(74)	(70)	3	3	57	28	(14)	(39)
Utility	-	-	-	-	(5)	15	(5)	15
Other	(233)	(267)	-	(1)	(2)	(23)	(235)	(292)
Subtotal	**($1,115)**	**($1,613)**	**$332**	**$397**	**$24**	**$35**	**($759)**	**($1,181)**
STAR	(17)	52	-	-	(23)	(35)	(40)	17
Audit	(25)	-	-	-	-	-	(25)	-
HPD-PEG	10	-	(10)	-	5	2	5	2
Tax Program	100	200	-	-	-	-	100	200
TFA	44	(49)	-	-	42	(15)	86	(64)
Total	**($1,003)**	**($1,513)**	**$322**	**$397**	**$48**	**($14)**	**($633)**	**($1,128)**

Source: Data from OMB.

The City's outlook for year-over-year tax growth continues to reflect its view of NYC's economic future. Although it has modestly raised some of its economic forecasts, the City is still expecting a steep decline for 2002 and a sharp recovery in 2003. Tax revenue growth behaves in a similar manner, declining by 6.5 percent in 2002 and recovering to grow 3.7 percent in 2003, 6.1 percent in 2004, 5 percent in FY 05 and 5.3 percent in 2006. (See Table 12.)

Table 12. *City's Forecasts for Year-over-Year Tax Revenue Growth, Fiscal Years 2002 to 2006 and Actual Fiscal Year 2001, $ millions and Percent*

	FY 01	FY 02	Inc.	FY 03	Inc.	FY 04	Inc.	FY 05	Inc.	FY 06	Inc.
Non-Property	$14,600	$12,744	-12.7%	$13,217	3.7%	$14,126	6.9%	$14,903	5.5%	$15,785	5.9%
Property	8,156	8,536	4.7%	8,861	3.8%	9,290	4.8%	9,689	4.3%	10,105	4.3%
PIT	5,746	4,828	-16.0%	5,128	6.2%	5,567	8.6%	5,908	6.1%	6,285	6.4%
Business	2,979	2,524	-15.3%	2,596	2.9%	2,827	8.9%	3,009	6.4%	3,210	6.7%
GCT	1,735	1,408	-18.9%	1,420	0.9%	1,534	8.0%	1,639	6.8%	1,756	7.1%
BCT	424	313	-26.2%	343	9.6%	410	19.5%	435	6.1%	461	6.0%
UBT	820	803	-2.1%	833	3.7%	883	6.0%	935	5.9%	993	6.2%
Sales	3,662	3,378	-7.8%	3,506	3.8%	3,665	4.5%	3,817	4.1%	4,003	4.9%
CRT	377	367	-2.7%	371	1.1%	384	3.5%	402	4.7%	424	5.5%
MRT	407	399	-1.9%	364	-8.8%	374	2.7%	401	7.2%	431	7.5%
RPTT	473	404	-14.6%	404	0.0%	432	6.9%	467	8.1%	506	8.4%
Utility	300	271	-9.6%	280	3.3%	282	0.7%	285	1.1%	294	3.2%
Other	657	573	-12.7%	568	-0.9%	595	4.7%	614	3.3%	632	2.9%
Subtotal	**$22,756**	**$21,280**	**-6.5%**	**$22,078**	**3.7%**	**$23,416**	**6.1%**	**$24,592**	**5.0%**	**$25,890**	**5.3%**
STAR	504	632	25.4%	645	2.0%	694	7.6%	711	2.4%	760	6.9%
Audit	401	462	15.2%	427	-7.7%	427	0.0%	427	0.0%	427	0.0%
HPD-PEG	0	5		2	-67.0%	2	0.0%	2	0.0%	2	0.0%
Tax Program	0	0		0		0		0		0	
TFA	(414)	(416)	0.4%	(704)	69.2%	(899)	27.6%	(996)	10.9%	(1,024)	2.7%
Total	**$23,247**	**$21,963**	**-5.5%**	**$22,447**	**2.2%**	**$23,639**	**5.3%**	**$24,735**	**4.6%**	**$26,055**	**5.3%**

Source: OMB.

The City forecasts that real-estate taxes will grow 4.7 percent in FY 02, 3.8 percent in FY 03, 4.8 percent in FY 04, and 4.3 percent in FYs 05-06. Non-property taxes are projected to decline by 12.7 percent in FY 02, and then grow at the same rate as property taxes for FY 03, and eventually outpacing property tax growth for the out-years. All tax groups show positive growth beyond FY 02, except MRT for FY 03.

b. Comptroller's Office Tax Forecasts

Real estate taxes. The outlook for real-estate taxes continues to be good, with an average projected growth of more than four percent through FY 06. Despite the September 11 attack, the tentative assessment roll for 2003 anticipates that overall City property values will rise for FY 03, in spite of the loss in market values in lower Manhattan. The value of midtown primary office space, apartment buildings and one, two, and three-family homes continues to grow at an increasing rate. The overall rate of increase of assessed values has slowed because of the drop in market values in lower Manhattan and for hotels. Because of the stored past excess assessed values of class 2 and 4 properties that could not be implemented because of the five-year phase-in rule, the billable assessed value, on which the tax levy is based, continues to grow faster in 2003 than in 2002. For the first time in six years the growth in the billable assessed value exceeds the assessed value because the growth rate of assessed value slowed for 2003. With the economy expected to recover in 2003 and the worst of the September 11 attack over by 2003, tourism and lower Manhattan should recover by 2004. Lost market values should recover by then and continue to grow. (See Table 13.)

Table 13. *Tax Revenues, Comptroller's Office Forecasts for Fiscal Years 2002 to 2006 and Actual Fiscal Year 2001, $ millions and Percent*

	FY 01	FY 02	Inc.	FY 03	Inc.	FY 04	Inc.	FY 05	Inc.	FY 06	Inc.
Non-property	$14,600	$13,037	-10.7%	$13,499	3.5%	$14,311	6.0%	$15,070	5.3%	$15,837	5.1%
Property	8,156	8,536	4.7%	8,906	4.3%	9,334	4.8%	9,801	5.0%	10,240	4.5%
PIT	5,746	4,913	-14.5%	5,206	6.0%	5,595	7.5%	5,930	6.0%	6,227	5.0%
Business	2,979	2,528	-15.1%	2,623	3.7%	2,849	8.6%	3,047	7.0%	3,243	6.4%
GCT	1,735	1,371	-21.0%	1,399	2.0%	1,539	10.0%	1,662	8.0%	1,762	6.0%
BCT	424	313	-26.2%	329	5.0%	378	15.1%	416	9.9%	485	16.5%
UBT	820	845	3.0%	896	6.1%	932	4.0%	969	4.0%	997	2.9%
Sales	3,662	3,443	-6.0%	3,564	3.5%	3,728	4.6%	3,848	3.2%	4,040	5.0%
CRT	377	391	3.5%	396	1.3%	398	0.6%	410	3.0%	415	1.1%
MRT	407	469	15.2%	387	-17.4%	379	-2.0%	409	8.0%	435	6.3%
RPTT	473	426	-10.1%	421	-1.1%	418	-0.6%	454	8.6%	482	6.0%
Utility	300	310	3.3%	319	3.1%	325	1.9%	330	1.4%	335	1.5%
Other	657	559	-14.9%	584	4.4%	617	5.8%	641	3.9%	661	3.0%
Subtotal	**$22,756**	**$21,573**	**-5.2%**	**$22,406**	**3.9%**	**$23,644**	**5.5%**	**$24,871**	**5.2%**	**$26,077**	**4.8%**
STAR	504	632	25.4%	645	2.0%	694	7.6%	711	2.4%	760	6.9%
Audit	401	462	15.2%	427	-7.7%	427	0.0%	427	0.0%	427	0.0%
HPD-PEG	-	5		2	-67.0%	2	0.0%	2	0.0%	2	0.0%
Tax Program	-	-		-		-		-		-	
TFA	(414)	(416)	0.4%	(704)	69.2%	(899)	27.6%	(996)	10.9%	(1,024)	2.7%
Total	**$23,247**	**$22,257**	**-4.3%**	**$22,775**	**2.3%**	**$23,868**	**4.8%**	**$25,013**	**4.8%**	**$26,241**	**4.9%**

Source: NYC Comptroller's Office.

Non-property taxes. Non-property taxes are expected to decline 10.7 percent in FY 02, less than the City's expected decline of 12.7 percent. This reflects the differences in outlook of the City's recession. The City projects a sharp recovery for 2003, with non-property taxes quickly rebounding from their decline of 12.7 percent to grow 3.7 percent in 2003. The Comptroller's Office continues to expect slower recovery in non-property taxes, projecting a decline of 10.7 percent in FY 02, and a growth of 3.5 percent in 2003.

PIT. PIT has been growing poorly since the latter part of FY 01. Both the City and Comptroller's Office expect double-digit PIT decline for FY 02. Collections for February are down 14.4 percent and are not expected to improve much through the end of FY 02. Payroll jobs fell a record 88,900 in the last quarter of calendar year 2001. Although the rate of decline of job loss fell in January, no significant improvement is expected. Wage rate growth, used as an index of pressure on the labor market, is expected to grow only one percent in FY 02. Job losses continue to be significant in the high-wage FIRE and business-service sectors. Wall Street bonuses are expected to stay low because of weak equity markets. Hence, withholdings are expected to continue their persistent slide. Estimated payments will also continue to be weak, as equity-market under performance will result in poorer capital-gains recognition, especially with the Enron debacle expected to have far-reaching effects. Estimated payments for January were down 39.6 percent. Numerically this was a big drop, $144 million, as December/January is usually a big month for estimated payments, up to 50 percent of total collections for the year. There are small hopeful signs as the Comptroller's Alley 20 Index, which measures equity movements in the dot-com sector, has been showing signs of recovery since September. The dot-com sector was an important source of job creation for NYC in the late 1990s.

Business taxes. Business taxes are expected to decline 15.1 percent. The biggest tax, GCT, is expected to account for $364 million of the anticipated $451 million drop in business taxes. GCT is driven by FIRE-sector performance that has been very weak compared with other sectors of the City's economy. For cumulative collections through December, the FIRE sector accounted for 30 percent of GCT collections in FY 01 compared with only 15 percent for FY 02. Cumulative collections through December FY 02 for the FIRE sector are down 47 percent from the previous year. This drop is the biggest of all the component sectors of GCT, i.e., manufacturing, services, information, trade, and other. The Comptroller's Office is projecting weaker performance for GCT in FY 02 than the City. UBT has shown surprising resilience in the face of the recession. Collections through January are 3.2 percent above FY 01. For collections through December, all component sectors except finance were doing better than in FY 01. Sectors such as construction, trade, and services provided by unincorporated businesses, have been experiencing positive job growth. Positive growth is projected for UBT for FY 02 and beyond. BCT, though showing positive growth for the past two months, is down 25.8 percent as of January and is not expected to improve, especially if interest rates rise. The Comptroller's Office agrees with the City's expected decline of 26 percent for FY 02, but projects slower recovery for the out-years.

Sales taxes. The trend for sales-tax growth has been weakening for FY 02, down 6.3 percent as of January. Employment in retail trade is below FY 01 since October. Consumer spending will continue to be constrained by losses from the stock market, high consumer debt and weak personal-income and jobs growth; and tourism is not expected to pick up much before the summer. Sales-tax revenues are projected to decline 6 percent for FY 02, which is a more positive projection than the City's decline of 7.8 percent. Recovery is projected for the out-years of the Plan.

Real estate related taxes. In spite of a rise in vacancy rates, a drop in asking rents and legislation reducing the base for CRT taxes (CRT is significantly lower than common-rate-and-base CRT), actual CRT collections are above FY 01 collections for the last four months. Unlike the City, the Comptroller's Office is projecting positive, but weak growth for CRT. Because of lower interest rates, MRT is up 24 percent over FY 01. Interest rates are not expected to rise fast enough to offset these gains and growth for FY 02 is expected to be 15 percent, much better than the City's projected decline of 1.9 percent. RPTT will decline until FY 04.

Utility and other taxes. Utility taxes are expected to grow positively. Deregulation has not fostered as much competition and price cuts as previously anticipated, thereby improving profit forecasts. Other taxes are projected to decline 15 percent, largely because of a reduction in the volume of tourism, but are expected to recover in FY 03 even without the bulk of the PILOT payments from the World Trade Center.

c. Comptroller's Outlook

The Comptroller’s Office is projecting revenues that are higher than the City's projections by $293 million in FY 02, $327 million in FY 03, $229 million in FY 04, $278 million in FY 05, and $186 million in FY 06. (See Table 14.)

Table 14. *Comparison of Tax-Revenue Forecasts for Fiscal Years 2002 to 2006, Comptroller vs. City, $ millions*

	FY 02	**FY 03**	**FY 04**	**FY 05**	**FY 05**
	Inc.	**Inc.**	**Inc.**	**Inc.**	**Inc.**
Non-property	$293	$282	$185	$167	$52
Property	0	45	44	112	135
PIT	85	78	28	22	(59)
Business	4	27	22	38	33
GCT	(37)	(21)	5	23	6
BCT	-	(14)	(32)	(19)	24
UBT	42	63	49	34	4
Sales	65	58	63	31	37
CRT	24	25	14	8	(9)
MRT	70	23	5	8	4
RPTT	22	17	(14)	(13)	(24)
Utility	39	39	43	45	41
Other	(15)	15	23	27	29
Subtotal	**$293**	**$327**	**$229**	**$278**	**$186**
STAR	-	-	-	-	-
Audit	-	-	-	-	-
HPD-PEG	-	-	-	-	-
Tax Program	-	-	-	-	-
TFA	-	-	-	-	-
Total	**$293**	**$327**	**$229**	**$278**	**$ 186**

Source: OMB and the NYC Comptroller’s Office.

B. Miscellaneous Revenues

The City’s current projection of non-tax miscellaneous revenues is $3.186 billion in FY 02, $3.138 billion in FY 03, $3.186 billion in FY 04, $2.885 billion in FY 05, and $2.656 billion in FY 06. The projections of non-tax miscellaneous revenues increased by $98 million in FY 02, $140 million in FY 03, $339 million in FY 04, $99 million in FY 05, and $100 million in FY 06 over the projections in the December Plan. The increase in FY 02 reflects $241 million in WTC-related resources from the sale of TFA debt. This is partly offset by the postponement to FY 03 of the receipt of $150 million in proceeds from TSASC, Inc. bonds as reimbursement for costs associated with the closure of landfills.

The projection for FY 03 reflects the receipts of $100 million from the sale of tax benefits and $81 million in higher emergency 911 revenues and surcharges. The forecast also reflects the postponement from FY 03 to FY 04 of the sale of the Off-Track Betting Corporation (OTB) for $250 million. The increase in revenues in FY 04 is mainly attributable to the proposed sale of OTB and higher emergency 911 revenues, which also account for the increases in FYs 05 and 06.

These projections contain some risks. The City may not realize the full value from the sale of a number of real-property assets and mortgage sales in FY 02, the projections of rental revenue for JFK and LaGuardia airports may be overstated by as much as $182 million in FY 03, $327 million in FY 04, $292 million in FY 05, and $47 million in FY 06, the sale of OTB may not be accomplished in FY 04, and the State may not approve additional emergency 911 revenues.

1. Airport Rents

The City projects to collect rental income of $11.3 million in FY 02 from the Port Authority (PA) for JFK and LaGuardia airports. Following the WTC attack, the PA collected lower airport revenues in CY 2001 as the number of travelers declined nationwide. The amount of rent paid to the City is greatly influenced by the revenues collected by the PA for the airports. The PA has communicated to the City that it is possible that the PA may have overpaid the City during FY 02 and may request a credit against future rental payments to the City. If airport revenues continue to decline in CY 2002, the City may have to lower its rental revenue projection for FY 03 and the out-years.

As in the past, the February Plan includes the receipt of back-rental claims against the PA and an increase in annual rent for JFK and LaGuardia airports of $185 million in FY 03, $330 million in FY 04, $295 million in FY 05, and $50 million in FY 06. The issue of back-rental claims and the renegotiations of new leases for the airports are currently before an arbitration panel. The City's projections are based on the inclusion of passenger-facility charges (PFCs), which total approximately $120 million annually, as revenues when calculating rent. However, the PA, supported by the Federal Aviation Administration, has maintained that PFCs are dedicated for improvements at the airports and cannot be included as revenues when calculating rental payments to the City. Furthermore, the City anticipates collecting higher rental revenue from the PA after the renegotiation of new leases. Unless substantial progress is made to resolve these issues, the City is unlikely to collect the amounts projected for prior-year rental claims and annual rent for JFK and LaGuardia airports.

2. Asset Sales

Revenues projected from the sale of certain assets and other actions may not be realized during FYs 02 and 03 because many of these sections may not be completed in the time frame expected by the City.

- The Housing and Preservation Department (HPD) expects to collect $68 million in FY 02, $44 million in FY 03, and $19 million in FY 04. Most of these revenues will be generated from the sale of two parking lots at Cooper Square (about $13.5 million in each of FYs 02 to 04), funding from the Housing Development Corporation ($24 million in FY 02), the settlement of Bedford Gardens Mortgages ($18 million in FY 02), and surplus cash from a Mitchell-Lama development ($16 million in FY 03).

- The City expects to receive $199 million in FY 02 from the sale of mortgages and real properties, including $40 million from the sale of 1, 2, and 3 United Nations Plaza, $35 million in Metrotech leases, $28 million from the sale of mortgages, $21 million from the sale of the Queens Plaza garage, $19 million in capital funding, and $15 million from the sale of land at Battery Park City. Although the City has done similar transactions previously, it is possible that these transactions may not all be completed in FY 02.

- The transaction involving the sale of the OTB for $250 million requires approval by the State. The City has postponed the privatization of the management of operations of OTB until FY 04. Although the City had selected a potential candidate to acquire OTB at the beginning of FY 02, the Mayor has recently indicated that it is uncertain whether the City will privatize OTB.

3. Interest Income

The February Plan projects interest revenues of $57 million in FY 02, $54 million in FY 03, $87 million in FY 04, $91 million in FY 05, and $91 million in FY 06 from the overnight investment of cash balances. Since the FY 02 Adopted Budget, the City has lowered its projections of interest revenues by $60 million in FY 02, $48 million in FY 03, $16 million in FY 04, and $14 million in FY 05. The lower projections result mainly from the recent drop in interest rates and the anticipation that cash balances would be lower than previously projected. Cash balances have averaged $2.3 billion during the first seven months of FY 02. However, in recent months the cash balances have increased to similar levels as in previous fiscal years. In January, cash balances averaged $3.6 billion, slightly higher than the projected average balance of $3.5 billion. Through January, the City earned interest revenues of $41 million, $7 million higher than Plan, but $19 million lower than collected during the same period in FY 01.

4. Increased Revenues from Emergency-911

The February Plan includes two actions, that require State approval. They would increase revenues collected by the City from the E-911 surcharge on non-cellular and wireless telephones. The City proposes increasing by 65 cents the surcharge currently charged on non-cellular telephones to $1.00. This will result in additional revenues of $35 million annually. In addition, the City anticipates receiving a more equitable share of the surcharge revenues collected by New York State on wireless telephones. The State currently collects in excess of $60 million from this surcharge. The City contends that a more equitable distribution of this revenue will result in additional revenues of $10 million to the City annually.

5. Parking-Violation Fine Increase

The City anticipates increased revenues from parking violation fines beginning in FY 03 for stopping and standing violations. Presently, the fine for such violations is $55. Under the current proposal, the fines for such violations will range from $80 to $100 depending on the location of the traffic violation. For example, parking next to a fire hydrant will result in a fine of $100. This proposal, which could result in increased revenues of approximately $62 million in FY 03, requires the State's approval.

C. Federal and State Aid

The City has put forth an ambitious package for Federal and State assistance to help close the gap in the Preliminary Budget. The City's proposal for Federal and State budget relief is one of the largest both in size and scope, amounting to approximately $2.09 billion in FY 03 and averaging about $1.75 billion in each of FYs 04-06. Under this proposal, the City expects to receive additional Federal and State assistance of $800 million in FY 03 and $500 million in each of FYs 04-06. (See Table 15.)

The City's current proposal can be divided into two major types of actions. The first set of actions are fiscal relief initiatives that require no additional resources from the Federal and State governments (i.e., No-Cost Proposals), totaling about $1.37 billion in FY 03 and ranging between $815 million and $1.03 billion in each of FYs 04-06. The second set of actions are proposals that require funding restorations or additional appropriations from the Federal and State governments (i.e. Other Actions), totaling $713 million in FY 03 and ranging between $759 million and $853 million in each of FYs 04-06.

Similar to prior City proposals in recent years, its current package of Federal and State actions includes many actions that may not occur. For instance, initiatives such as tort reform and a higher Federal Medicaid funding share have been proposed before without success. In the City's aid package, the proposals with the best chances of succeeding are debt-finance reform initiatives and increases in parking-violation fines, because they will create no additional costs for the Federal or State governments. The details of these initiatives are as follows:

Debt-Finance Reform:

<u>Federal Initiative</u> - The City seeks to increase the number of advance refundings of tax-exempt debt from allowable under the Federal Internal Revenue Code. This change would allow the City to take advantage of the current low-interest-rate environment, with debt-service savings of $150 million expected in FY 03.

Table 15. *Federal and State Agenda, February 2002, $ millions*

	FY 03	FY 04	FY 05	FY 06
Federal Initiatives				
No-Cost Proposals				
Debt Finance Reform	$150	$ 0	$ 0	$ 0
Flexible Use of Hazard Mitigation Grant	150	100	100	0
TANF MOE Mandate Relief	40	10	10	10
Flexible Use of CD Block Grant	20	20	20	0
Federalization of Public Housing Units	20	20	20	20
Subtotal No-Cost Proposals	$380	$150	$150	$ 30
Other Actions				
Fair Share of Homeland Security Funds	$200	$200	$200	$200
Federal Medicaid Funding Share Increase	146	202	210	218
Protection of Foreign Dignitaries	80	50	54	59
Subtotal Other Actions	$426	$452	$464	$477
Total Federal Initiatives	$806	$602	$614	$507
State Initiatives				
No-Cost Proposals				
Cigarette Tax Increase	$249	$246	$244	$241
Refinancing Pension Liabilities*	286	207	240	151
Early Retirement*	100	100	100	100
Debt Finance Reform	100	25	25	25
Tort Reform	100	100	100	100
Parking Violations Fine Increase	62	83	83	83
Flexible Use of Child Care Funding	50	50	50	50
Bond Act for Municipal Recycling	10	0	0	0
E-911 Land-Line Surcharge*	35	35	35	35
Subtotal No-Cost Proposals	$992	$846	$877	$785
Other Actions				
Restoration of Recent Budget Cuts	$215	$215	$215	$215
Equity in Correctional Reimbursement	34	68	101	135
Federal Disaster Administration Fee	15	0	0	0
Foster Care Reimbursement Cap Increase	13	13	13	13
Fair Share of Wireless E-911 Surcharge	10	11	12	13
Subtotal Other Actions	$287	$307	$341	$376
Total State Initiatives	$1,279	$1,153	$1,218	$1,161
Total Federal and State Initiatives	$2,085	$1,755	$1,832	$1,668
Expected Additional Federal and State Assistance	*$800*	*$500*	*$500*	*$500*

*Resources from these initiatives are have already been included as revenues and savings in other components of the City's FY 03 Gap-Closing Program.

Source: NYC, Office of Management and Budget, February Plan, 2002.

State Initiative - The City proposes a change in the current law that would allow it to undertake certain refinancing mechanisms, which in turn would result in lower debt service because of low interest rates. Also, the City proposes the update of current amortization schedules to reflect the true useful life of certain projects.

The State initiative is expected to save the City $100 million in FY 03 and $25 million in each of FYs 04-06.

Parking Violation Fine Increases: The City proposes to raise the maximum fines for certain parking violations to generate additional revenues of $62 million in FY 03 and $83 million in each of FYs 04-06. According to the City, the fines for these violations have not been increased since 1995.

These actions are expected to provide additional revenues and savings totaling $312 million in FY 03, and $108 million in each of FYs 04-06. Thus, the City could fall short of its targets for additional Federal and State assistance by $488 million in FY 03 and $392 million in each of FYs 04-06. The City may also receive some portion of the proposed increase for its cigarette tax (from 8 cents per pack to $1.50 per pack). The State has enacted a 269 percent increase in its own cigarette tax over the past two years. It is therefore unlikely to grant the full increase that the City is proposing. However, the State may authorize a smaller increase than the City's current proposal of $1.50 per pack. The City has presented several proposals to raise revenues from surcharges placed on land-line and wireless phones. The City is seeking to increase the surcharge on all telephones lines to $1 from 35 cents to fund both the capital and the operating costs of the E-911 program. This proposal may gain approval from the State. The City is also hoping to collect from the State $10 million as its fair share of the E-911 surcharge on wireless telephones. This proposal is unlikely to gain approval from the State.

In past years, the State Legislature has not appropriated sufficient funds to pay for the State's share of education aid to the City. When that occurs, the City supplies the Board of Education with the necessary case and accounts for the revenue due from the State as a "prior-year receivable". The policy of the City Comptroller's Office is to write off these prior-year claims if they are aged ten years or more. Over the next four years, the City could face write-downs totaling $261 million. The State's 2001-02 budget included $33 million to pay for these claims.

To address this issue, the Governor has proposed that $204 million be borrowed through the Municipal Bond Bank with the proceeds paid to the City to settle several years worth of claims. Under the Governor's proposal, the ongoing state appropriation for prior-year claims will be utilized to pay the debt service on the newly issued bonds. The $204 million in funds from the bond sale will lessen the amount of additional prior-year claims write-off, and reduce an area of risk over the term of the financial plan. However, these funds cannot be recognized as current revenue, since they are reimbursement for monies already expended and accounted for by the City under Generally Accepted Accounting Principles.

V. EXPENDITURES

Expenditures are budgeted under two major areas—Personal Services (PS) and Other than Personal Services (OTPS). The February Plan for these two categories of expenditures is discussed below.

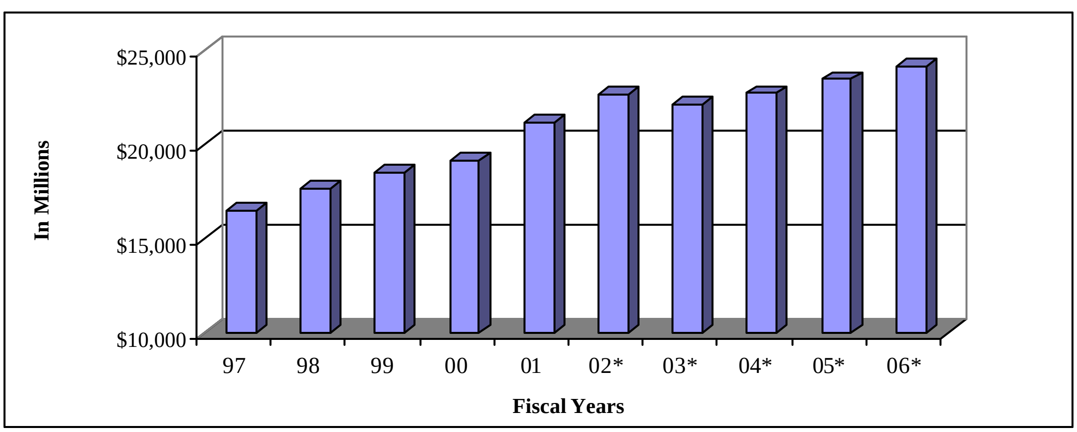
A. Personal Services

PS spending in FY 02 is projected to reach $23 billion, about $87 million more than projected in the Adopted Budget and approximately $1.5 billion more than in FY 01. The increase from FY 01 and FY 02 mainly reflects salary increases that have been either implemented or budgeted. However, the Preliminary Budget and February Plan include no provisions for wage settlements after FY 02. Therefore, projected PS spending in FYs 03-06 is mostly understated.

PS spending is projected at approximately $22.1 billion in FY 03, $22.7 billion in FY 04, $23.5 billion in FY 05, and $24.1 in FY 06. (See Chart 6.) PS spending may, however, be lower than projected in FY 02 if the many vacancies in City agencies remain unfilled.

The PS projections in the February Plan assume implementation of an early retirement/severance program in the last quarter of FY 02 and fringe benefit givebacks from the labor unions. The early retirement/severance program is expected to save the City $100 million a year beginning in FY 03. The fringe benefit cost reductions are projected to produce savings ranging from $500 million in FY 03 to $575 million in FY 06.

Chart 6. *NYC, Personal-Service Spending, $ millions, Fiscal Years 1997 to 2006*



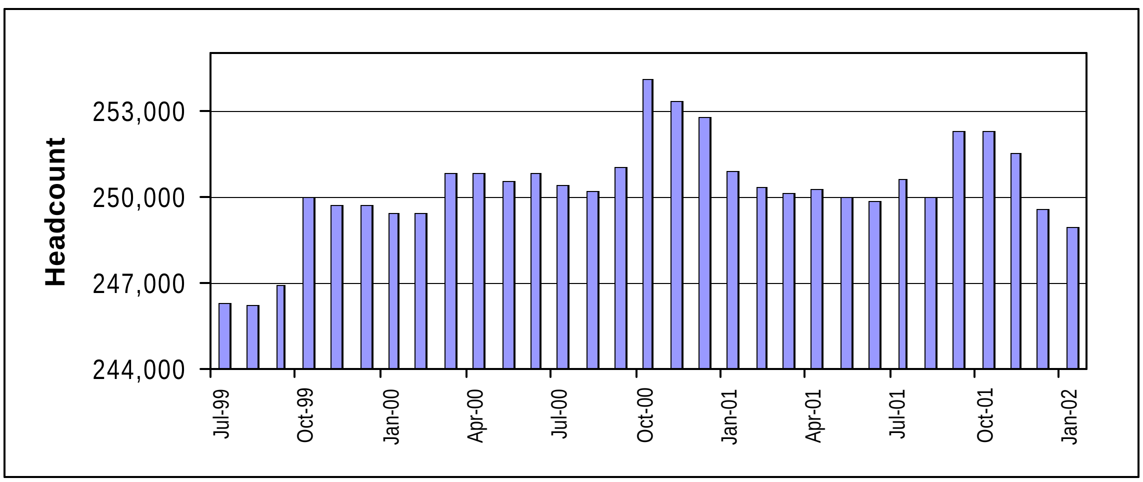
* Projections.
Sources: NYC Comptroller's Office, *Comprehensive Annual Financial Reports*, FYs 97-01, and Office of Management and Budget, February 2002 Plan and FY 03 Preliminary Budget.

1. Work Force

The City had 248,941 full-time employees on January 31, 2002. The February Plan projects that by June 30, 2002, the City's work force will increase by 3,985 to 252,926. The level of the work force is projected to grow to 250,227 on June 30, 2003 from the January 31 level of 248,941, and to remain basically flat thereafter. The City is likely to fall short of its planned target for FY 02, as well as for the out-years. This is likely for two reasons: first, over the past year the City has been unable to reach these targets; and, second, the City plans to implement an early retirement/severance program in the last quarter of FY 02. On June 30, 2001, the City's work force was 7,269 employees below the Plan.

The City's work force has been generally declining since the latter half of FY 01, after the City implemented its last early-retirement incentive program, which ended on December 29, 2000. From its peak of 254,079 employees on October 30, 2000, the work force level on January 31, 2002 was the lowest since October 1999. (See Chart 7.)

Chart 7. *Actuals, Monthly Full-Time Work Force, from July 1, 1999 through January 31, 2002*



Source: NYC Office of Management and Budget.

Work force reductions are expected in FY 03 in the uniformed segments of the Police, Corrections and Sanitation Departments, as well as in the civilian portion of the Departments of Transportation, Probation, Health and Mental Health. (Table 16.)

The Police Department is expected to reduce its uniformed headcount to 39,110 officers from the previous target of 41,440 officers, according to the February Plan. The City claims there will be no effect on patrol strength from this decline, since it plans to hire 660 civilians to release uniform officers on desk duty to patrol duty.

Table 16. *Full-Time Work Force, January 31, 2002 Compared with February Plan Forecasts*

Personnel	1/31/02 Actual Workforce **(1)**	6/30/02 February Plan **(2)**	Higher/ (Lower) Than Forecast **(3)=(2-1)**	6/30/03 Preliminary Budget **(4)**	Higher/ (Lower) Than 1/31/02 **(5)=(4-1)**
Police-Uniformed	38,120	37,898	222	36,878	1,242
Fire-Uniformed	11,065	10,844	221	11,156	(91)
Corrections-Uniformed	10,566	10,846	(280)	10,671	(105)
Sanitation-Uniformed	7,928	8,076	(148)	7,468	460
Subtotal, Uniformed	**67,679**	**67,664**	**15**	**66,173**	**(1,506)**
BOE, Instructional	94,413	94,595	(182)	94,595	(182)
CUNY, Instructional	2,256	2,302	(46)	2,302	(46)
Subtotal, Pedagogical	**96,669**	**96,897**	**(228)**	**96,897**	**228**
Police-Civilian	9,325	9,214	111	9,160	165
Fire-Civilian	4,413	4,489	(76)	4,472	(59)
Corrections-Civilian	1,556	1,823	(267)	1,820	(264)
Sanitation-Civilian	2,211	2,139	72	2,099	112
BOE, Non-Instructional	8,100	8,118	(18)	8,118	(18)
CUNY, Non-Inst.	1,571	1,362	209	1,385	186
Probation	1,566	1,786	(220)	1,489	77
Juvenile Justice	751	905	(154)	825	(74)
Health	2,925	3,485	(560)	3,395	(470)
Env. Protection	5,379	6,064	(685)	6,064	(685)
Transportation	3,957	4,318	(361)	3,994	(37)
Parks & Recreation	1,931	1,992	(61)	1,958	(27)
General Services	1,565	1,696	(131)	1,746	(181)
Child Services	7,290	7,346	(56)	7,613	(323)
Social Services	12,354	12,990	(636)	12,826	(472)
All Other Civilians	19,699	20,638	(939)	20,193	(494)
Subtotal, Civilian	**84,593**	**88,365**	**(3,772)**	**87,157**	**(2,564)**
Total	**248,941**	**252,926**	**(3,985)**	**250,227**	**(1,286)**

Sources: NYC, Office of Management and Budget, February Plan, 2002 and follow-up data.

2. Overtime

The City raised its projected FY 02 allocation for overtime in the February Plan to $1.037 billion, of which $541 million is categorized as related to activities for the WTC attack. Projected overtime not related to the WTC is projected to be $586 million, or $43 million more than in the Adopted Budget. However, given the current level of spending for overtime in the first seven months of FY 02, this additional appropriation may not be sufficient to cover overtime costs that is not related to WTC. If the trend in non-WTC-related overtime spending continues for the rest of FY 02, the City may spend a total of $772 million on overtime. This will exceed FY 01 levels by $35 million, when the City spent $737 million in overtime, the highest level ever recorded.

Table 17. *NYC Overtime Comparison (Reduced by WTC Adjustments) Fiscal Year 2002 through January 31, 2002 and Fiscal Year 2001 through January 31, 2001*

	FY 02 **(1)**	Related to WTC Attack FY 02 **(2)**	FY 02 Adjusted for WTC **(3)=(1-2)**	FY 01 **(4)**	FYs 02 vs. 01 Better/ Worse **(5)=(3-4)**	Percentage Change **(6)=(3)/(4)-1**
Personnel						
Uniformed:						
Police	$ 397.3	$ 227.7	$ 169.5	$ 179.0	$ 9.5	-5.3%
Fire	$ 120.0	$ 51.6	$ 68.3	$ 45.4	$ (22.9)	50.6%
Correction	$ 35.6	$ 3.1	$ 32.6	$ 24.6	$ (8.0)	32.3%
Sanitation	$ 40.9	$ 25.4	$ 15.5	$ 35.1	$ 19.6	-55.9%
Subtotal	$ 593.7	$ 307.8	$ 285.9	$ 284.1	$ (1.8)	-0.6%
Civilian:						
Police	$ 23.9	$ 6.8	$ 17.1	$ 15.9	$ (1.2)	7.5%
Fire	$ 18.3	$ 4.4	$ 13.9	$ 12.0	$ (1.8)	15.4%
Correction	$ 2.6	$ 0.0	$ 2.6	$ 2.6	$ 0.0	-1.5%
Sanitation	$ 6.2	$ 4.8	$ 1.4	$ 3.4	$ 2.0	-58.2%
Board of Education	$ 5.4	$ -	$ 5.4	$ 6.9	$ 1.5	-22.4%
Juvenile Justice	$ 2.3	$ -	$ 2.3	$ 2.4	$ 0.1	-2.6%
Env. Protection	$ 14.2	$ 1.5	$ 12.7	$ 12.2	$ (0.5)	4.2%
Health	$ 5.9	$ 1.7	$ 4.2	$ 2.1	$ (2.0)	95.4%
Transportation	$ 23.1	$ 5.2	$ 17.8	$ 16.0	$ (1.8)	11.3%
Parks & Recreation	$ 2.6	$ 0.2	$ 2.4	$ 2.4	$ 0.1	-2.1%
General Services	$ 4.0	$ 1.2	$ 2.8	$ 2.3	$ (0.5)	20.9%
Agency for Child Svcs.	$ 16.0	$ -	$ 16.0	$ 12.7	$ (3.2)	25.4%
Social Services	$ 13.8	$ 0.3	$ 13.5	$ 11.0	$ (2.5)	22.8%
All Other Civilians	$ 20.0	$ 3.6	$ 16.3	$ 15.4	$ (0.9)	6.1%
Subtotal	$ 158.3	$ 29.8	$ 128.5	$ 117.6	$ (10.9)	9.3%
Total	**$ 752.0**	**$ 337.6**	**$ 414.4**	**$ 401.7**	**$ (12.7)**	3.2%

Source: NYC Comptroller's Office. All FY 01 and FY 02 figures are year-to-date numbers.

The City paid $752 million in overtime from July 1, 2001 through January 31, 2002, which is $350 million or 53 percent more than the same period in FY 01. But a substantial part of the increase, about $338 million, was attributable to the WTC attack, which necessitated heightened security measures and enormous efforts in rescue, recovery and clean-up. When adjusted for costs related to WTC, overtime paid through January 31, 2002 was still $12.7 million higher than the same period in FY 01. (Table 17.) The incidence of WTC-related overtime for the months of December 2001 and January 2002 has begun to slow, compared with prior months. Although the City may still incur overtime related to the WTC activities throughout the remainder of the fiscal year, it is expected to be at lesser amounts than in the first half of the FY 02.

While overtime for uniform personnel that is not related to WTC decreased for Police and Sanitation by $9.4 million and $19.6 million respectively from the same period in FY 01, it increased by $22.9 million for Fire and $8 million for Correction.

Police overtime in FY 02 is lower for several reasons including, higher overtime was incurred in FY 01 to provide security for certain special events like the United

Nations Millennium Summit and Operation Sail. The increase in overtime spending for uniformed Firefighters is mainly attributed to a greater need for coverage in firehouses after the loss of 343 firefighters in the WTC attack and emergencies like the plane crash in Belle Harbor, Queens in November 2001.

The City historically under-budgets overtime in an effort to curb spending, particularly in the uniformed agencies. The City adjusts its budget and raises overtime appropriations during the fiscal year to cover the cost for actual overtime expenditures paid to employees.

3. Pensions

The FY 03 Preliminary Budget and Financial Plan projects that the City's contributions to the five actuarial pension systems will be $1.565 billion in FY 02, $1.946 billion in FY 03, $2.218 billion in FY 04, $2.521 billion in FY 05, and $2.973 billion in FY 06. These estimates represent contribution increases from the December Plan of $34 million in FY 02, $24 million in FY 03, $10 million in FYs 04 and 05, and $15 million in FY 06. The increases were the net effect of some benefit improvements enacted by the State Legislature and cost re-estimates, offset partially by savings from reduced headcount projections.

The City has proposed several actions to reduce large looming budget gaps in the February Plan, at least three of which would affect the pension contributions projected above:

- To reduce the number of employees,[1] the City has proposed an early retirement/severance incentive program, the details of which are still evolving. The City proposes to structure a program that will give one month of additional service credit for each year of service and remove penalties for those who have not reached retirement age. The program will be offered only to specific titles. While saving money overall, the program will increase future pension costs. The cost impact of the proposed early retirement incentive and the number of participants are uncertain at this point. The City projects a net PS cost savings of $100 million in each of FYs 03-06 from this action.

- The City expects to achieve savings of $500 million in FY 03, $525 million in FY 04, and $550 million in FY 05 from fringe-benefit cost reductions. Part of this $500 million is a proposal to change the phase-in period of the impact of the Cost of Living Allowance expenditures, enacted by Chapter 125 of the Laws of 2000, from five to ten years. This refinancing of pension liabilities, or deferral of costs, will require State legislation and, according to the City will save $276 million in FY 03, $198 million in FY 04, $233 million in FY 05, and $149 million in FY 06.

[1] Please see the Work Force section in this report for additional comments.

- Another proposal by the City that could also be included in the unions' $500 million savings is the refinancing of the Unfunded Accrued Actuarial Liability (UAAL) for the Fire Department Pension Fund. This UAAL is scheduled to be fully paid by FY 10 as part of the City's annual pension cost. The current proposal would extend that payment schedule by another ten years to FY 20. The proposal would defer pension costs of $79 million (between $7.8 million to $9.8 million a year) from FY 02 through FY 10. This deferral would result in pension cost increases of $164 million (between $14.3 million and $18.6 million a year) in FY 11 through FY 20.

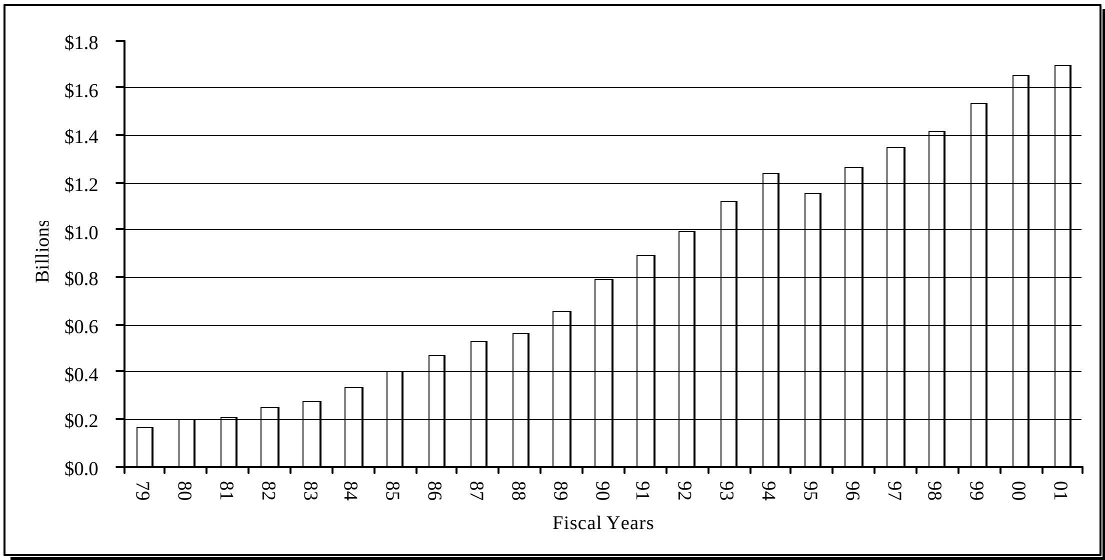
The City's pension contributions from FY 03 will also change depending on pension investments earnings during FY 02. The February Plan projections assume that pension investments will earn 8.0 percent every fiscal year. Consequently, pension contributions in FYs 03-06 could increase further if investment returns in FYs 02-05 are below the 8.0 percent assumption, or could decrease if investment returns are higher than 8.0 percent. For example, for each percentage point difference between the actual FY 02 investment return and 8.0 percent, the City's pension costs will differ approximately by $7 million in FY 03, $18 million in FY 04, $33 million in FY 05, $51 million in FY 06, and $72 million in FY 07. Pension fund investments have lost about 4.3 percent thus far in FY 02, i.e., through February 28, 2002.

4. Health Insurance Expenditures

The City pays for health benefits for its employees and retirees at three different rates: individual, family, and a separate rate for retirees who are also covered by Medicare. The premiums at which the City pays for individual and family coverage to insurance carriers are determined by the rates paid to the Health Insurance Plan of New York (HIP) for individual and family coverage. The premium for those retirees who are also covered by Medicare is determined by the Group Health Insurance Senior Care Rate. These rates are then paid to all insurance carriers who provide coverage to City employees and retirees. If any insurance carrier wants to charge a higher premium, the employee electing the plan has to pay the difference.[2]

[2] Group Health Insurance (GHI) is the only exception. If GHI's premium rates for individual and family coverage are higher than the HIP rate in a particular year, the costs are not passed on to City employees or retirees but the excess costs are paid from a stabilization fund. Under an arrangement with the unions, the City pays an amount ($35 million originally scheduled in FY02) each year into the stabilization fund.

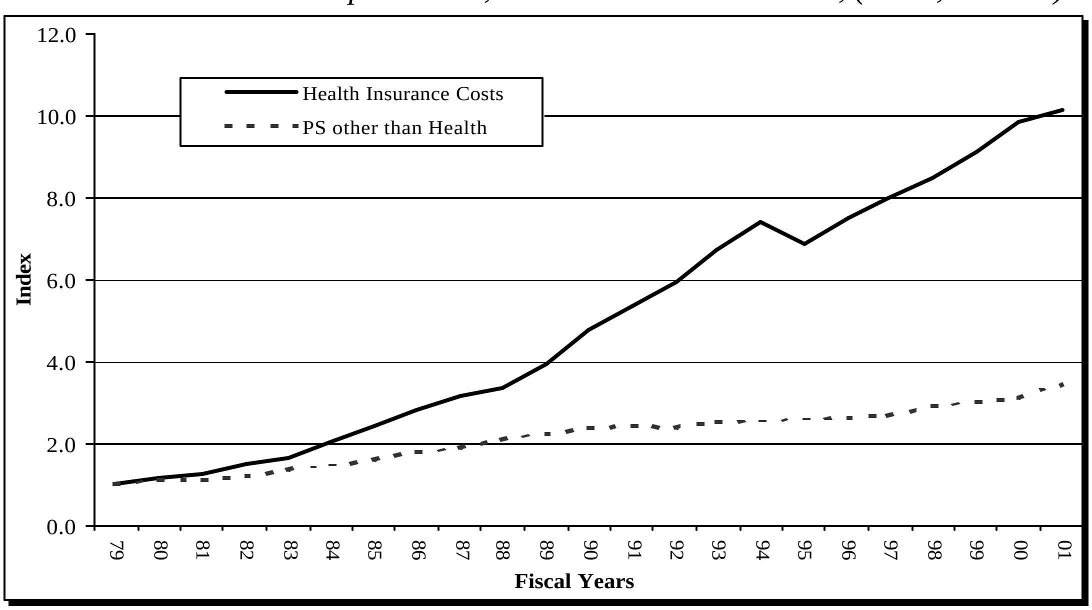
Chart 8. *The City's Health-Insurance Costs, Fiscal Years 1979 to 2005, $ billions*



* Costs depicted in FY 02 and beyond are projections in the FY 03 February Plan.
Source: FYs 79 to 01, Comprehensive Annual Financial Report of the Comptroller, FYs 02 to 06, FY 03 Preliminary Budget and Financial Plan (February Plan). The data include health-insurance costs for the Board of Education.

The City's health insurance costs have been increasing steeply over the last two decades. (See Chart 9.) Health insurance costs have been increasing at a higher rate than

Chart 9. *Growth of the City's Health Insurance Expenditures vs. Growth of Other Personal-Services Expenditures, Fiscal Years 1979 to 2005, (Index, 1979=1)*



* Costs depicted in FY 02 and beyond are projections in the FY 03 February Plan.
Source: Index derived by the Comptroller's Office from data obtained from the Comprehensive Annual Financial Report of the Comptroller; FYs 79-01, and from the FY 03 Preliminary Budget and Financial Plan for FYs 02-06. The data include health-insurance costs for the Board of Education.

other personal-services expenditures over the last 20 years.

The February Plan anticipates that the City's expenditure for employees' and retirees' health insurance coverage, excluding the Board of Education and Community Colleges, will be $1.274 billion in FY 02, $1.323 billion in FY 03, $1.465 billion in FY 04, $1.720 billion in FY 05 and $1.893 billion in FY 06. These reflect increases in the HIP rate of 11.8 percent in FY 02, 8.46 percent in FY 03 and 8.0 percent per year thereafter. Since the FY 02 Adopted Budget had anticipated that the HIP rates would grow at 4.0 percent annually from last year, the February Plan has added $80 million in FY 02, $134 million in FY 03, $186 million in FY 04, $250 million in FY 05 and $328 million in FY 06 for additional health insurance costs.

5. Labor Reserve

The City reserves funding for wage increases for all non-managerial personnel in two budget lines – the general Labor Reserve and the BOE Labor Reserve. In the February Plan, the general Labor Reserve is $375 million in FY 02, $490 million in FY 03, $479 million in FY 04, $481 million in FY 05, and $484 million in FY 06. The balances in the labor reserves represent funding for employees of unions that have not agreed on a wage settlement for the FY 00-02 period. The City assumes no wage increases for any employee beyond FY 02. The BOE Labor Reserve includes funds of $381 million in FY 02, $472 million in FY 03, and $485 million in each of FYs 04 to 06. The funds in both labor reserves are primarily for anticipated wage increases for all other City employees in line with the settlement agreed to by District Council (DC 37) and the Uniformed Forces Coalition (UFC). DC 37, the largest union, and several other unions representing the civilian portion of the work force agreed on a settlement providing wage and benefit increases of 9.26 percent to employees over the 27 months ending June 30, 2002. The UFC, which represents 13 police, fire, correction, and sanitation unions, agreed on a settlement over a 30-month period providing wage and benefit increases of 11.9 percent ending at varying times in FY 03.

The United Federation of Teachers (UFT), the Police Benevolent Association (PBA), and the Detectives Endowment Association (DEA) have not yet reached settlements with the City. Also, the Uniformed Firefighters Association (UFA) has not yet ratified the settlement negotiated by the UFC. These unions are seeking wage increases higher than those increases agreed to by DC 37 and the UFC. Membership of these unions is seeking parity in wages with employees in the City's surrounding counties. Every percentage-point wage increase above that projected by the City for these unions will cost approximately $19 million for police officers, $56 million for teachers, and $6 million for firefighters.

Note that the Labor Reserve does not contain any funding for wage increases that may be negotiated in FYs 03-06. The February Plan includes salaries and wages for all employees of $15.685 billion in FY 03, $15.751 billion in FY 04, $15.818 billion in FY 05, and $15.8 billion in FY 06. If all City employees were to receive wage increases equal to the projected growth in the consumer price index between FY 03 and FY 06, additional funding would be required above recommended appropriations in the Preliminary Budget and February Plan of $227 million in FY 03, $697 million in FY 04, $1.233 billion in FY 05, and $1.749 billion in FY 06.

B. Other-Than-Personal Services

Other-Than-Personal Services (OTPS) expenditures, excluding debt service, are projected to total $18.878 billion in FY 02, $18.278 billion in FY 03, $18.620 billion in FY 04, $18.898 billion in FY 05, and $19.224 billion in FY 06. In FY 02, projected OTPS expenditures have risen by $1.361 billion since the Adopted Budget in June and by $283 million since the December Plan.

1. Judgments and Claims

Judgments and claims (J&C) expenditures in the February Plan, including Health and Hospital Corporation (HHC) judgments and claims, are projected to total $563 million in FY 02, $588 million in FY 03, $618 million in FY 04, $651 million in FY 05, and $686 million in FY 06. These projections reflect an increase of $100 million in FY 02, $105 million in FY 03, $110 million in FY 04, $115 million in FY 05, and $120 million in FY 06 above recommended appropriations in the December Plan, mainly to fund settlements against the City for $1 million or more.

The City and HHC have reached an agreement whereby the City will fund debt-service costs related to the construction and rehabilitation of HHC facilities, in return for HHC's indemnifying the City for all J&C costs incurred at its facilities. Projections of J&C expenditures for HHC to be absorbed by the City's budget were reduced in the February Plan by $154 million in FY 02, $169 million in FY 03, $178 million in FY 04, $183 million in FY 05, and $188 million in FY 06. HHC will fund these projected amounts from its operating budget.

During the first seven months of FY 02, the City settled 5,148 tort (personal-injury and property-damage) claims, about 21.9 percent fewer than the same period in FY 01 and 12.6 percent fewer than in FY 00. The cost to resolve these claims was $265.7 million, an average cost per claim of $51,615. The total cost is 5.1 percent above the first seven months of FY 01 and 26.3 percent above the same period in FY 00. (See Table 18.) This increase in the cost per claim resulted mainly from a growth of almost 43 percent in the cost of claims of $1 million or more over the same period in FY 01. Between July and January of FY 02, 44 claims for $1 million or more were resolved at a cost of $135.3 million, up from 43 cases in FY 01 costing $94.8 million.

Since the number of claims settled has declined in FY 02, the increase in the average cost to resolve personal injury (PI) claims continues to fuel the growth in J&C costs. The City resolved 3,646 PI cases during the first seven months of FY 02, which is 25.9 percent below the 4,922 cases resolved during the same period of FY 01. However, the cost to resolve these PI cases was $258.8 million, 4.2 percent more than for the first seven months of FY 01 and 26.7 percent more than the same period in FY 00. The average cost to resolve PI claims, therefore, rose to $70,980 in FY 02 from $50,471 in FY 01.

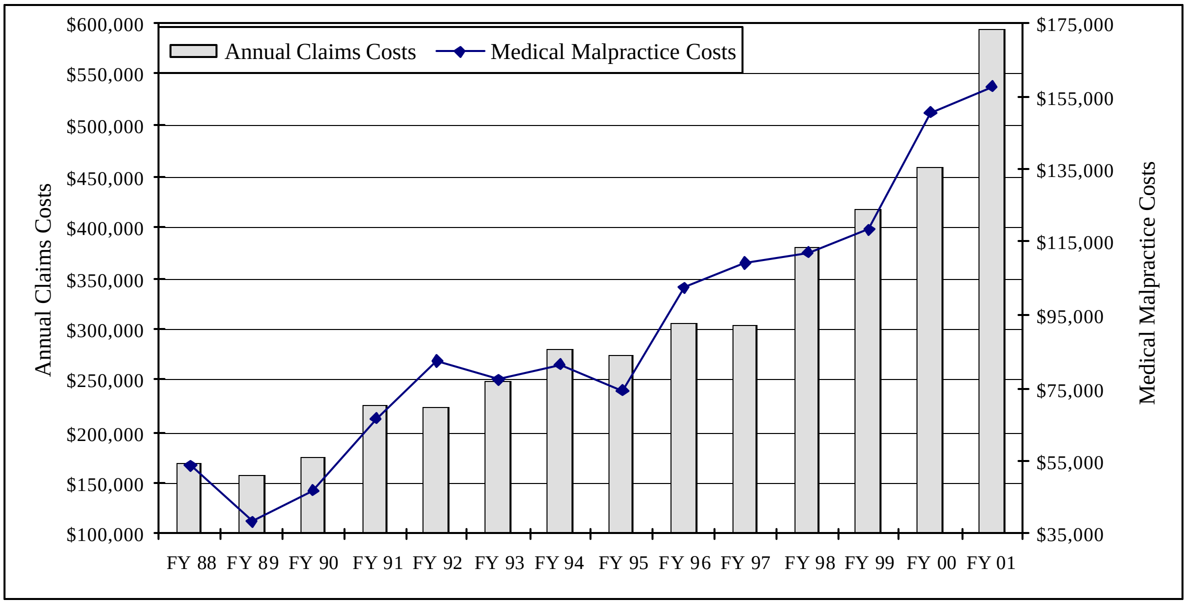
Table 18. *NYC Tort-Claims Cases and Expenditures, July-January, Fiscal Years 1998 to 2002*

	FY 02**	FY 01*	FY 00	FY 99	FY 98
JULY-JANUARY TORT-CLAIMS EXPENDITURES, $ MIL.	**$265.7**	**$252.8**	**$210.4**	**$173.5**	**$166.8**
Personal-Injury Cases	$258.8	$248.4	$204.3	$170.8	$149.3
Property-Damage Cases	$6.9	$4.4	$6.1	$2.7	$17.5
July-January Cases Settled	5,148	6,587	5,891	5,423	5,521
Personal-Injury Cases Settled	3,646	4,922	4,396	3,737	3,276
Property-Damage Cases Settled	1,502	1,665	1,495	1,686	2,245
Average Cost per Claim, $ '000	**$51.6**	**$38.4**	**$35.7**	**$32.0**	**$30.2**
Personal-Injury Cases Settled, $ '000	$71.0	$50.5	$46.5	$45.7	$45.6
Property-Damage Cases Settled, $ '000	$4.6	$2.7	$4.1	$1.6	$7.8
Total Cases Settled in Fiscal Year	**N/A**	**12,871**	**11,884**	**11,112**	**10,840**

*The figure for FY 01 total cases settled is preliminary. Final data will be provided during the summer.
**FY 02 data is forecast.
Source: NYC Office of the Comptroller, Bureau of Claims and Adjudications, and Office of Management and Budget.

The growth in the cost of resolving PI claims has fueled the growth in J&C expenditures over the last 12 years, to $595 million in FY 01 from $161 million in FY 88. PI claims are generally resolved for a larger amount than other claims, because of the high settlements and judgments awarded for medical malpractice claims. (See Chart 10.) In FY 01, the City spent approximately $157 million to resolve medical-malpractice claims. During the first seven months of FY 02, the City spent $115 million to resolve 142 medical-malpractice claims, 24 percent more than was spent in FY 01 to resolve 181 medical-malpractice claims. In an effort to make HHC management more accountable for the costs arising from medical malpractice claims, the City has transferred the costs of such claims to HHC.

Chart 10. *Annual Expenditures for Medical Malpractice Claims and All Other Claims, Settlements and Judgments, Fiscal Year 1988 to Fiscal Year 2001*, $ thousands*



*FY 01 numbers are preliminary.
Source: NYC Comptroller's Annual Claims Reports and Bureau of Claims and Adjudications.

2. Debt Service

In the February Plan, the City projects debt service, adjusted for prepayments, $3.770 billion in FY 02, $3.889 billion in FY 03, $4.766 billion in FY 04, $5.070 billion in FY 05, and $5.364 billion in FY 06. The debt-service budget in the February Plan is divided among an array of debt mechanisms, each of which is discussed under a separate heading.

General Obligation Debt

General Obligation (G.O.) debt is the City's basic, core debt, which is backed by its full faith and credit. In the February Plan, the City allocates $2.842 billion[3] in FY 02, $2.812 billion in FY 03, $3.209 billion in FY 04, $3.385 billion in FY 05, and $3.649 billion in FY 06 to service its outstanding G.O. debt. Compared with the December Plan, these projections represent decreases of $88.1 million in FY 02, $327.1 million in FY 03, $10.6 million in FY 04, and $65.9 million in FY 05. The reduction in debt service between December and February is explained by a number of factors.

The reduction in FY 02 debt service is explained by five factors: (1) $75 million from the sale of certain HPD housing mortgages to pay debt service; (2) $25.7 million in savings from reduced costs on variable rate demand bonds (VRDB) as a result of a drop

[3] This includes debt service on G.O. bonds, lease-purchase debt and interest on short-term notes, but excludes the impact of the FY 01 budget surplus of $2.6 billion to prepay debt service due in FY 02, and a projected $260 million budget surplus in FY 02 to prepay debt service in FY 03.

in the assumed interest rates on tax-exempt debt outstanding by 50 basis points and 150 basis points on taxable debt; (3) $13.6 million in savings from the DASNY HHC lease-purchase financing; (4) $4.2 million in savings from reduced debt service on G.O. Bond series 2002 B; and (5) $750,000 in savings from revised interest-earnings assumptions. These adjustments are partly offset by the elimination from the February Plan of $30 million in projected refunding savings.

The reduction in projected FY 03 debt service also results from five factors: (1) $300 million in savings from bond-refunding and unspecified debt-restructuring actions; (2) $16.8 million in interest savings as a result of a $615 million reduction in the amount of borrowing projected in the December Plan; (3) $18.5 million in estimated savings on VRDB debt as a result of decreases of one percentage point in interest rate assumptions on tax-exempt debt outstanding and 150 basis points on taxable debt outstanding; (4) $17.5 million in projected savings on short-term notes by reducing the interest rate assumptions contained in the December Plan by one percentage point; and (5) $3.3 million in savings from a reduction in lease-purchase debt service. These savings are partly offset by $2.3 million in lower interest earnings on bond proceeds and $713,000 in higher letter-of-credit and debt-remarketing fees.

For FYs 04-05, the reduction in projected debt service is primarily the result of $13.2 million in savings in FY 04 and $58.3 million in FY 05 from the cumulative impact of lower G.O. borrowing in FYs 03-05 of $1.6 billion. The City also expects savings of $4.3 million in FY 04 and $35 million in FY 05 from delaying the implementation of the DASNY-courts program. These are partly offset by increases of $4.9 million in debt-service costs in FY 04 and $24.7 million in FY 05 associated with VRDB borrowing, and reductions of $2 million in FY 04 and $2.7 million in FY 05 in interest earnings on bond proceeds.

Transitional Finance Authority Debt

The Transitional Finance Authority (TFA) was created as a way to alleviate the impact of the City's shrinking debt capacity. Its debt is primarily secured by the City's personal income tax collections. Through the TFA, the City will issue $2.1 billion in debt in FY 03, which consists of $1.1 billion in TFA Recovery Bonds and $1 billion in additional TFA Recovery Notes. In November 2002, the City plans to issue TFA Recovery Notes that will then be retired by TFA Recovery Bonds issued in November 2003. The City expects to use $1.5 billion in TFA debt to help close the FY 03 budget gap, and $500 million to finance the WTC-related costs not reimbursed by the Federal Government.

The TFA has already issued $1 billion in Recovery Notes. These notes are due on October 2, 2002, and will be repaid with the proceeds from TFA Recovery Bonds. With interest costs of $32.32 million, the total amount due on these Recovery Notes is $1.032 billion. In November 2002, the City plans to issue $1 billion in TFA Recovery Notes at an assumed coupon rate of 5.5 percent. A year later, the City plans to issue $1.069 billion in TFA Recovery Bonds to pay the principal and interest on these TFA notes.

TFA debt service is expected to total $416.1 million in FY 02, $704.2 million in FY 03, $898.6 million in FY 04, $996.5 million in FY 05, and $1.024 billion in FY 06. The FY 02 projection is $42.1 million less than anticipated in the December Plan because of $35 million in planned refunding savings and $7.1 million in interest savings from substituting low interest VRDB bonds for more expensive fixed-rate bonds. However, because of the increased reliance on TFA as a source of financing in FY 03 and FY 04, the projections for FY 03, FY 04 and FY 05 represent increases over the December Plan. Since the City now plans to issue $2.1 billion of TFA Recovery Notes and Bonds in FY 03 and FY 04, TFA debt service will be greater than anticipated in the December Plan by $15.2 million in FY 03, $80.6 million in FY 04, and $147.3 million in FY 05.

TSASC, Inc. Debt

TSASC, Inc. debt is backed by the City's share of the NYS settlement with tobacco companies. Net debt-service expenditures for TSASC, Inc. are projected to be $54.9 million in FY 02, $117.8 million in FY 03, $169.1 million in FY 04, $198.9 million in FY 05, and $200.1 million in FY 06. These estimates represent increases of $2.6 million in FY 02, $5.6 million in FY 03, $8.3 million in FY 04, and $1.8 million in FY 05 over the December Plan.

In December 2001, the City, via TSASC, Inc. completed a $150 million loan agreement with the US Department of Transportation (USDOT). The loan is earmarked to help pay for the reconstruction of the Staten Island ferry terminal project. The 30-year loan will be drawn down over the next 3 to 4 years, and is secured by TSASC, Inc. tobacco revenues. The average debt-service cost on this loan is $10.5 million per year.

TSASC, Inc. plans a second public offering in April 2002 of $660 million. The proceeds, after adjusting for the reserve fund and the costs of issuance, will be used to fund the City’s capital projects and the costs associated with the closing of the Fresh Kills landfill in Staten Island. TSASC debt is the most expensive of all the City’s borrowing facilities. For example, in March 2001, TSASC bonds traded at approximately 30 basis points higher than GO bonds and 40 basis points higher than TFA bonds.

Municipal Assistance Corporation

MAC was created as a solution to the fiscal crisis of the 1970s and is backed by the City's sales tax revenues. The February Plan contains no debt-service appropriations for MAC in FY 02, because the City prepaid $457.9 million of FY 02 MAC debt service in June 2001. For FY 03, the City has reduced its projection of MAC debt service by $250 million, to $255.3 million. This reduction reflects the planned use of $250 million in MAC reserve fund to help close the budget gap in FY 03. In the past, MAC provided the City with surplus funds, but with the stipulation that the City would use these funds to contain the growth of government spending. For example, $200 million in MAC resources were used in 1994 to finance the first of several severance programs designed to reduce City spending and work force levels. In keeping with past practice, the MAC reserve fund should be dedicated to restructure government operations and/or to fund specific programs.

3. Public Assistance

According to the City's Department of Social Services, the City's public assistance caseload fell by 3,436 recipients to 459,159 in January. This brings the year-to-date decline in FY 02 to a total of 37,954 recipients, a drop of about 7.6 percent from the June 2001 caseload of 497,113. From a historical perspective, the January caseload is about 60 percent below the historical peak of 1,160,593 reached in March 1995. Similarly, monthly grant expenditures have fallen by about 58 percent to $103.3 million in January 2001 from $247.8 million in March 1995.

The FY 02 year-to-date decline is comprised of decreases of 140,528 recipients in the Federally mandated Family Assistance (FA) program and 358 recipients in the State-mandated Safety Net Assistance (SNA) program, offset by the transfer of 102,932 former FA recipients into the SNA-5 year program. These transfers started in December 2001 for welfare recipients who reached a lifetime limit of 5 years in the FA program.

While overall caseload continues to fall, it appears that the caseload decline in December and January was mostly attributable to transfers between the FA and SNA-5 year programs. Meanwhile, the regular SNA caseload may be showing the first signs of a trend reversal, rising for the fourth consecutive month since September 2001. Both of these developments lead to a higher proportion of SNA and SNA-5 year recipients in the City's welfare caseload, translating into greater costs for the City. The City is responsible for funding 50 percent of spending for SNA and SNA-5 year recipients and 25 percent of spending for FA recipients. It should be noted, however, that an SNA-5 year recipient receives about one-half the level of benefits compared with a regular SNA recipient.

In the February Plan, the City projects a decline in public assistance caseload to 452,442 by the end of FY 02 and remain flat thereafter in FYs 03-06. Compared with the January caseload, these projections represent a net decline of 1.5 percent or 6,696 recipients between the FA and SNA-5 year categories, while the regular SNA caseload remains virtually constant, in the remainder of FY 02. Although the City's caseload projections in the February Plan are lower than previous estimates, the potential savings from the lower caseload projections are more than offset by a significantly higher grant assumptions for regular SNA recipients. As a result, the City has provided an additional $9 million in FY 02 and $13 million in each of FYs 03-06 in recognition of higher SNA program costs. More importantly, if the current trend reversal in the SNA caseload continues, the City could face a risk of $15 million in its public assistance budget for each of FYs 03-06.

VI. COVERED ORGANIZATIONS

Covered Organizations are public-benefit corporations that provide municipal services on the City's behalf and are indirectly under the City's oversight. The major covered organizations are the Board of Education (BOE), the Health and Hospitals Corporation (HHC), the Transit Authority, the Housing Authority, and the Off-Track Betting Corporation (OTB). This section comments on two of the City's largest Covered Organizations: the BOE and HHC. The BOE is facing a budget cut of $354 million in FY 03. The City projects that HHC will end FY 02 with a cash balance of $162 million that will be used to fund an operating loss of $280 million in FY 03.

A. Board of Education

1. FY 02

In the February Plan, the City has increased the BOE budget by $331 million in FY 02 to $11.702 billion. The most noteworthy change is the transfer of $80 million from the City's Miscellaneous Budget to restore funding previously withheld from the BOE budget. In January, the BOE estimated a potential budget gap of $137 million, with this $80 million funding restoration identified as a gap-closing measure. According to the BOE, this funding restoration, along with other funding in the February Plan, has reduced its FY 02 budget gap to a more manageable $23 million.

The City also provided $40 million for health-insurance rate adjustment and $20 million to cover new needs in the pre-school handicapped program, food services, and fringe benefits. Moreover, the BOE budget reflects $197 million in Federal and State grants for FY 02. The increase in Federal aid is largely based on higher appropriations in the President's budget, including $76 million in Federal handicapped education grants and $38 million in Federal miscellaneous grants. Additional State aid reflects $24 million in State teacher-recruitment grants and $22 million in State miscellaneous grants.

2. FYs 03-06

In FY 03, the City expects the BOE to reduce its budget by $354 million, representing a 7 percent cut in City funds to the BOE. The BOE is in the process of formulating a reduction program to meet this target, therefore no details were provided in the Preliminary Budget. The Chancellor recently indicated that substantial cuts are expected in non-core services and functions to protect spending for classroom instruction, identifying the BOE central administration as a target for major reductions. The BOE will also continue its current hiring freeze for non-essential personnel indefinitely.

Despite these reductions, total BOE funding in the Preliminary Budget is projected to rise by $74 million in FY 03 to $11.677 billion, up from $11.603 billion in the December Plan. The $354 million reduction in City funds is partly offset by the extension of City-funded adjustments that started in FY 02, providing additional funding of $219 million in FY 03. This additional funding includes a transfer of $98 million from the City's Miscellaneous Budget and $66 million for health-insurance rate adjustments. The Preliminary Budget also reflects a net increase of $82 million in Federal and State aid for FY 03, driven mostly by an additional $143 million in projected Title I funding for the BOE. Even after recognizing an increase of about $184 million in Federal aid, the BOE's Federal aid assumptions may still be understated by an additional $75 million in Federal handicapped education grants and Federal miscellaneous grants.

The Preliminary Budget also increases City funds to the BOE by $123 million to mitigate the potential education-aid shortfall outlined in the Governor's Budget. The restatement of State aid levels in the Preliminary Budget essentially eliminates a majority of the education-aid growth previously anticipated by the City in the December Plan. In the Governor's Budget, most aid categories were held flat from the FY 02 level, the notable exceptions being a $49 million reduction in teacher support aid and a $44 million increase in transportation aid.

Based on recommended appropriations in the Governor's Budget, the City maintains that a residual baseline risk of $93 million still exists in its education-aid projections for FY 03, based on three adjustments: (1) when the State released its proposed budget in late January, it initially showed a year-to-year decline of $15 million in education-aid appropriations to the City for FY 03, without details on school-building aid; (2) the BOE subsequently released its analysis on building aid showing a year-to-year decline of about $51 million; and (3) the BOE has indicated that it will not be able to claim the full amount of transportation aid proposed by the Governor, because of higher fuel cost assumptions that are not likely to materialize, in which case the Governor's budget proposal may have overstated transportation aid by $27 million.

In the out-years, the February Plan appropriations to the BOE rise by $88 million in FY 04, $119 million in FY 05, and $258 million in FY 06. The steeper increases in FY 04 and FY 05 are exclusively in City-funded expenditures, reflecting higher funding for fringe benefits costs, the health-insurance rate adjustment, and pupil-transportation expenditures.

Over the course of the February Plan, about $261 million in prior-year education aid receivables could be subject to write-downs by the Comptroller's Office. In 1997, the growing backlog of unpaid State education-aid receivables prompted the Comptroller to institute a policy of writing down receivables that have been on the City's books for ten years or more. Based on this policy, about $261 million in unpaid education-aid receivables from FYs 93-96 may be written down over the next four years, unless the State provides adequate payment. In the State Executive Budget, the Governor has put forth a proposal that would provide a significant payment to the City through a bond issuance by an independent entity called the Municipal Bond Bank. Under this proposal, the City would receive $204 million in FY 03 to retire unpaid prior-year education aid claims approved by the State Education Department. The State's appropriations for prior-year claims will provide the resources for future debt service payments to the Municipal Bond Bank. The Governor has recommended appropriations of $33 million to the City for this purpose in FY 03.

B. Health and Hospitals Corporation

The February Plan projects a closing balance of $162 million[4] for HHC in FY 02. Compared with the December Plan, this represents a decline of $93 million in HHC's FY 02 ending cash balance.[5] The lower projected closing cash balance in the February Plan mainly reflects a loss of $67 million in reimbursement for the HHC Plus program and $51 million in unrealized Federal revenue actions. Also, the City projects greater disbursements of $36 million for HHC in FY 02 mostly from higher non-personnel costs. These adjustments are offset by an additional $56 million in Medicaid fee-for-service (FFS) and managed care revenues.

Overall, the City projects HHC to incur an operating loss of $168 million in FY 02. This loss will be more than offset by an opening cash balance of $330 million, leading to a projected year-end cash balance of $162 million in FY 02. Medicaid FFS revenue continues to be the strongest revenue category, which has been revised upwards by $306 million since June 2001. The revisions reflect both stronger year-to-date FFS revenue collections and reduced enrollment targets of Medicaid recipients into HHC managed care programs.

For FY 02, the City has not included the impact from two separate developments that could boost HHC's revenues. First, based on a ruling by the State Court of Appeals, the State must now provide Medicaid benefits to legal immigrants who were previously barred from enrolling in the program. The ruling should benefit HHC because it is a major health-care provider to the City's immigrant population. The City has recognized its share of additional Medicaid liability in the February Plan and Preliminary Budget from this ruling. The HHC budget, on the other hand, has assumed no revenue impact from this ruling. Second, after an initial delay, the State's Family Health Plus program has set an implementation date of February 2002 for the City. The program is chiefly designed to provide health-care coverage to low-income adults who do not qualify for Medicaid. The City has conservatively estimated that this program will not impact HHC's revenue projections until FY 03. Also, given that HHC generally raises its Medicaid revenue estimate throughout the fiscal year to reflect better-than-expected revenue collection, its FFS revenue projections may still be understated for FY 02. Therefore, it appears that HHC will likely end FY 02 in relatively good financial standings, barring any major negative developments in its budget.

However, HHC's financial outlook appears less certain in FY 03. In the February Plan, the City expects HHC to incur an operating loss of $280 million in FY 03. After

[4] Includes $95 million designated by the HHC Board of Directors to a special fund for ongoing and future infrastructure enhancements, equipment, and technological needs.

[5] In FY 2001, the City and HHC reached an agreement whereby the City will fund debt-service costs related to the construction and rehabilitation of HHC facilities, in return for HHC's indemnifying the City for all J&C costs incurred at its facilities. Projections in the February Plan of J&C expenditures for HHC are $154 million in FY 02, $169 million in FY 03, $178 million in FY 04, $183 million in FY 05, and $188 million in FY 06. HHC will fund these projected amounts from its operating budget.

adjusting for expected revenue and savings actions totaling $205 million, the City projects a year-end cash balance of $87 million for HHC in FY 03. This represents a decline of $75 million from its opening cash balance of $162 million. The proposed revenue and savings initiatives are largely comprised of Federal and State actions ($125 million) and early retirement savings ($50 million). At this time, most of these proposals are unspecified. The City has indicated that HHC's revenue projections may be understated in the February Plan. In particular, the City has conservatively assumed an annual baseline growth of only 2 percent throughout the Plan for Medicaid FFS revenue. As a comparison, the February Plan assumes a significantly higher spending growth of almost 6 percent in FY 03 for hospital inpatient services, in the City's Medicaid budget. Therefore, if HHC experiences a similar growth pattern in Medicaid FFS revenue, its revenue could be significantly higher in FY 03 than current estimates.

Moving forward, the City projects HHC's operating deficits to range between $371 million in FY 04 and $399 million in FY 06. The higher operating deficits in these years are mainly attributable to rising fringe benefits disbursements and non-personal services costs. Likewise, the magnitude of the revenue and savings proposals also rises, ranging from $325 million in FY 04 to $400 million in FY 06. As in FY 03, the majority of the gap-closing measures are predicated on Federal and State actions to generate additional revenues. The City has not provided specific details on most of these gap-closing actions. After adjusting for these actions, the City projects HHC to achieve year-end cash balances of between $41 million to $43 million in each of FYs 04-06.

VII. CAPITAL PLAN

The Capital Plan attempts to allocate scarce resources to keep the City's long-term physical assets in a state of good repair. Good fiscal practice allows funding capital spending with the debt that is not longer than the expected life of the Capital item.

A. Overview

The February Capital Plan contains $27.8 billion in total authorized commitments in FYs 02-05, of which $25.6 billion are City-funded.[6] (See Table 19.) The City reduced City-funded capital commitments by $4.46 billion in FYs 02-05. This represents a 16.3 percent cut in the commitment levels anticipated in the Adopted Capital Plan. (Table 19.)

Table 19. *Change in City-Funded Capital Commitments, February 2002 Plan Compared with the Fiscal Year 2002 Adopted Capital Plan, $ millions*

	FY 02	FY 03	FY 04	FY 05	Total
Adopted Capital Plan, November 2001	$7,656	$7,651	$6,568	$5,455	$27,330
February Capital Plan, February 2002	$6,011	$5,945	$5,917	$4,997	$22,870
Change	($1,645)	($1,706)	($651)	($458)	($4,460)
Percent Change, Adopted to February	(21.5 %)	(22.3 %)	(9.9%)	(8.4%)	(16.3%)

Sources: OMB, February 2002 Capital Plan, and the Adopted Budget Capital Plan, November 2001.

B. Programmatic Review

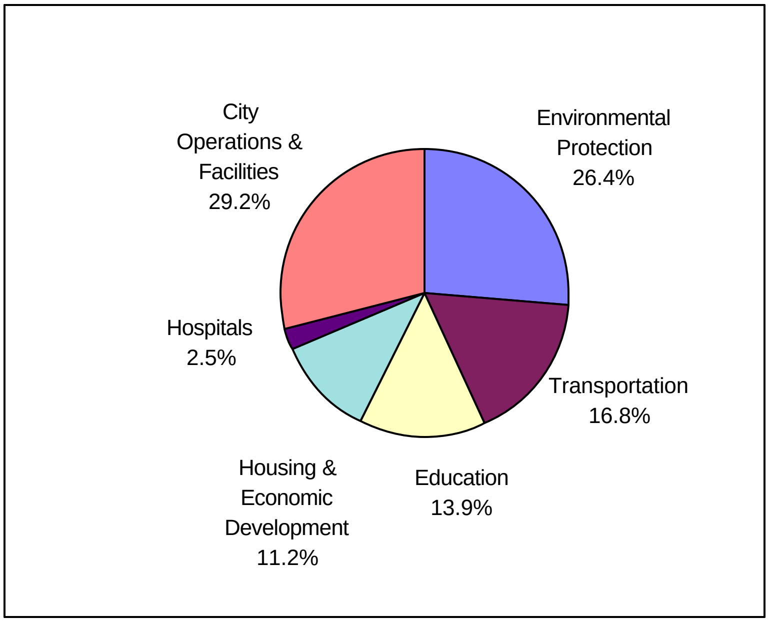
The February 2002 Capital Plan for FYs 02-05 totals $27.8 billion, before adjusting for the allocation to a reserve for unattained capital commitments. This represents a total decrease of almost $4.6 billion from the FY 02 Adopted Capital Plan. The plan-to-plan reduction does not, however, translate in a year-over-year reduction. Commitments in the February 2002 Capital Plan for FYs 02-05 exceed FY 98-01 commitments by $9.2 billion, an increase of 49.5 percent. (See Charts 11and 12.)

Resources in the February 2002 Capital Plan are concentrated in three major program areas: (1) environmental protection, (2) education, and (3) transportation. Together, they account for 57 percent of total commitments. Other areas that consume a significant portion of spending are City Operations and Facilities at 29.2 percent, and housing and economic development, at 11.2 percent. (See Chart 11.) The category "City Operations and Facilities" includes capital projects for the court system, the Police

[6] The $27.8 billion figure represents total commitments and does not account for the reserve for unattained commitments. The allocation for unattained commitments is OMB's estimate of the level of capital projects that will not result in contract liability during a respective fiscal year. After this adjustment, City-funded capital commitments totaled $27.330 billion in the FY 02 Adopted Budget Capital Plan and $22.870 billion in the February 2002 Capital Plan.

Department, the Fire Department, the Department of Sanitation, libraries and cultural institutions, and general equipment and financing.

Chart 11. *Capital Commitments, Shares (of $27.8 billion), Fiscal Years 2002 to 2005, Percent*



Source: NYC, OMB, February Capital Plan FY 02.

1. Environmental Protection

Consistent with past patterns, the Department of Environmental Protection (DEP) garners a large share of total capital commitments with $7.3 billion in FYs 02-05 (26.4 percent). This compares with $3.9 billion in FYs 98-01 (21.2 percent).

The DEP capital program is driven by Federal and State mandates for environmental and clean water control. These projects are primarily financed by debt of the Municipal Water Finance Authority (MWFA), with the resultant debt-service cost exerting pressure on user fees paid by City residents and commercial enterprises.

Major program areas include water pollution control, water mains, water supply, and sewers. At $3.6 billion in FYs 02-05, water pollution control projects constitute 49 percent of the entire DEP capital program. Water pollution includes such projects as the upgrade of the Newtown Creek water pollution control plant ($1.1 billion), the upgrade of the Hunts Point water pollution control plant ($337 million), the Ward's Island water pollution control plant ($225 million), the Jamaica water pollution control plant ($152 million), and extensive work at combined sewer overflow facilities ($731 million).

The $1.7 billion for projects for water mains is roughly 23 percent of the DEP capital program, of that, $800 million is for structural improvements in the watershed area. The $805 million of water supply projects accounts for 11 percent of the DEP capital program. A series of capital projects related to the City's third water tunnel ($782 million) add up to 97 percent of water-supply commitments.

The construction and rehabilitation of the City's sewer system consists of hundreds of smaller projects scheduled throughout the City. These projects total $718 million, or 9.8 percent of the DEP program. DEP equipment purchases account for $540 million in FYs 02-05, or about 7 percent of the DEP capital program.

2. Education

The February Capital Plan includes $3.9 billion in capital commitments for education, or 13.9 percent of total commitments, with $3.78 billion committed to the Board of Education and $91 million to the City University of New York. This is twice the level of actual commitments in FYs 98-01, $6.28 billion (33.8 percent of total commitments).

3. Transportation

Transportation, including mass transit, roads, and bridges, is projected to comprise $4.67 billion in FYs 02-05, 16.8 percent of total commitments.

a. Mass Transit. The February Capital Plan contains $854 million over FYs 02-05, or 3.1 percent of total commitments for mass transit. This is twice the funding of $438 million, or 2.4 percent, in FYs 98-01. The City has historically provided capital subsidies to the NYC Transit Authority for infrastructure improvements with $536 million planned in FY 02. Of this amount, $345 million in FY 02 represents the agreed-upon capital investment by the City in accordance with an agreement between the City and the MTA regarding the sale of the Coliseum in FY 00.

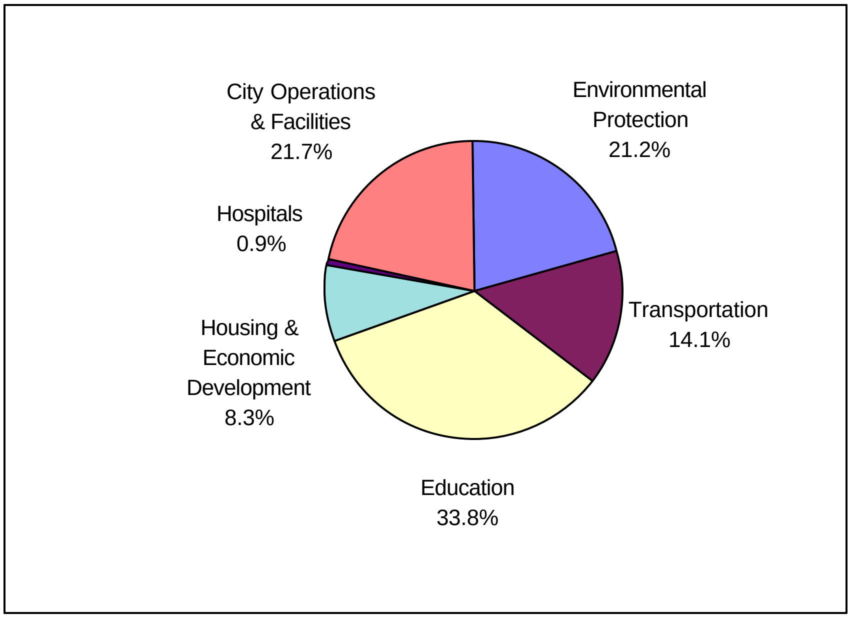
b. Roads and Bridges. The February Plan contains $3.8 billion (13.7 percent of total commitments) for highways, roads, and bridges. This is nearly twice the funding of $2.19 billion (11.7 percent of total commitments) in FYs 98-01. The major program areas are highway bridges ($1.84 billion), streets and highways ($1.3 billion), and waterway bridges ($670 million).

4. City Operations and Facilities

The broad category of City Operations includes approximately 15 different City agencies, including Police, Corrections, courts, the Department of Cultural Affairs, and the various library systems. The February 2002 Capital Plan allocates $8.11 billion in FYs 02-05 (29.2 percent of total commitments). Commitments for City Operations and Facilities were $4.03 billion in FYs 98-01 (21.7 percent). Over $1.5 billion is allocated for the rehabilitation and the construction of the City's court system (almost 19 percent). The Department of Sanitation has commitments for $895 million, the Department of Parks has $621 million, museums and cultural facilities $629 million, the Police and Fire

Departments $987 million, citywide equipment and financing $627 million, public buildings $524 million, and the Department of Corrections $502 million.

Chart 12. *Capital Commitments, Shares (of $18.6 billion), Fiscal Years 1998 to 2001, Percent*



Source: NYC, OMB, February Capital Plan FY 02, Volume 1.

Major capital projects for the courts system in the February Plan include the Brooklyn Criminal and Family Court at 330 Jay St. ($628 million) and the new Bronx Criminal Court ($222 million).

The Department of Sanitation's Capital Plan is heavily weighted towards collection equipment and trucks ($293 million) and construction and rehabilitation of sanitation garages ($469 million). These two program areas together comprise over 80 percent of the Agency's Capital Plan in FYs 02-05.

The February Capital Plan in FYs 02-05 allocates $629 million for museums and other cultural institutions and $193 million for libraries citywide. Featured projects include $58 million for the Lincoln Center renovation and expansion, $43 million for various building improvements at the American Museum of Natural History, $30 million for the Museum of Modern Art, $22 million for the Museum of Jewish Heritage, and about $21 million for the expansion of the Metropolitan Museum of Art. Library commitments consist of $55 million for the Research Libraries, $84 million for the New York Public Library, $34 million for the Brooklyn Public Library, and $20 million for the Queens Public Library.

5. Housing and Economic Development

Housing and Economic Development accounts for $3.11 billion of planned capital commitments, or 11.2 percent of total commitments. This compares with $1.55 billion, or 8.3 percent of actual commitments in FYs 98-01.

a. Housing. Housing commitments total $1.81 billion, representing 6.5 percent of total commitments. This compares with $1.18 billion in commitments in FYs 98-01, or 6.4 percent of total commitments. The emphasis in the Plan is on participation-loan programs, occupied "In-rem" dispositions, and tenant interim leasing programs that lead to home ownership.

b. Economic Development. Economic development accounts for $1.31 billion of commitments (4.7 percent of total commitments), more than three times the $366 million funding in FYs 98-01 (1.9 percent). Commitments are heavily front-loaded, with 72 percent of the resources in this category's committed in FY 02. Major planned commitments in this category include:

- The construction of a new Stock Exchange ($281 million).
- The reconstruction of the Whitehall and St. George ferry terminals ($146 million).
- The reconstruction and modernization of piers citywide ($130 million).
- The reconstruction and modernization of terminal markets ($119 million).
- Industrial and non-commercial waterfront development ($97 million). These capital items largely replace existing facilities. They do not add up to a long-term vision of the NYC as a competitor in the international economy.

6. Hospitals

Capital commitments for hospitals total $682 million in FYs 02-05, or 2.5 percent of total commitments. This compares with $163 million, or 0.9 percent of total commitments in FYs 98-01. This significant increase is attributable to three major projects: (1) $244 million for the construction of a DNA lab in the Office of the Chief Medical Examiner; (2) $162 million for the reconstruction of Bellevue Hospital Center; and (3) $147 million for the reconstruction and expansion of Kings County Medical Center. These three projects alone comprise 80 percent of HHC's capital commitments.

C. Capital Financing Program

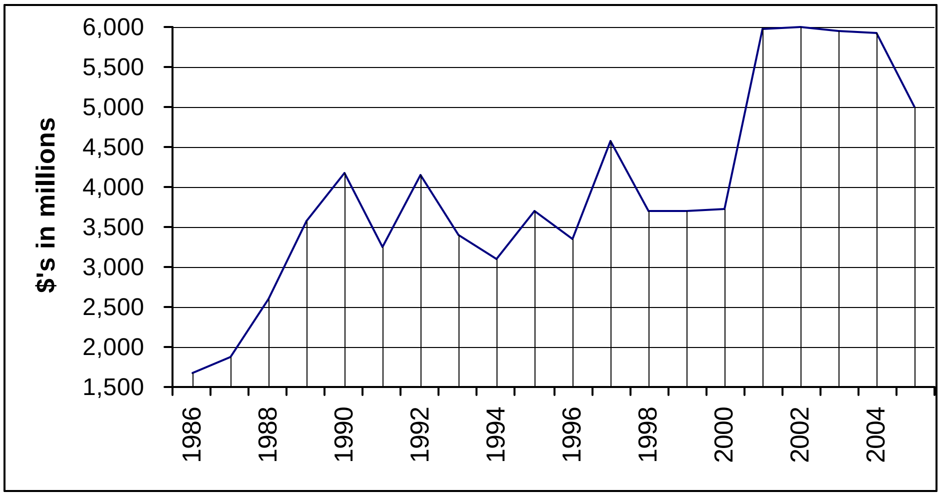
The Capital Financing Program for FYs 02-05 totals $24.12 billion, a decrease of $2.16 billion from the December Plan. G.O. borrowing is forecast to be $9.7 billion, a decrease of $1.3 billion from the December Plan to reflect the 16.3 percent cut to the City-funded capital commitment plan over FYs 02-05. Funding provided by the TFA for capital projects is forecast at $4 billion, and Municipal Water Finance Authority borrowing declined by $493 million to $6.6 billion. TSASC borrowing is projected to increase by $40 million to $1.84 billion from the December Plan. Funding provided by the debt of the Dormitory Authority of the State of New York for the construction and rehabilitation of the Health and Hospitals Corporation facilities and the courts system declined by $409 million to $1.77 billion.

D. Capital Commitments and the Debt Burden

The City's infrastructure was greatly neglected in the decade following the fiscal crisis of the mid-1970s. Deferred maintenance led to dilapidated roads, bridges, and schools in dire need of repair. In order to bring its infrastructure to a state of good repair, the City spent in the 1990s far more than it would have spent on normal scheduled maintenance. Capital commitments averaged $1.4 billion per year during FYs 83-86; they jumped to $3.1 billion per year during FYs 87-90 and to $3.8 billion a year during FYs 96-00.

In FY 01, the City presented the most ambitious Capital Program in its history. Commitment levels soared to an average of $6 billion in the FY 01-02 period, an increase of 61 percent over FY 00. Commitment levels in FY 03 and FY 04 still remain high at roughly $5.9 billion, before they decline in FY 05 to $5 billion. (See Chart 13.)

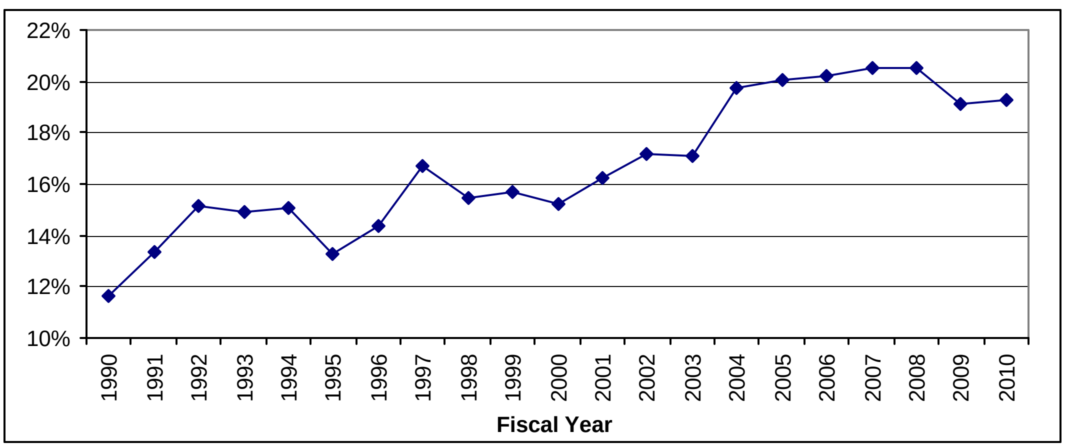
Chart 13. *Capital Commitments, Actual and Projected, City Funds, Fiscal Years 1986 to 2005, $ millions*



Sources: *Message of the Mayor,* FY 86-FY 01, and OMB, February Plan, 2002, FYs 02-05.

This acute increase in capital spending since FY 00 resulted in higher borrowing and debt service. Debt service is projected to grow by 9.2 percent annually between FY 02 and FY 06, nearly twice as fast as projected tax-revenue growth of 4.9 percent. Debt service will consume 20 cents of every dollar of tax revenues collected by the City by FY 06, up from 15.1 cents in FY 00. (See Chart 14.)

Chart 14. *Debt Service as a Percent of Tax Revenues, Fiscal Years 1990 to 2010*



Sources: NYC Comptroller, *Comprehensive Financial Annual Reports*, FYs 90-01, and OMB, February 2002 Plan.