The Comptroller's Comments on The Proposed Fiscal Years 2003 to 2006 Financial Plan

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

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EXECUTIVE SUMMARY

This is the third of the three charter-mandated reports containing the Comptroller's analysis of the Mayor's Executive Budget. The first, issued May 2, evaluated the assumptions and methodologies used by the Mayor in making the revenue estimates contained in the budget. The second, released May 9, analyzed the risks and shortcomings in the FY 2003 budget. This report examines the outyear impact of the Mayor's proposals.

New York City's budget contains an embedded structural imbalance. The City's revenue base is insufficient to support planned levels of spending. Because of this imbalance, the FYs 2003-2006 Financial Plan projects annual multi-billion budget gaps throughout the term of the plan. The Comptroller's analysis demonstrates that the deficits facing the City will be even larger than the Mayor anticipates. Even if the City successfully implements all of its FY 2003 gap-closing strategies and ends the year in balance, it still faces gaps exceeding $4 billion annually in each of FYs 2004-2006.

The origin of this gap is straightforward. The City's revenue base is inadequate to support its ongoing level of expenditures. The problem was masked in the late 1990's due to the extraordinary budget surpluses that reflected an unprecedented economic boom. Now with the national economy recovering from a significant slowdown, and with the City in a jobs recession, the embedded structural imbalance is apparent.

If the City is to solve this problem, it must implement a long-term strategy to achieve structural balance. It must take those actions necessary to bring the level and the growth of its revenues and expenditures into alignment. If baseline expenditures exceed baseline revenues by billions of dollars, similar growth rates will never close the gap. Similarly, even when revenues and expenditure levels are matched in any given year, the higher rate of expenditure growth immediately creates a deficit in the next year.

Table 1. FYs 2003-2006 Financial Plan, $ in millions

	FY 2003	FY2004	FY 2005	FY 2006
Revenues				
Taxes:				
General Property Tax	$8,866	$9,290	$9,689	$10,105
Other Taxes	$13,935	$14,948	$15,826	$16,715
Tax Audit Revenues	$427	$427	$427	$427
Decoupling from New Federal Accelerated Depreciation	$128	$119	$109	$15
Miscellaneous Revenues	$4,212	$4,206	$3,918	$3,672
Transitional Finance Authority - 9/11	$1,500	--	--	--
Unrestricted Intergovernmental Aid	$721	$580	$555	$555
Anticipated State & Federal Actions	$630	$480	$480	$480
Other Categorical Grants	$428	$397	$403	$410
Less: Intra-City Revenues	($1,012)	($1,007)	($1,007)	($1,007)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)
Sub-Total City Funds	$29,820	$29,425	$30,385	$31,357
Inter-Fund Revenues	$323	$317	$317	$317
Total City & Inter-Fund Revenues	$30,143	$29,742	$30,702	$31,674
Federal Categorical Grants	$4,358	$4,165	$4,161	$4,159
State Categorical Grants	$8,044	$8,128	$8,211	$8,239
Total Revenues	***$42,545***	***$42,035***	***$43,074***	***$44,072***
Expenditures				
Personal Service	$22,370	$22,930	$23,706	$24,555
Other Than Personal Service	$17,618	$17,948	$18,305	$18,644
Debt Service	$2,436	$3,246	$3,425	$3,704
MAC Debt Service	$255	$489	$490	$492
NYCTFA	$678	$893	$1,031	$1,051
General Reserve	$200	$200	$200	$200
	$43,557	$45,706	$47,157	$48,646
Less: Intra-City Expenses	($1,012)	($1,007)	($1,007)	($1,007)
Total Expenditures	***$42,545***	***$44,699***	***$46,150***	***$47,639***
Gap To Be Closed	**$0**	**($2,664)**	**($3,076)**	**($3,567)**

Note: Other Taxes includes NYCTFA

Table 2. Risks and Offsets to the Financial Plan, $ in millions

	FY 2004	FY 2005	FY 2006
City Stated Gap	***(2,664)***	***(3,076)***	***(3,567)***
Budget Assumptions			
Personal Income Tax	($114)	($15)	$30
Other Taxes	($135)	($49)	$73
Airport Rent	($320)	($285)	($40)
Sale of OTB	($250)	$0	$0
Overtime	($180)	($180)	($180)
Collective Bargaining	($86)	($86)	($86)
Public Assistance	($40)	($40)	($40)
Medical Assistance	$0	($75)	($130)
Pension Costs	($150)	($238)	($351)
Subtotal	**($1,275)**	**($968)**	**($724)**
State and Federal Aid			
Anticipated Federal and State Actions	($214)	($215)	($216)
Decoupling from Federal Accelerated Depreciation	($15)	($14)	($2)
Subtotal	**($229)**	**($229)**	**($218)**
Total Risk	**($1,504)**	**($1,197)**	**($942)**
Restated Gap	***($4,168)***	***($4,273)***	***($4,509)***

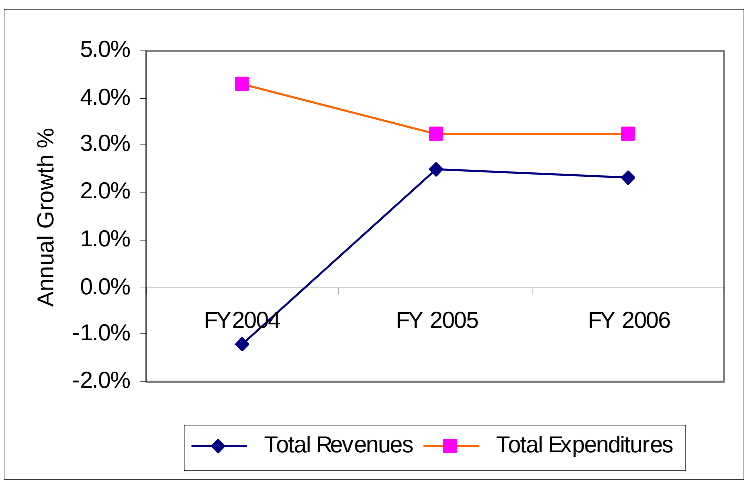
I. THE PROBLEM

The City's revenues are insufficient to support its planned level of expenditures. Both the level and growth of expenditures has regularly exceeded the supporting capacity of ongoing revenues. This structural imbalance was masked in recent years through the development and use of a recurring surplus roll. Between FYs 1997 and 2002 the roll, discussed in "The City's Budget Surpluses" beginning on page 4, prepaid up to $3 billion in 'next-year' operating expenditures. Without the benefit of that roll, and buffeted by recession and terrorist attacks, the City faces a significant FY 2003 deficit and outyear gaps exceeding $4 billion annually.

A. Growth Rates

The City projects outyear budget gaps growing from more than $2.6 billion in FY 2004 to over $3.5 billion by FY 2006 as illustrated on Table 1 on page 1. This series of large and growing multi-billion dollar deficits stems from a basic problem – the City's expenditures continue to grow faster than supporting revenues as illustrated on Chart 1.

Chart 1. *Expenditure Growth Exceeds Revenue Growth over the Term of the Financial Plan*



As the Chart illustrates, revenues are expected to decline between FYs 2003 and 2004 before showing modest growth in FYs 2005 and 2006.[1] At the same time, expenditures will grow sharply between FYs 2003 and 2004 and will continue to grow at a faster rate than revenues in FYs 2005 and 2006. These significant differences in the revenue and expenditure projections demonstrate that, even if FY 2003 is balanced, a $2.6 billion deficit occurs in FY 2004 and grows to over $3.5 billion by FY 2006.

[1] The major factor underlying the revenue decline between FYs 2003 and 2004 is the use of $1.5 billion in NYCTFA borrowing to support FY 2003 expenses.

This difference in growth is a function of the City's embedded structural imbalance. That is, regardless of what actions are taken to balance any given year's budget, a large deficit will appear in the following year unless the City's revenue and expenditure levels and growth rates are brought into line so that available revenue is sufficient to support ongoing expenditures.

B. The City's Budget Surpluses

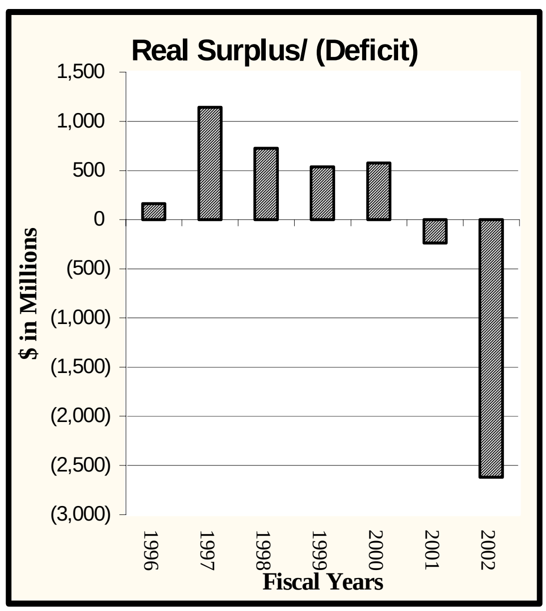
The City finished fiscal year 2001 by prepaying over $2.9 billion in FY 2002 expenses. If the City had not been able to take this action, it would have faced a deficit of over $2.6 billion in FY 2002. As discussed in *The Comptroller's Comments on the Fiscal Year 2003 Executive Budget*, released May 9, 2002, it is now in the process of closing a $6 billion deficit in fiscal year 2003, and faces multi-billion dollar outyear gaps.

Fiscal Year	Prepaid Expenses	Reported Operating Surplus
1997	$ 224	$1,367
1998	$1,362	$2,086
1999	$2,081	$2,620
2000	$2,615	$3,192
2001	$3,187	$2,949
2002	$2,944	$ 322

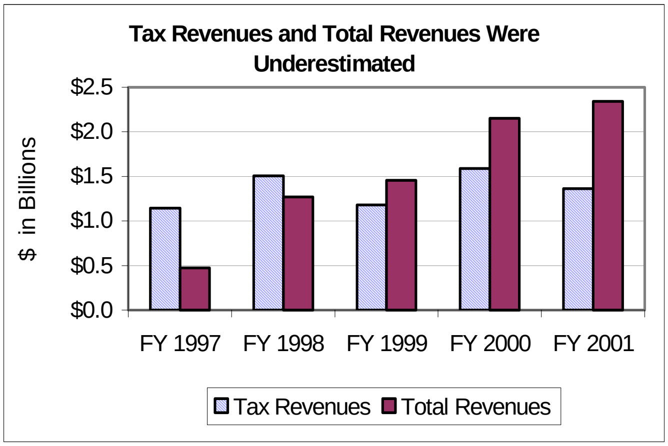
The FY 2002 surplus is projected

The City claimed large operating surpluses between FYs 1997 and 2001, and used them to prepay the next year's expenses as illustrated in the figure to the right. Each year the City announced a large surplus and prepaid the next year's expenses. The implicit assumption was that the City was generating new multi-billion dollar surpluses in each of these years.

In reality, however, the surpluses were actually the cumulative result of a number of years of extraordinary revenue collections rather than the surplus for that fiscal year alone. As shown in the figure to the right, the surplus reached a peak of $1.1 billion in FY 1997 and has been generally declining since then. Fiscal Year 2001 actually would have a deficit of $238 million if expenses had not been prepaid with funds available from the previous year. Fiscal year 2002 when it is completed, although balanced under GAAP, will have actually outspent actual revenues by more than $2.6 billion. The figure illustrates that after FY 1997 the actual annual surplus began to shrink, a warning sign that was ignored as the previous administration focused attention on the growing size of the cumulative number and defined it as the surplus for the given year.



The surplus was essentially created by an ongoing pattern of revenue underestimation. Between FYs 1997 and 2001 the City's tax revenue estimates at the time of adoption of the budget were at least $1 billion lower than actual collections as illustrated in the figure to the right. In FYs 1998 and 2000 actual tax collections exceeded adopted budget projections by more than $1.5 billion. During the same FYs 1997-2001 period, the underestimation of total City-fund revenues reached as high as $2.3 billion.



This underestimation of revenues allowed the City to avoid changing the way it did business. Instead of using the increased revenues to gain enduring benefits such as through the use of pay-as-you-go financing to reduce long-term debt the previous administration enlarged the debt burden. During this period the City cut taxes, increased spending, and used the budget surplus from one fiscal year to pay off the next year's bills. The prepayment of expenses, especially debt service, artificially reduced the perceived impact of debt on the City's budget. In sum, the City's leadership postponed making tough decisions and instead chose political expediency over sound fiscal planning.

II. THE OUTYEAR ASSESSMENT

The City reports that it will face large and growing multi-billion dollar outyear gaps as shown on Table 1 on page 1. The gaps created by the City's embedded structural imbalance will be further exacerbated from a combination of revenue shortfalls and overestimations and greater-than-projected expenditures. Overall, even if FY 2003 ends in balance, the City will need to close gaps in excess of $4 billion per year in each of FYs 2004 through 2006.

A. Revenue Estimates

The City's revenue estimates are generally reasonable over the term of the financial plan. However, as shown on Table 2 on page 2, the Comptroller believes that the City has significantly overestimated revenues in FY 2004. One substantial difference between the Comptroller's and the Mayor's estimates is the City's assumption of receipt of hundreds of millions of dollars in rental payments from the Port Authority for lease of the City's airports.

At this point in the budget cycle it also appears that the City is falling short in its estimations of $500 million per year additional State and Federal gap-closing aid above the amounts assumed in the FY 2003 Executive Budget.[2] It is assumed that the City will make appropriate adjustments to the projections when the City's budget is adopted.

Tax Revenues

Because of more favorable economic forecasting, the City has raised tax-revenue projections by an average of $156 million per year for FYs 2004 through 2006 in the April Modification compared with the February Modification. The Comptroller projects a different economic trajectory, weaker than the City assumes in FY 2004 and stronger than the City projects in FYs 2005 and 2006.[3] The Comptroller is projecting risks to the budget and financial plan until FY 2006 when tax revenues are forecasted to surpass the City's estimates as shown on Table 3.

Table 3. Risks and Offsets in the April Modification of the Financial Plan, $ in millions

Tax	FY 2004	FY 2005	FY 2006
Property	($47.7)	($3.1)	$45.9
Personal Income	(113.7)	(14.6)	29.6
Business	(44.3)	9.8	28.9
Sales	(38.1)	(21.4)	21.7
Other	(5.2)	(34.6)	(23.4)
Total	**($248.9)**	**($63.9)**	$**102.6**

[2] The City's intergovernmental aid assumptions are discussed beginning on page 12.
[3] See *The Comptroller's Comments on the Economic Assumptions Underlying the Executive Budget for Fiscal Year 2003,* May 2, 2002.

With FY 2002 almost complete, it is clear that City taxes will experience their biggest percentage drop since 1970.[4] Some of this drop is due to tax cuts. Even after adjusting for this, tax collections are still seeing their biggest percentage drop since the Comptroller's Office began compiling common-rate-and-base data as shown in Chart 2.

Chart 2. *Growth of Common-Rate-and-Base Taxes*

The slump is worse for non-property taxes, which are more economically sensitive. Non-property taxes fell 15 percent for the third quarter of FY 2002 and is the largest drop on record. With the tax base contracting and Gross City Product set to recover slowly, the Comptroller, and the City, are projecting that it will take two years to recover lost ground and three years to recover the 2001 non-property tax base. FY 2003 is severely affected by this contraction and the effect lingers into FYs 2004 and 2005.[5]

Non-Property Taxes

The Comptroller believes that non-property taxes have been overestimated for most of the term of the financial plan, largely because of differing views on how the economy will evolve. Non-property taxes are extremely sensitive to economic factors and account for over 60 percent of total taxes.

Personal income tax (PIT) is the largest component of non-property taxes. It has accounted for a larger share of non-property taxes over time but since 1998 its relative share has been falling partly due to tax cuts, including repeal of the commuter tax, and more recently due to the economy. The outlook for PIT is pessimistic given its sensitivity to income. The third quarter FY 2002 drop is the second largest on record and is steeper than the first quarter drop associated with September 11.

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[4] Our database for actual collections begins in 1970 and common-rate-and-base calculations, which are collections adjusted for changes in tax policy, begins in 1984.

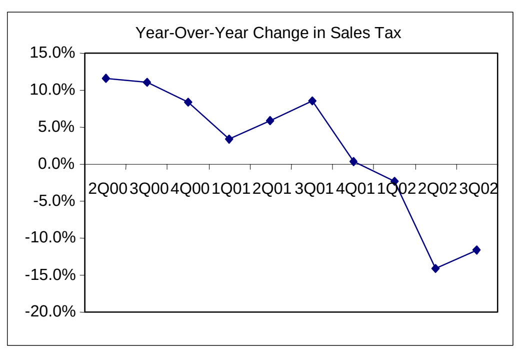
[5] See *The Comptroller's Comments on the Fiscal 2003 Executive Budget,* May 9, 2002 for a discussion of the FY 2003 risks.

The outlook for Wall Street profits, and hence bonus payments, is also below the City's estimates until late in the plan period. With Wall Street expected to recover more slowly than the City is projecting, the stock market and capital gains outlook is not bullish. The public has not anticipated good fortunes for Wall Street. Estimated payments have dropped 39 percent, the largest on record since 1993, in the third quarter of FY 2002.

The weaker long-term view for Wall Street will also constrain job growth. Many jobs are either in the Financial, Insurance and Real Estate (FIRE) sector or derive from the FIRE sector. One estimate is that for every job Wall Street creates, two others are created, which leads to one of the concerns for the downtown economy. If financial firms do not return to the area at a reasonable pace, the fear is that there may be another wave of job loss in the area from local firms that depend directly or indirectly on the financial firms, creating additional outyear problems.

The outlook for the business taxes depends not only on the weaker outlook for the economy and securities industry profits, but also on the extent to which financial firms are expected to return to the City. Much of the general corporation tax (GCT) derives from the FIRE sector, and Wall Street in particular. Some of the firms from which GCT is derived have relocated outside of the City since September 11.[6] Firms that have relocated in midtown, may move some of their operations out of the City as they pursue a policy of diversification. If incentives do not lure them back, then GCT collections will be jeopardized over the term of the financial plan.

GCT collections are below the last fiscal years for the past three quarters by an average of about 21 percent and have been on a declining trend since the second quarter of FY 2001. The banking corporation tax (BCT) and unincorporated business tax (UBT) have been cushioning the drop in business taxes because of favorable legislation and low interest rates aiding bank profits. On the other hand, the tax gap left by these firms may be filled in other ways. It is reported that much of the vacant space left by the closing of retail stores is being filled by out-of-town banks, expansion of existing banks and wireless firms. If this is a trend, the bank tax may exceed the City's projections over the term of the financial plan.



With PIT and the business taxes showing long-term weakness, sales tax, though more resilient, must eventually be affected, especially with consumer debt at already high levels. Collections have been showing a declining trend, as illustrated in the figure to the right, since the third quarter of FY 2000. It appears that Albany will approve the cigarette tax hike, bringing in some additional revenues. The State, however, plans to withhold about half of the increased collections for its own use.

[6] Based on Tenantwise.com research published in Crain's, April 15-21, 2002, of the 43 largest tenants in WTC, 19 have relocated some or all of their operations outside NYC. Of the 43 largest non-WTC tenants dislocated, six have relocated some of their operations outside NYC.

Property Taxes

The City forecasts that growth in real estate taxes will slow in FY 2003 because of slower growth in commercial real estate and lower assessed values for properties in Lower Manhattan. The pace picks up in FY 2004 though at a more moderate rate than FY 2002. The Comptroller believes there may be a risk to the property-tax forecasts for FY 2004 of about $48 million as there is a possibility that the market values upon which the FY 2004 levy will be based will slump in FY 2003. At this point, however, the real estate market is holding its value and if this trend continues, then collections should exceed the City's projection for FY 2006 by about $46 million.

The real estate market, as we move into FY 2003, is showing mixed signals, which may affect assessed values for FY 2004, especially in Lower Manhattan. In both the residential and commercial markets, two trends appear to be emerging. 'Short-term' variables have not been faring well. In Manhattan, asking rents are falling while vacancy rates and sublease space available are increasing for residential and commercial real estate. 'Longer-term' variables, that is sale prices, appear more promising. Furthermore, residential real estate outside Manhattan continues to do well.

In Manhattan, where there is more uncertainty, the selling market for both residential and commercial properties is holding up. The price of prime properties, both residential and commercial, are at an all-time high. This may be interpreted in two ways. On the one hand, high selling prices may be seen as buyers' long view of the market and therefore real estate and the economy are expected to pick up fairly quickly. On the other hand, it could be that sellers are expecting the market to drop so they are trying to sell now to maximize their returns.

The situation for Lower Manhattan is even more uncertain, with short-term variables more pronounced. Longer-term variables are showing signs of recovery especially with incentives made available to rebuild the area. The pace of recovery and hence market values and assessed values will probably depend on economic development plans to rebuild the area.

Manhattan and Lower Manhattan's residential real estate selling market is holding up. The median price per square foot of a condominium downtown rose 19 percent in 2001 from $485 to $575 as shown in the figure to the right. Most of this increase was before September 11 but even after then the market continued to rise, though at a slower rate, nine percent in the fourth quarter of 2001, compared to the fourth quarter of 2000. A similar trend occurred in the co-op market.

Percent Change in Median Price Per Square Foot of Manhattan Condominiums

Year-Over-Year	Manhattan	Downtown
2001	17%	19%
4Q01	15%	9%

Source: Real Estate Board of New York

However, the residential market in other respects is not doing well. The Cocoran Group's Rental Report shows downtown residential rent down 11 percent for 2001 compared with seven percent for all of Manhattan. Downtown luxury rentals are down 20 percent for 2001 compared with 11 percent for all of Manhattan.

Percent Change in Average Monthly Residential Rent

2001	Manhattan	Downtown
All	-7%	-11%
Luxury	-11%	-20%

Source: The Cocoran Rental Report, 2001

The short-term variables for commercial real estate are in a similar situation, being more pronounced for Lower Manhattan. Vacancy rates have risen for downtown, at more than double the rate of the first quarter of 2001, even though some office space disappeared since September 11 as illustrated in Table 4.

Table 4. Vacancy Rates and Asking Rents in Manhattan

	Vacancy Rates		Asking Rents	
	Midtown	Downtown	Midtown	Downtown
1Q02	9.3%	11.9%	$51.6	$40.55
1Q01	4.8%	4.8%	$56.89	$43.73
2001	8.2%	9.5%	$53.48	$39.45

Source: Vacancy rates and asking rents from Cushman and Wakefield.

With reduced commercial activity going on in Lower Manhattan, it is difficult to analyze commercial property values. The revival of commercial property values, and hence assessed values, in Lower Manhattan will in part depend on the extent to which firms return to the area. The total damaged or destroyed area is 34.5 million square feet (msf) of which 21.1 msf were damaged and 13.4 msf destroyed. Table 5 shows the relocation decisions of displaced firms as of March 11.

Table 5. Relocation Decisions of Lower Manhattan Firms as of March 11, 2002.

	Space		Firms		Jobs	
	Msf of Space	Percent	Number of Firms	Percent	Jobs	Percent
Downtown	19.1	55%	96	52%	76,294	55%
Elsewhere	15.0	44%	85	46%	59,830	44%
Undecided	0.4	1%	5	2%	1,795	1%
Total	34.5		186		137,919	

Source: Tenantwise.com.

Although only 55 percent of the total displaced area has been reoccupied, this 19.1 msf of reoccupied space represents 91 percent of the damaged area, meaning that much of the damaged space has been reoccupied with many firms returning to once damaged buildings. However, since most of the firms displaced from destroyed area have relocated elsewhere, either in midtown or out of the City, only about 55 percent of displaced jobs have returned to the area at this point as shown on Table 5.

There appears to be no significant building sales activity downtown since September 11 so it is difficult to gauge market values. Neither is there any significant leasing activity. This is compounded by the amount of space put back on the market and a lack of demand. However there are indications of long-term activity. In the first quarter of 2002, leases by the United Federation of Teachers at 52 Broadway and the New York State Banking Department at One State Street Plaza made the "Top 25 New Leases First Quarter 2002" list for Cushman and Wakefield's U.S. operations. This also reflects the market slowdown as the size of the typical lease that makes the list usually exceeds the ones for this quarter.[7]

Elsewhere in Manhattan, market values of commercial real estate are doing better than downtown. New York City, along with Washington, D.C., reportedly dominated first-quarter 2002 office-sales rankings.[8] The City accounted for five of the top ten deals of prime properties at high average values, even with the difficulty of obtaining terrorism insurance.

In addition, the rebuilding of downtown, projected to take about five years, may be optimistic and incentives to firms to locate downtown may not be lucrative enough. Vacancy rates may therefore continue to rise, especially as repaired buildings return to the market. The few upbeat signs to the downtown real estate market at this point are not signaling a trend and so market values and assessed values are expected to stay depressed over the term of the financial plan.

Miscellaneous Revenues

In FY 2004, miscellaneous revenues, which includes income from fees, fines, permits, rents and asset sales, are projected to total \$3.2 billion, approximately the same amount forecasted for FY 2003. Miscellaneous revenues are then expected to decline by \$289 million in FY 2005 to \$2.9 billion, and by \$244 million in FY 2006 to \$2.7 billion as shown on Table 6. The FY 2004 miscellaneous-revenues projections includes a one-time benefit of \$250 million from the sale or privatization of the Off-Track Betting Corporation (OTB), which mainly accounts for the decline in collections between FYs 2004 and 2005. The estimates also assumes the City will collect rental payments from the Port Authority for the operation of JFK and LaGuardia airports of \$380 million in FY 2004, \$295 million in FY 2005, and \$50 million in FY 2006. The difficulties involved in negotiating higher rental income for the airports and the privatizing of OTB indicates that the City may face shortfalls in FYs 2004 through 2006.

Table 6. Miscellaneous Revenues Projection, \$ in millions

	FY 2004	FY 2005	FY 2006
Miscellaneous Revenues	\$3,199	\$2,910	\$2,666
Less:			
OTB	250		
Airport Rental	330	295	50
Total	**\$2,619**	**\$2,615**	**\$2,616**

[7] Peter Grant, *Quarter's Top Deals Show Huge Slowdown*. Real Estate Journal, April 10, 2002.
[8] Peter Grant, *NYC, Washington Leads First Quarter Sales Rankings*. Real Estate Journal, April 24, 2002.

It is unlikely that the City will implement its plan to privatize the operations of OTB in FY 2004. The transaction requires the State's approval and it has been delayed for several years. In FY 2002, the City appeared to have selected a potential candidate to manage OTB's operations. However, it is now uncertain that this transaction will occur.

Airport Rental Income ($ millions)	
FY 2001	$25
FY 2000	$31
FY 1999	$ 5
FY 1998	$32
FY 1997	$37
FY 1996	$30
FY 1995	$12

The City is still awaiting findings of an arbitration panel on its claim of back-rental income for JFK and LaGuardia airports. Furthermore, the City expects to negotiate new leases for an increase in annual rental income for the airports to about $50 million. As shown in the figure to the right, after experiencing a decline in airport rental to $5 million in FY 1999, the City collected rental income of $31 million in FY 2000 and $25 million in FY 2001. It is expected that the City will collect about $10 million in rental income for FYs 2002 and 2003 as a result of the recent downturn in the economy and the decline in travel following the WTC attacks. If the negotiations with the Port Authority are not resolved and the City collects amounts for rental income similar to that expected in FY 2002, the budget could face risks of $320 million in FY 2004, $285 million in FY 2005, and $40 million in FY 2006.

Intergovernmental Aid

The April Modification projects Federal and State categorical grants will remain essentially flat throughout the term of the financial plan, fluctuating between $12.3 billion and $12.4 billion annually. The City has assembled a menu of proposed Federal and State actions as part of the FY 2003 gap-closing program that total $1.7 billion to $1.9 billion in each of the outyears of the financial plan and anticipates receiving additional Federal and State assistance of $500 million in each of FY 2004 and FY 2005, and $480 million in FY 2006 from these initiatives. Against these assumptions, the City could face risks of between $218 million and $229 million.

The City's outlook for additional State assistance has brightened considerably after the passage of the State budget. In addition, legislative approvals for certain City proposals are expected shortly. As illustrated in Table 7 on page 13, the City will likely receive approval for a significant portion of the anticipated State assistance included in the FY 2003 gap-closing program. The City has also recently indicated that it could save $20 million annually in FY 2004 and FY 2005 through the use of Federal Community Development Block Grant funds.

Though the State will likely approve the City's request to increase its cigarette tax, the expected revenues will be significantly lower than the projections in the FYs 2003-2006 Financial Plan. It appears now that the City will generate half of the projected revenues from a cigarette tax increase of $1.42 per pack, because the expected approval will contain set-aside provisions to cover potential State tax loss from reduced consumption. Thus, the City will receive no more than $125 million each year from this action, compared to projected annual revenues of $241 million to $249 million contained in the financial plan.

Table 7. Projected Risks from Anticipated Federal and State Actions, $ in millions

	FY 2004	FY 2005	FY 2006
Projected Resources			
State Debt Finance Reform	$ 25	$ 25	$ 25
Parking Violation Fine Increase	83	83	83
E-911 Land-Line Surcharge	35	35	35
Cigarette Tax Increase	123	122	121
Flexible Use of CD Block Grant	20	20	0
Subtotal	**$286**	**$285**	**$264**
Projected Offsets			
Decoupling from Federal Accelerated Depreciation	($15)	($14)	($2)
Net Resources	**$271**	**$271**	**$262**
Anticipated Federal and State Assistance	$500	$500	$480
Risks to the April Modification	**($229)**	**($229)**	**($218)**

Moreover, the State may grant approval to decouple certain Federal and City business tax laws that are subject to Federal tax relief provisions enacted in the Economic Stimulus Package. The approval is expected to cover most businesses in the City, except those in Lower Manhattan creating risks of between $2 million and $15 million annually in the outyears of the financial plan.

B. Expenditure Projections

In general, the City's expenditures are reasonably projected in the outyears of the plan. Several areas, however, including overtime, collective bargaining, public assistance, medical assistance, and pension costs contain significant underestimations which, as shown on Table 2 on page 2, could increase City costs by over $650 million by FY 2006.

Overtime

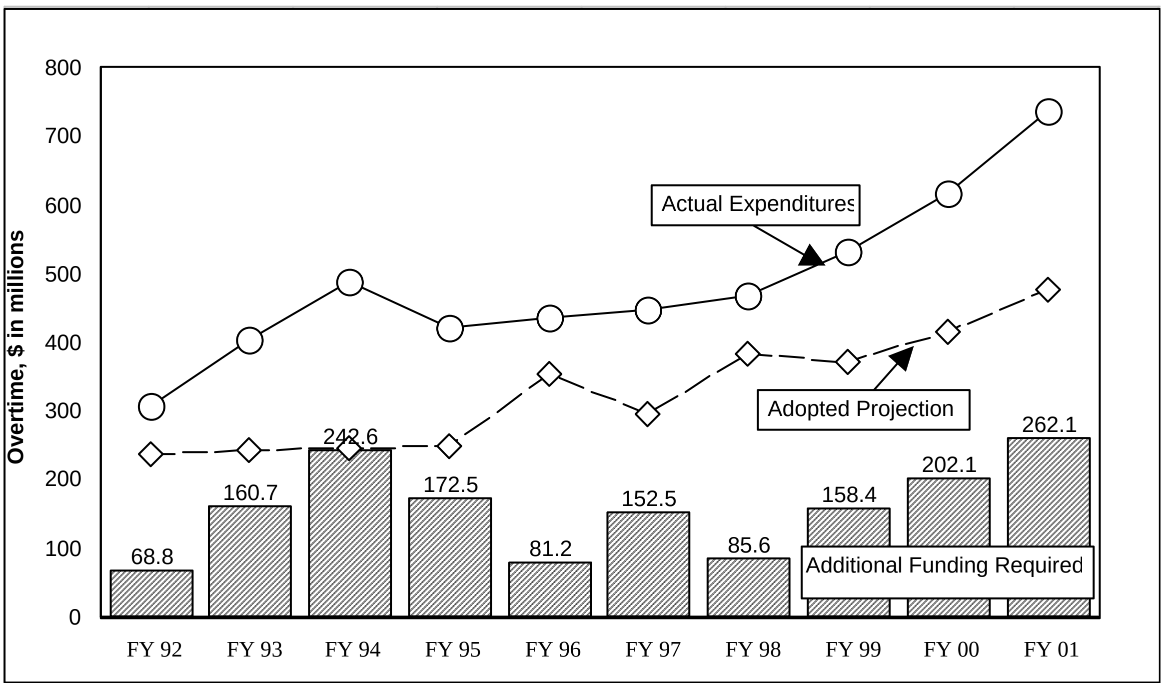
The April Modification projects that overtime expenditures will decline significantly to $523 million in FY 2003, $274 million less than what the City will likely spend in total non-WTC related overtime during FY 2002. The City projects about the same level of overtime spending for FYs 2004 through FY 2006.[9] The Comptroller projects that overtime spending will be $145 million higher than what is projected in FY

[9] Potential overtime increases from collective-bargained salary increases have not been factored into the overtime projections. Overtime cost increases resulting from salary increases are included in the April Modification as a part of the reserves held for wage negotiations.

2003.[10] For FYs 2004 through 2006, the Comptroller estimates that the City will spend at least $180 million more than planned.[11]

Based on the financial constraints that will force the City to seek more output from a reduced number of employees, it is likely that higher overtime expenditures will occur beyond FY 2003. It is widely expected that the City will lose a substantial number of employees because, in addition to absorbing normal attrition, the City is also planning early retirement and severance programs. Any reduction in the workforce could create pressure for more overtime to complete scheduled jobs in many agencies, with the possible exception of the Police Department. For the uniformed Police force, which accounts for more than 40 percent of the City's overtime expenditures, overtime expenditures usually decline with a reduction in the number of officers. This occurs because most uniformed police overtime is generated during arrest processing. With fewer officers, there are fewer arrests and, therefore, less overtime spending. However, crime fighting needs may change this assumption.

Chart 3. *Overtime Comparison:*
Adopted Budgets with Actual Expenditures For FYs 1992-2001, $ in millions



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[10] This figure was calculated using actual expenditures for FYs 2000-2001, and projected total for non-WTC overtime for FY 2002, less $50 million to account for curtailed overtime initiatives by uniformed agencies, including Police overtime reductions of $20 million for Operation Condor and $11 million for the Narcotics program.

[11] This estimate assumes the civilian overtime and the non-police uniform overtime spending patterns will remain level, although overtime is expected to go up as a result of anticipated headcount reductions. Police uniform overtime was adjusted to assume a decrease of six percent in its force from current levels, as well as for reductions in overtime programs such as Operation Condor.

It is not unusual that there are substantial overtime risks in the April Modification. The City historically under-budgets overtime as a tool to control spending, particularly in the uniformed agencies, as shown in Chart 3 on page 14. The City modifies its budget and raises overtime appropriations several times during the fiscal year according to the actual pattern of overtime expenditures. The bars shown in the chart indicate the additional level of overtime funding that was required from the adopted projections since FY 1992. Except for FYs 1996 and 1998, the additional expenditure in overtime was driven by crime-fighting initiatives in the Police Department. For FY 1996, it was mostly driven by reductions in headcount.

Pensions

The City's contributions to its five actuarial pension funds may be higher than the financial plan projections for several reasons. As shown in Table 2 on page 2, the City's pension contributions could be higher by $150 million in FY 2004, $238 million in FY 2005 and $351 million in FY 2006.

The City's pension fund investment earnings during FY 2002 are virtually certain to be lower than expected in the FY 2003 Executive Budget. The City projects pension expenses assuming that pension fund investments will earn an eight percent return each year. The Executive Budget recognized that FY 2002 investment returns will probably be below that threshold and reduced the FY 2002 investment earnings estimate to two percent, consequently adding $735 million to its projection for pension expenses for FY 2003 through FY 2006. However, FY 2002 investment earnings may be even lower. Through the end of April 2002, pension investments lost about 3.75 percent. As shown in Table 8, if investment returns remain at this level on June 30, 2002, the City will have underestimated pension expenses in each of the FYs 2004-2006.

Table 8. Impact of Investment Losses of 3.75 Percent during FY 2002

	FY 2004	FY 2005	FY 2006
Amounts Included in FY 2003 Executive Budget & Financial Plan anticipating FY 2002 Investment Return of 2.0 %	$122	$221	$344
Amounts Needed if FY 2002 Investment Return equals negative 3.75%	227	409	636
Potential Risk for FY 2002 Investment Losses	**($105)**	**($188)**	**($292)**

In addition, the City's contributions to the Teachers' Retirement System may increase by at least $70 million per year if the State Court of Appeals affirms the New York County Supreme Court's decision in favor of the UFT making teachers' "per session" earnings pensionable.[12] These increases will be slightly offset by additional savings if the impact of the cost of the Cost of Living Adjustment (COLA) implemented by Chapter 125 of the Laws of 2000 is phased-in over ten years instead of the currently mandated five years. It is expected that the State will approve legislation to enable this longer phase-in.

Health Insurance

The City's expenditures for health insurance coverage for its employees and retirees have grown from about four percent of Personal Service (PS) expenditures in FY 1984 to about eight percent in FY 2001. During this period, the rates for individual coverage grew annually at an average rate of 8.4 percent while those for family coverage grew at 7.7 percent.[13] Continuing the trend, the rates for both individual and family coverage increased 11.8 percent in FY 2002 and are slated to increase another 8.46 percent in FY 2003. Thereafter, the City indicates that rates will keep increasing at eight percent per year. According to several studies, these are optimistic forecasts.

Employee benefit consultants predict health care cost increases of between 15.6 percent and 13.3 percent for 2002.[14] Hewitt Associates, for example, anticipates double digit increases after that "unless there is a fundamental change in the way health care is delivered."[15]

If, instead of the eight percent increases assumed by the City in the financial plan, health insurance rates increase at ten percent annually beyond FY 2003, the City's health costs will be higher by $294 million in the FYs 2004 to 2006 period as shown in the figure to the right. Similarly, if it increases at 12 percent annually, the additional cost for FYs 2004 to 2006 will be $599 million.

City Health Costs, $ in millions (Including BOE and Estimated CUNY)

	Executive Budget	If Rates Increased By 10%	12%
FY 2003	$2,028	-	-
FY 2004	2,231	41	83
FY 2005	2,552	95	193
FY 2006	2,798	158	323
	TOTAL	$ 294	$ 599

Labor Policy

The City's labor costs in FYs 2004 through 2006 are likely to be higher than projected after settlements are reached with the United Federation of Teachers (UFT), the Police Benevolent Association (PBA), the Detectives Endowment Association (DEA), the Uniformed Firefighters Association (UFA) and the Sergeants Benevolent Association

[12] Further details may be found on page 13 of *The Comptroller's Comments on the Fiscal Year 2003 Executive Budget*, issued on May 9, 2002.
[13] The City pays a different and lower rate for retirees who are at least 65 years of age.
[14] *Employers Seek Out New Plan Designs, As Health Care Cost Storm Continues Unabated*, Employee Benefit Plan Review, April 2002. This analysis of health care costs includes prescription drug benefits.
[15] *Double-Digit Health Care Cost Increases Expected to Continue in 2002*, published by Hewitt Associates, October 29, 2001.

(SBA). Furthermore, the budget does not include any funding for the next round of collective bargaining, which for most unions becomes effective in FY 2003.

The City has allocated funding in two parts for the remaining settlements expected in the current round of bargaining. The general labor reserve, except for the Board of Education (BOE) employees, contains $479 million in FY 2004, $480 million in FY 2005, and $484 million in FY 2006. The BOE labor reserve has funds of $481 million in each of FYs 2004 to 2006.

The unions mentioned above are seeking parity in wages with employees in the City's surrounding communities. The PBA is seeking wage increases of at least 21.9 percent. The PBA's case is currently before the State's Public Employee Relations Board (PERB) in a binding arbitration. Each one-percent wage increase for the PBA, UFA, DEA, and SBA would cost the City approximately $40 million.

In another determination, a non-binding PERB panel has recommended wage and benefit increases of ten percent for UFT members.[16] This proposal, which would cost $147 million retroactively for FY 2001, increases to an annualized cost of $567 million in FY 2004. When compared to the BOE labor reserve of $481 million, this could pose an annual risk of $86 million. Additionally, the proposal recommended a six percent increase to certain personnel for extended workdays, to be funded by the State. The State has agreed to fund this cost in FY 2003. It is not certain, however, who will be responsible for this cost in FYs 2004 to 2006. A six percent wage increase for all UFT members would cost $336 million annually.

Beginning in FY 2003, the City could face additional costs of approximately $83 million, excluding pensions, for a one-percentage point wage increase to its employees.[17] It should be noted, however, that the City expects headcount to decline in the near future and this cost could be lower. Wage increases at the projected growth of the consumer price index (CPI) would increase costs by $187 million in FY 2003, $650 million in FY 2004, $1.2 billion in FY 2005, and $1.8 billion in FY 2006.[18]

Public Assistance

The April Modification assumes public assistance caseload expenditures will remain flat between FYs 2003 and 2006. While the overall public assistance caseload continues to drift lower, the underlying regular Safety Net Assistance (SNA) caseload has risen in recent months.[19] This could lead to higher-than-expected spending for public assistance because the City's welfare caseload projections, unchanged since the February

[16] See "Labor Reserve" in the May 9, 2002 *Comptroller's Comments on the FY 2003 Executive Budget.*

[17] The full year cost in FY 2004, would grow to $185 million, including pensions.

[18] The FY 2003 Executive Budget projects CPI growth of 2.3 percent in FY 2003, 2.7 percent in FY 2004, 2.9 percent in FY 2005, and 3 percent in FY 2006. This projection assumes that wage increases would be granted at end of current or proposed contracts and on the anniversary date thereafter.

[19] The City's public assistance caseload consists of three categories: Family Assistance (FA), regular Safety Net Assistance (SNA), and the newly created SNA-5 Year. In December 2001, the SNA-5 Year program was created to take on transfers of former FA recipients who are required to leave the program after reaching a lifetime limit of five years.

Modification, do not fully reflect the recent upturn in the regular SNA caseload. Therefore, the City could face risks of $40 million in its public assistance budget in each of FYs 2004-2006.

The latest caseload data from April 2002 indicates that the regular SNA caseload has grown by about 13 percent over the past seven months. The recent rise in the regular SNA caseload may be the beginning of a new trend that could lead to greater-than-expected expenditures in FY 2003 and beyond. The regular SNA caseload in April 2002 has already exceeded the City's June 2002 target of 83,298 by 3,122 recipients. This variance is likely to increase because of the City's flat caseload projections in the April Modification. The City may have underestimated the regular SNA caseload by as much as 25 percent (21,000 recipients) in each of FYs 2004 to 2006. For this reason, the City could face risks in its budget from higher-than-expected public assistance expenditures, as noted above. Further, these projected risks are based on the assumption that the transfer of Family Assistance (FA) recipients into the SNA-5 Year program will be cost neutral to the City.[20]

Medicaid

The City estimates that City-funded Medicaid spending through the Department of Social Services (DSS) will rise to almost $3.5 billion by FY 2006. Over the course of the FYs 2003-2006 Financial Plan, City-funded Medicaid expenditures are expected to rise by about 16 percent, with more than half of this growth projected in FY 2004. The lower growth projected in the latter stages of the plan could place the City-funded Medicaid budget at risk for $75 million in FY 2005 and $130 million in FY 2006.

The April Modification assumes City-funded DSS Medicaid expenditures to range between $3 billion in FY 2003 to $3.5 billion in FY 2006 as shown in the figure to the right. These assumptions are essentially unchanged since the February Modification, when the City significantly increased the Medicaid budget to fund higher utilization estimates, as well as new Medicaid eligibility for legal immigrants, extension of the State Health Care Reform Act, and failed savings assumptions for enhanced Federal Medicaid funding. These funding needs raised the City-funded Medicaid budget by $206 million to $448 million each year, between FY 2003 and FY 2006.

Projected DSS Medicaid Expenditures
City Funds ($ in millions)

Fiscal Year	Expenditures	Pct. Growth
2003	$3,012	--
2004	$3,257	8.1%
2005	$3,375	3.6%
2006	$3,496	3.6%

City-funded Medicaid expenditures are projected to increase by about 8.1 percent in FY 2004. In FYs 2005 and 2006, the projected growth in City-funded Medicaid expenditures drops off significantly, to 3.6 percent annually. Thus, the City could face

[20] Under the TANF maintenance of effort (MOE) provision, the City and the State are required to spend at least 75 percent of the $2.4 billion in Federal TANF Block Grant allocation each year on eligible welfare and transitional programs. The City has indicated that, because of the MOE provision, it can no longer reflect surpluses resulting from the continuing decline in the FA caseload. However, Federal regulations permit spending for the SNA-5 Year program to count towards the MOE requirement, thus enabling the City to re-direct its FA caseload savings to support SNA-5 Year spending.

significant risks in FY 2005 and FY 2006, if the growth of City-funded Medicaid expenditures fails to slow to levels assumed in the financial plan during these years.

Over eighty percent of the City-funded Medicaid budget is devoted to spending in the major categories of: hospital services, outpatient services, clinics, pharmaceuticals, skilled nursing facilities, prepaid health care, and home care. Spending for pharmaceuticals, in particular, is expected to grow by about 37 percent in the outyears of the financial plan, to $693 million in FY 2006 from a base estimate of $505 million in FY 2003. The considerable growth, attributable to rising drug costs and greater utilization, is in line with recent trends in this category. The City projects prepaid health care spending to rise by almost 14 percent over the same span, while expenditures for home care services are projected to grow by 11 percent. At the same time, the categories of hospitals, skilled nursing facilities, and clinics are each expected to increase by eight to nine percent.

In another development, the number of Medicaid enrollees rose by about 24 percent to almost two million during FY 2002, mainly resulting from new enrollment of about 380,000 individuals in the temporary Disaster Relief Medicaid (DRM) program following the WTC attacks. Under the DRM program, enrollees received temporary Medicaid benefits that were set to expire between January and April of 2002. The City is currently interviewing these recipients in an attempt to enroll them in the traditional Medicaid program or the Family Health Plus program for those who do not qualify for Medicaid benefits. There is indication that a majority of this population failed to show up for interviews and are, therefore, unlikely to enter the Medicaid program.

Judgments and Claims

The City expects Judgment and Claims (J&C) expenditures to increase at approximately five percent a year from $618 million in FY 2004 to $651 million in FY 2005 and $686 million in FY 2006. The expected rate of increase in J&C costs is about half the rate of growth that the City experienced between FYs 1991 and 2001. Annually, J&C costs increased at an average rate of 11 percent to $595 million in FY 2001 from $196 million in FY 1991. Furthermore, from FY 1996 to FY 2001, J&C costs increased at an average rate of 14 percent annually to $595 million in FY 2001 from $309 million in FY 1996.

In recent years, the Comptroller has implemented an early-settlement initiative coupled with aggressive investigative procedures, which is expected to eventually result in lower average settlements per claim. These procedures, coupled with the decline in the number of claims filed in recent years, as shown on Table 9 on page 20, are expected to reduce the growth rate of J&C costs.

Despite these trends, however, there has been an increase in the average cost of claims resolved mainly from higher verdicts being sustained by the Appellate Court, particularly for personal injury (PI) claims. Through March FY 2002, the City spent $337 million to resolve PI claims. This represented an average of $56,467 for resolving 5,963 claims compared with an average of $54,537 for the same period in FY 2001 to

Table 9. Claims Filed, FY 1990 to FY 2001

	All Claims Filed	Personal Injury Claims Filed	Property Damage Claims Filed	Law Claims Filed
FY 1990	25,627	14,003	10,664	960
FY 1991	26,830	15,300	10,355	1,175
FY 1992	26,724	15,265	9,931	1,528
FY 1993	28,207	16,653	10,158	1,396
FY 1994	30,861	18,532	11,071	1,258
FY 1995	29,455	18,288	9,888	1,279
FY 1996	31,119	18,591	11,199	1,329
FY 1997	29,835	16,937	11,597	1,301
FY 1998	27,420	17,211	9,111	1,098
FY 1999	26,632	17,306	8,313	1,013
FY 2000	26,336	16,714	8,670	952
FY 2001*	26,294	15,602	9,177	1,515

*Preliminary
Source: NYC Comptroller's Annual Claims Reports and Bureau of Law and Adjustment.

resolve 6,504 claims. If J&C costs were to increase in the out-years at the rate of increase experienced between FYs 1991 and 2001, the City could face increased costs of $40 million in FY 2004, $82 million in FY 2005, and $132 million in FY 2006.

Board of Education

Funding for the Board of Education (BOE) is expected to rise gradually in the April Modification, from $11.8 billion in FY 2003 to $12.1 billion in FY 2006. These estimates reflect significant reductions taken against the BOE budget as part of the City's FY 2003 gap-closing program. As a result of these reductions, the City could face an exposure of $181 million under the Stavisky-Goodman funding requirement beginning in FY 2004. Against this background, the recently enacted State budget is expected to provide budget relief of up to $200 million to the Board in FY 2003. In addition, the State budget makes a significant payment to the City for retiring prior year education aid claims, thus diminishing the likelihood of extensive write-offs of these claims in the near term.

Budget Reductions

Between FY 2004 and FY 2006, the Board's budget has been reduced by $356 million each year. The reduced level of funding to BOE in the outyears could require increased support of $181 million beginning in FY 2004, under the Stavisky-Goodman minimum funding requirement. This risk is estimated to average about $250 million in each of FYs 2005 and 2006, based on the funding levels projected in the April Modification. The Stavisky-Goodman legislation was passed during the fiscal crisis in the mid-1970's, to prevent the Board from absorbing a disproportionately larger share of citywide budget reductions. The law stipulates that total funding for educational purposes, in any one year, may not fall below the average ratio of this portion of the expense budget to the total City expense budget for the previous three years.[21] Given the significant rise in the Board's budget over the past few years, the City has not encountered any recent risk from this maintenance-of-effort requirement.

State Budget Impact

The adopted State budget is estimated to provide the City with an increase of $163 million in school aid appropriations that could reach $200 million, through the spin-up of certain revenues, during FY 2003. The additional aid would meet part of the Board's expectation of $261 million in Federal and State revenues to close its budget gap in FY 2003. Moreover, among the issues that are being considered by the Legislature is mayoral control of the City's public school system.[22] Earlier discussions have centered around assigning control of certain Board functions to the Mayor, in exchange for restoring the City's cuts to the BOE budget. These changes could figure prominently in education funding levels in the City's financial plan. For instance, the Stavisky-Goodman exposure for FYs 2004 to 2006 could be significantly reduced, once the City incorporates the education aid increase or other funding restorations into its financial plan assumptions.

In addition, the State plans to accelerate payment of prior year claims through a bond issuance by the Municipal Bond Bank, providing proceeds of $435 million to the City in FY 2003. Future State aid dedicated for the payment of prior year claims, with current appropriations of $33 million each year, will be used to pay for debt service costs from the Municipal Bond Bank financing.

Status of State Education Aid Receivables
$ in millions

Originating Year	Outstanding Balance*
FY 1993	$ 84
FY 1994	72
FY 1995	93
FY 1996	11
FY 1997	21
FY 1998	49
FY 1999	32
FY 2000	64
FY 2001	125
Total	**$551**

***As of the April 2002 Close.**

The financing essentially reduces the potential for budget risks stemming from write-offs of prior year education aid claims. The outstanding claims on the City's books are illustrated in the figure to the right. Prior to this action, about $260 million in prior year claims representing aid due from FYs 1993 through 1996 would have been subject to write-offs in FYs 2003 through 2006, based on the Comptroller's policy of writing down receivables that are aged ten years or longer. The City has a total of $551 million in prior year State education aid receivables still outstanding on its books, covering FYs 1993 through 2001. According to BOE, an additional $200 million in prior year claims are currently waiting to be accrued by the City. The majority of these claims fall between FY 1992 and FY 1996, and have yet to be approved by the State Education Department.

[21] The Stavisky-Goodman funding requirement is based on total funds and last modified budget conditions. It also includes pension and debt service costs in its definition of total funding for education.
[22] It is reported that agreement has been reached on this issue.

Other BOE Issues

The April Modification to the financial plan assumes the BOE register will decline by about 16,350 students to 1,068,418 in FY 2006, from an actual enrollment of 1,084,768 in FY 2002 as shown in the figure to the right. Compared to the February Modification, the City has adjusted BOE enrollment projections downwards by an average of about 18,000 students each year in FYs 2003 to 2006. These revisions reflect the general declining trend of the BOE register over the past three years, save for the expansion of the Universal Pre-Kindergarten program. The majority of the adjustments are seen in the special education and charter school enrollment. These segments of the student population receive greater funding support, on a per pupil basis, than the average BOE student. The City has opted not to make corresponding funding adjustments in the April Modification to reflect the lower register projections, thus providing the Board with significant funding flexibility to partly offset its budget cuts over the course of the plan.

BOE Enrollment Trends

	Public School Enrollment*	Universal Pre-K	Total BOE Register
FY 1999	1,061,153	13,625	1,074,778
FY 2000	1,055,201	16,241	1,071,442
FY 2001	1,048,876	23,802	1,072,678
FY 2002	1,044,946	39,822	1,084,768
FY 2003p	1,040,489	39,822	1,080,311
FY 2004p	1,037,574	39,822	1,077,396
FY 2005p	1,032,880	39,822	1,072,702
FY 2006p	1,028,596	39,822	1,068,418

*Includes charter school enrollment.
p=Financial Plan projections.

By the Fall of 2003, the Board must fully staff classrooms with certified teachers to comply with a State Regents requirement. The Chancellor indicates that about 13,000 teachers in the public school system are currently uncertified, representing about 17 percent of the total number of teachers at the Board. The shortages are most acute in the areas of math, science and bilingual education. In order to attract and retain qualified teachers, the Board could face pressure to offer teaching salaries that are more on par with nearby suburban school districts.[23]

Moreover, between now and 2005, high school students will need to achieve progressively higher standards in order to graduate. Beginning in 2003, students must obtain a passing grade of 55 on five Regents Exams as a graduation requirement. Then, in 2004, the passing grade for three of these exams (English, U.S. History, and Global History) will be raised to 65. By 2005, the passing grade on the remaining two exams (Math and Science) will also be raised to 65. The State has provided funding to the City, since 1998, to help implement the tougher State Regents standards under the Operating Standards Aid. The adopted State budget appropriates about $83 million in this aid for FY 2003, an increase of about $11 million from FY 2002.

Tougher High School Graduation Requirements
Passing Grades on Regents Exams

School Year	English, US History and Global History	Math and Science
2002-2003	55	55
2003-2004	65	55
2004-2005	65	65

[23] See page 12 of our May 9, 2002 Report for a more detailed discussion of BOE labor issues.

Health and Hospitals Corporation

The financial outlook for the Health and Hospitals Corporation (HHC) has improved for FY 2003 in the April Modification. Beyond FY 2003, however, HHC's financial position becomes less promising, as it will need to contend with a significant operating deficit each year. Though the City still projects significant cash balances for HHC in FYs 2004 through 2006, the realization of these assumptions will depend heavily on its gap closing actions.

As illustrated in Table 10, the April Modification assumes the Corporation will begin FY 2004 with a significant cash balance of $158 million, an increase of $71 million from the February Modification estimate. The improvement comes mainly from a higher opening cash balance of $259 million in FY 2003, to be carried forward from FY 2002.

Table 10. Summary of HHC Financial Plan Projections, $ in millions

	FY 2004	**FY 2005**	**FY 2006**
Opening Cash Balance	**$158**	**$169**	**$170**
Total Receipts	$3,907	$3,931	$3,989
Total Disbursements	4,171	4,280	4,412
Operating Loss	**($264)**	**($349)**	**($423)**
Gap Closing Actions	$275	$350	$350
Closing Cash Balance	**$169**	**$170**	**$97**

While the April Modification shows a general improvement in FYs 2004 and 2005, HHC still faces significant operating deficits during these years. Over the remainder of the plan, the Corporation expects expenditure growth to average about two percent annually, outpacing an annual growth of about one percent in its projected revenues. As a result, the City projects HHC to face annual operating deficits of between $264 million and $423 million in the outyears of the plan. Though HHC still expects to achieve significant ending cash balances in these years, these assumptions will begin to rely more heavily on gap-closing actions in the latter stages of the plan. The City projects HHC's gap-closing actions to reach $350 million in value for both FY 2005 and FY 2006, twice the level of resources expected from its FY 2003 gap-closing actions. The details of these actions are sketchy at this point.

The Corporation's financial prospects are likely less bleak than indicated by the April Modification estimates, because its Medicaid fee-for-service (FFS) revenue projections are probably understated. The City projects Medicaid FFS revenue, which makes up almost half of HHC's total revenues, to grow modestly at two percent over the course of the April Modification. In contrast, the City's own Medicaid budget carries an average annual growth of nearly three percent for hospital services expenditures. It should be noted that the City may have underfunded its Medicaid budget in FY 2005 and FY 2006, thus higher growth rates could be expected in this category. Accordingly, there is likely upside potential in HHC's Medicaid FFS revenue.

The April Modification also contains modest enrollment targets of uninsured patients into the Family Health Plus (FHP) program at HHC. The City projects annual revenues of between $112 million and $198 million from this program in the outyears. Under these assumptions, the City expects incremental increases of five percent annually in HHC's FHP enrollment target. HHC currently serves about 545,000 uninsured patients at its facilities. The Corporation could realize additional revenues of $10 million to $12 million for each additional percentage point achieved above the expected FHP enrollment rates.

Debt Service

The April Modification projects debt service costs, adjusted for prepayments, will total $4.8 billion in FY 2004, $5.15 billion in FY 2005, and $5.45 billion in FY 2006.[24] Compared with the February Modification, these estimates represent increases of $32 million in FY 2004, $75 million in FY 2005, and $84 million in FY 2006.

General Obligation and Lease-Purchase Debt

As shown in Table 11, General Obligation (G.O.) and lease-purchase debt service are projected to total $3.25 billion in FY 2004, $3.43 billion in FY 2005, and $3.7 billion in FY 2006. Of these amounts lease-purchase debt is estimated to be $221 million in FY 2004, $260 million in FY 2005, and $339 million in FY 2006. These debt service expenditures represent increases of $37.4 million in FY 2004, $40.5 million in FY 2005, and $55 million in FY 2006 compared to the February Modification. In addition, projected interest rates on borrowing have been increased by 50 basis points compared to the February Modification beginning in FY 2003 and continuing through the first half of FY 2005.

Table 11. G.O. Debt Service Reconciliation, February 2002 to April 2002, $ in millions

Description	**FY 2004**	**FY 2005**	**FY 2006**
February Modification Net of Prepayments	3,208.9	3,384.5	3,649.4
April Modification Net of Prepayments	3,246.3	3,425	3,704.4
Increase / (Decrease)	$37.4	$40.5	$55
Reasons for Change:			
Baseline Change and Changes in Projected Debt Service	$25.7	$28.4	$43
Changes in Housing Revenue	13.0	13.0	13.0
Changes in Interest Earnings on bond Proceeds	0.3	(0.9)	(1.0)
Changes in Variable Rate Assumptions on New Issuance	(1.5)		
Rounding	(0.1)		

Note: Positive Numbers are a cost, negative numbers are savings.

[24] Includes debt service for G.O., NYCTFA, TSASC, Inc. and MAC debt. Also includes interest on short-term notes and lease-purchase debt service. Excludes debt service of the Water Finance Authority.

Baseline debt-service changes and changes in projected debt service are the result of three major factors. The acceleration of $500 million of borrowing from the first-half of FY 2003 into FY 2002 coupled with an overall increase in borrowing of $150 million in FY 2002, and a 50 basis point increase in assumed interest rates on projected borrowing, contributing to debt service increases of $25.7 million in FY 2004, $28.4 million in FY 2005, and $43 million in FY 2006.

The planned sale of housing mortgages in FY 2002, generating a one-time revenue of $200 million, eliminates an annual $13 million revenue stream and increases the cost of debt service in each of FYs 2004 through 2006.[25] Changes in interest earnings on bond proceeds result in an estimated increase in debt service of $0.3 million in FY 2004, and decreases of $0.9 million in FY 2005, and $1 million in FY 2006. Changes in variable rate assumptions from new issuances result in estimated savings of $1.5 million in FY 2004.

Transitional Finance Authority

The New York City Transitional Finance Authority (NYCTFA) projects debt service costs of $893.1 million in FY 2004, $1.03 billion in FY 2005, and $1.05 billion in FY 2006. This represents a decrease from the February Modification of $5.5 million in FY 2004, and increases of $34.6 million and $27.6 million in FYs 2005 and 2006, respectively.

In FY 2004, the savings are primarily attributable to the NYCTFA issuance of Bond Anticipation Notes (BANs) and the timing and capitalized interest savings that such a program produces.[26] In FYs 2005 and 2006, the increases are largely attributable to increased BAN interest costs, lower expected variable-rate savings, and the cumulative impact of the 50 basis point increase on future borrowing.

TSASC, Inc.

TSASC's debt is secured by tobacco-settlement revenues. The April Modification contain net debt-service costs of $169 million in FY 2004, $199 million in FY 2005, and $200 million in FY 2006, unchanged from the February Modification.

TSASC is the City's most expensive source of financing. Although secondary market rate information related to TSASC is scarce, its initial bond sale in November 1999 produced yields that were approximately 30 basis points higher than G.O. bonds.

Municipal Assistance Corporation

The Municipal Assistance Corporation (MAC) will pay off the last of its debt on July 1, 2008. The April Modification assumes MAC debt service expenditures will be

[25] The New York City Housing Development Corporation (HDC) will be purchasing 100 percent participation interests in NYC owned multifamily housing loans and a multifamily pass-through certificate. The approximate purchase price of the interests in the mortgages is over $200 million. As a result, the City will receive an upfront benefit in FY 2002 from the sale of these mortgages of approximately $200 million.

[26] The use of BANs reduces immediate near-term interest costs. When bonds are issued to redeem BANs, the size of the bond issue is increased to include interest costs on the notes, thereby averting interest costs in the year of issuance and generating capitalized interest savings at the time of redemption.

$489.2 million in FY 2004, $490.4 million in FY 2005, and $492 million in FY 2006. These figures are unchanged from the assumptions in the February Modification.

C. Capital Assumptions

In the aftermath of the fiscal crisis of the 1970's, the City began to reinvest in its infrastructure and the City's capital program began to steadily increase. Finding the appropriate balance between long-term capital commitments and ongoing expenditure needs are key challenges of any commitment plan. With the elimination of stadium proposals and with the majority of projects consisting of renovations, and improvements to existing structures, combined with mandated capital projects, this capital commitment plan appears to better target required capital projects.

Financing Plan

The Financing Program, in April, totaled $32.9 billion between FYs 2002 and 2006 including refunding transactions and BAN's issued in FY 2002 as shown on Table 12. This represents a net increase of $366 million from the February Modification. About $13.7 billion of G.O. bonds are scheduled to be issued between FYs 2002-2006, followed by just under $10.0 billion in Water Finance Authority bonds, $5.85 billion in NYCTFA bonds, $1.96 billion in TSASC, Inc. debt, and $1.44 billion in Courts and HHC related DASNY debt.

Table 12. Financing Program Comparison, April 2002 versus February 2002, $ in millions

Description	Financing Program FYs 2002-2006 as of **February 2002**	Financing Program FYs 2002-2006 as of **April 2002**	Increase / (Decrease)	Percent of Total, **April 2002**
G.O. Bonds	$13,240	$13,670	$430	41.5%
Water Finance Authority Bonds	9,296	9,980	684	30.3%
NYCTFA	6,007	5,855	(152)	17.8%
TSASC, Inc.	1,840	1,959	119	6.0%
DASNY & Other Conduit Debt	2,158	1,443	(715)	4.4%
Total	$32,541	$32,907	$366	100.0 %

Source: Message of the Mayor, April 2002, and Preliminary Budget, February 2002

Capital Plan

The growth in capital commitments will lead to higher debt service costs for the City. The April Capital Budget and Commitment Plan Modification for FYs 2002-2006 contains authorizations of $35.1 billion of which $32.5 billion are City funded, or just under 93 percent.[27] After accounting for the estimated reserves for unattained

[27] Authorizations refer to the maximum amount of obligations that can be entered into by individual agencies for capital project purposes.

commitments of $3.1 billion, total commitments decline to $32 billion and city-funded commitments fall to $29.4 billion, dropping slightly to 92 percent of total commitments.[28]

Three major programmatic areas continue to garner a large share of capital commitments: 1) environmental protection; 2) mass transit, highways, roads, and bridges; and 3) education. These three areas of capital work comprise 57 percent of total projected capital commitments between FYs 2002-2006. Other significant areas of capital commitments are housing and economic development, and City operations and facilities which include such agencies as Police, Fire, Corrections, and Sanitation, as well as court facilities citywide.

Compared with the February Capital Plan, City-funded commitments, after the reserve for unattained commitments, have increased by $826 million between FYs 2002 and 2006. Environmental protection accounts for $807 million of the increase, combined with a net increase of about $20 million from various agencies citywide and the change in the reserve for unattained commitments.

The April Capital Plan including Department Environment Protection (DEP) contains City-funded commitments which average $5.89 billion between FYs 2002 and 2006. Compared with historical averages of $4.33 billion between FYs 1997 and 2001, and $3.54 billion in FYs 1992 through 1996, these commitment levels are relatively high. Thus, the current five-year period exceeds the annual commitment averages of the FYs 1997-2001 and FYs 1992-1996 periods by 36 percent and 66 percent, respectively.

Table 13. City-Funded Capital Commitments Excluding DEP, FYs 2002-2006, $ in millions

Description	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	Total	Average FYs 2002-2006
February Plan Excluding DEP	$3,783	4,192	4,063	3,781	4,736	$20,555	$4,111
April Plan Excluding DEP	3,476	4,508	4,074	3,777	4,736	$20,571	$4,114
Increase (Decrease)	($307)	316	11	(4)	-	$16	$3

Source: FY 2003 Executive Budget and Message of the Mayor, April 2002, and the Preliminary Budget and Financial Plan, February 2002.

Since the DEP capital program is financed by Water Finance Authority (WFA) bonds and thus does not add to New York City's General Obligation (G.O.) debt, it has been excluded from the analysis in Table 13. WFA debt is funded by separately dedicated water and sewer user fees that are not included in the City's general fund revenues. As shown in Table 13, after $8.85 billion of DEP capital commitments are removed from the plan, City-funded commitments drop to an average of $4.11 billion between FYs 2002 and 2006.

[28] A capital commitment is defined as a registered contract. The commitment plan can be referred to as a compilation of estimates of anticipated capital contract registrations.

Programmatic Review

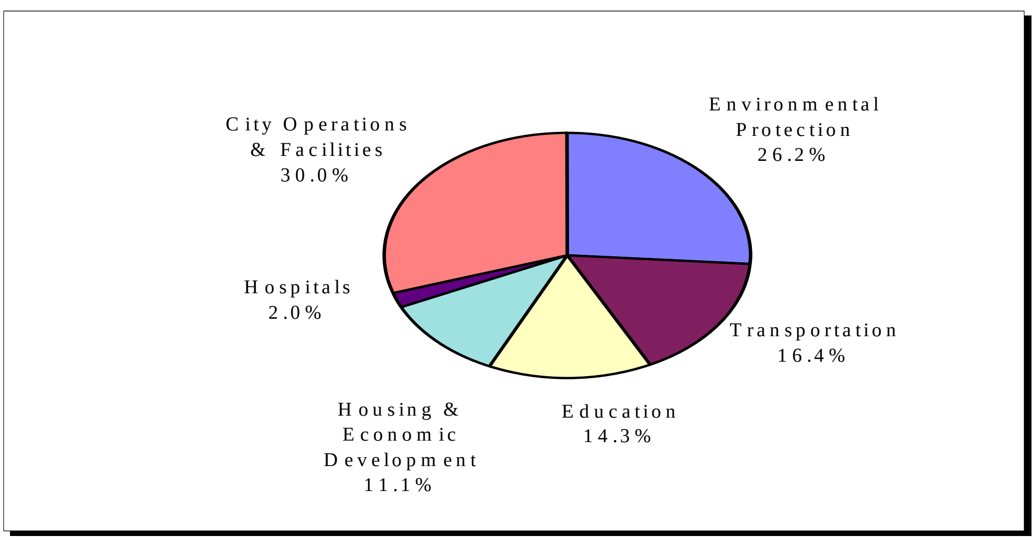
The growth in the Capital Plan in FYs 2002-2006 is primarily attributable to planned work in highways and highway bridges, housing and economic development, hospitals, and court facility projects.

Education

Capital commitments for Education total $5 billion between FYs 2002 and 2006, or 14.2 percent of total citywide commitments. This compares with $7.3 billion in FYs 1997 through 2001, or 30.8 percent of citywide commitments. The current plan is made up of $4.89 billion of commitments for the Board of Education (BOE), and $121 million for the City University of New York (CUNY). Highlights of the current plan include construction funds for seven new schools, providing 5,272 seats and design funds for nine schools that will eventually provide 5,692 seats. In addition, there is $424 million for system expansion, $807 million to rehabilitate, replace, and upgrade building components, $130 million for school modernizations, and $246 million for programmatic needs such as computer and science labs.

The CUNY capital program is comprised mainly of upgrade and maintenance of the community college physical plant including such projects as the rehabilitation and replacement of roofs, windows, and doors, ($43 million), and the purchase and installation of electronic data processing equipment ($45 million).

Chart 4. *Capital Commitments, Shares (of $35.1 billion), FYs 2002-2006, percent*



Source: FY 2003 Executive Budget and Capital Commitment Modification, Volume 1, Office of Management and Budget.

Transportation

The program category of transportation, including mass transit, streets, highways, and bridges, is projected to comprise 16.4 percent of total commitments, or $5.77 billion between FYs 2002 and 2006. This compares with $4.23 billion in FYs 1997 through 2001, or 17.9 percent.

The April Capital Plan contains $959 million for Mass Transit, or 2.7 percent of total commitments. This compares with $1.3 billion, or 5.5 percent of commitments in FYs 1997 through 2001. Capital commitments are used primarily to support New York City Transit (NYCT) for track and infrastructure improvements. City-funded capital projects constitute a small portion of the Metropolitan Transportation Authority's (MTA's) capital plan for NYCT. The NYCT capital plan is over $10 billion, the bulk of which is funded by MTA bonds and other non-city sources.

Managed by the City's Department of Transportation, the April Capital Plan contains $4.81 billion for streets, highways, and bridges, or 13.6 percent of total commitments. This compares with $2.93 billion in FYs 1997 through 2001, or 12.4 percent of total commitments. Of this amount, streets and highways comprise $1.7 billion, highway bridges $2.2 billion, and waterway bridges $894 million. These capital projects keep the City moving and contribute to its economic vitality.

City Operations and Facilities

The category of City Operations includes approximately 15 agencies and quasi-governmental entities, including Police and Fire Departments, Corrections, Courts, Sanitation, and cultural institutions and libraries. The April Capital Plan allocates $10.51 billion in FYs 2002 through 2006, or 30 percent of total commitments. Projects related to the renovation, and expansion of the City's court system account for 19 percent of this category, or $1.99 billion. The Department of Sanitation anticipates $1.18 billion in capital commitments, the Department of Parks $829 million, DCAS equipment and financing $843 million, museums and other cultural facilities $840 million, the Police and Fire Departments $1.2 billion, and the Department of Corrections $672 million.

Major capital projects for the courts system include the Brooklyn Court facility at 330 Jay Street for $628 million, the new Bronx Criminal Court Complex for $223 million, the 111 and 100 Centre Street Court facilities for $184 million, and 60 Lafayette Street for $62 million.

The Department of Sanitation's commitment plan contains $1.18 billion of anticipated capital projects, or 3.4 percent of total commitments. This compares with $620 million, or 2.6 percent between FYs 1997 and 2001. Sanitation garage construction and renovations account for $648 million of the agency's plan and equipment and vehicle purchases comprise $371 million between FYs 2002 and 2006. These two program areas account for over 86 percent of the agency's capital program.

As shown in the Table 14, the April Capital Plan for FYs 2002-2006 allocates $840 million for museums and other cultural institutions and $258 million for libraries citywide. This compares with $397 million, or 1.7 percent between FYs 1997-2001.

Highlights of the Cultural institutions and libraries capital plan include renovations at the American Museum of Natural History in the amount of $71 million, funding to support a major upgrade at Lincoln Center for Performing Arts of $144 million, funding for the New York Aquarium in Coney Island of $34 million, general renovations and upgrade to the Brooklyn Museum of $34 million, infrastructure improvements at the New York Botanical Garden of $31 million, reconstruction and expansion of the Metropolitan Museum of $26 million, and the construction of a new wing for the Museum of Jewish Heritage in the amount of $25 million. In addition, there are projected capital commitments of $127 million for the New York Public Library, $59 million for the New York Research Library, $46 million for the Brooklyn Public Library, and $26 million for the Queens Public Library for a variety of capital projects.

Table 14. Capital Commitments for Cultural Institutions and Libraries, $ in millions

Description	Capital Funds FYs 2002-2006
Lincoln Center for the Performing Arts	$144
American Museum of Natural History	71
Brooklyn Museum	34
New York Aquarium	34
Metropolitan Museum	26
Museum of Jewish Heritage	25
Other Cultural Institutions	506
Subtotal Cultural Institutions	***$840***
New York Public Library	$127
New York Research Library	59
Brooklyn Public Library	46
Queens Public Library	26
Total Cultural Institutions and Libraries	***$1,098***

Source: Capital Commitment Plan Executive Budget, FY 2003, April 2002 and Message of the Mayor, FY 2003, April 2002.

Housing and Economic Development

Housing and economic development account for $3.89 billion of capital commitments between FYs 2002-2006, or 11.1 percent of total commitments. This compares with $1.91 billion, or 8.1 percent over FYs 1997-2001. Housing accounts for $2.29 billion of commitments in the April Capital Plan, or 6.5 percent. This compares with $1.42 billion, or six percent between FYs 1997 and 2001. Disposition of occupied *In-Rem* buildings along with assistance to private owners are the core of the housing program. The renovation and privatization of occupied *In-Rem* buildings account for $1.05 billion and assistance to private owners through a variety of programs accounts for $780 million in

FYs 2002-2006.[29] Combined, these two housing initiatives comprise 80 percent of the total housing program.

The April Capital Plan also contains $1.59 billion of commitments for economic development projects, representing 4.5 percent of total commitments. This compares with $481 million, or two percent between FYs 1997 and 2001. Highlights include $280 million for the proposed New York Stock Exchange facility, $135 million for the modernization and reconstruction of piers citywide, $130 million for the modernization and reconstruction of markets, $109 million for the Whitehall Terminal reconstruction, and $106 million for waterfront development, both commercial and non-commercial.

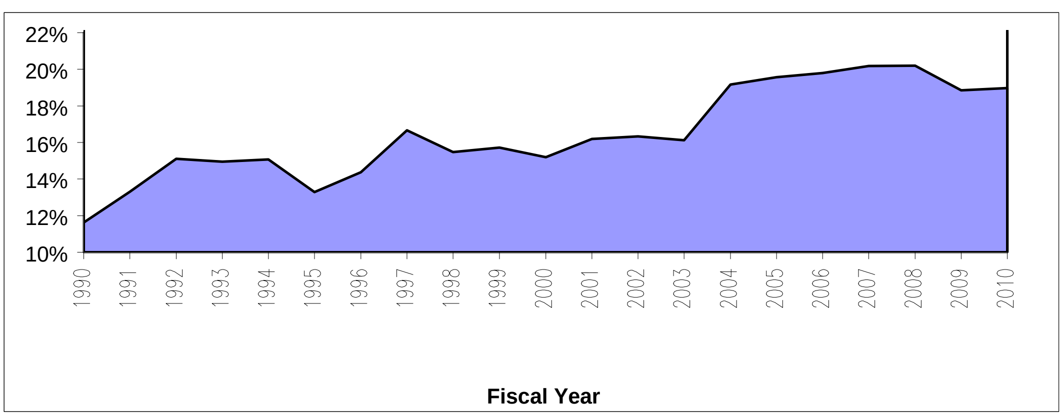
Hospitals

The April Capital Plan contains $711 million for the HHC between FYs 2002 and 2006, or two percent of total commitments. This compares with $193 million or just below one percent of total commitments in FYs 1997 through 2001. Three major projects consume over 78 percent of the HHC capital program. These projects include $247 million for the construction of a DNA lab for the Office of the Chief Medical Examiner, $162 million for the modernization of the Bellevue Hospital Center, and $147 million for the Phase II reconstruction of the Kings County Hospital Center.

Debt Burden

Debt service continues to grow and considerably outpace the growth in City tax revenues. Between FYs 2003 and 2006, debt service grows at an average annual rate of ten percent compared with tax revenue growth over the same period of five percent.[30] As shown in Chart 5, this marked differential is what causes debt service as a percent of tax revenues to increase significantly from a projected 16.1 percent in FY 2003 to 19.8 percent by FY 2006.

Chart 5. *Debt Service as a Percent of Tax Revenues, FYs 1990-2010*



[29] In-Rem refers to City-owned buildings.
[30] Includes Tobacco settlement revenues and TFA Personal Income Tax revenues.

After FY 2006, debt service will level off at about 20 percent, then decline to an estimated 19 percent beginning in FY 2009. This is the result of the termination of MAC funding requirements for debt service, the last retention of sales taxes of which will be in FY 2008. Debt service will continue to exert pressure on the operating budget during the financial plan period and thereby divert resources from other parts of the expense budget.

III. SOLUTIONS

Even after assuming that FY 2003 will end with the budget in balance, the City still projects budget gaps of between $2.6 and $3.6 billion in the outyears of the financial plan as shown on Table 1 on page 1. The Comptroller's analysis, shown on Table 2 on page 2 demonstrates that the problem will actually exceed $4 billion.

The City included the outline of an outyear gap-closing program in the FYs 2003-2006 Financial Plan accompanying the Executive Budget. As shown on Table 15, more than half of the savings projected from this program are expected to come from agency initiatives. The program also relies on substantial amounts of unrestricted State and Federal gap-closing aid as well as a transportation initiative. The transportation proposal is labeled "Congestion Pricing and EZ-Pass Initiatives" which has been taken to mean tolls on the East River bridges. Several relatively smaller items, including the sale of taxi medallions, tort reform, management and procurement efficiencies, as well as savings in sanitation form the remainder of the program.[31]

Table 15. Out-Year Gap Closing Program, $ in millions

	FY 2004	FY 2005	FY 2006
Additional Agency Program	$1,879	$1,816	$1,932
Initiatives Requiring State and Federal Action	$500	$500	$500
Transportation (Congestion Pricing, EZ-Pass Initiatives)	$100	$500	$800
Sale of Taxi Medallions Proposed by City Council	$60	$60	$60
Tort Reform Through Local Law	$25	$50	$75
Management and Procurement Efficiency	$50	$75	$100
Sanitation	$50	$75	$100
Total Out-Year Gap Closing Program	**$2,664**	**$3,076**	**$3,567**

Although several of these initiatives already have some delineation, the majority of the program does not. While it is not unusual for the outyear gap-closing program to be generally undefined at this point in the budget cycle the huge scope of the budget deficits may require the City to begin implementing at least a portion of these programs in FY 2003. The problem facing the City can be demonstrated when the elements of the FY 2003 gap-closing program are combined with the outyear initiatives as shown on Table 16 on page 34.[32]

The Table illustrates that, in total, the City projects that more than $3 billion per year in agency savings will be required to balance the outyears of the plan. In addition, the gap-closing program requires about $1 billion per year in ongoing unrestricted State and Federal aid.

[31] The April 17, 2002 *Message of the Mayor*, pages 18-20, projects that sanitation savings may come from revamping recycling, pursuing cost-reducing solid waste collection and processing programs and expanding source fees.

[32] The elements of the FY 2003 gap-closing program may be found beginning on page 23 of the *Comptroller's Comments on the Fiscal Year 2003 Executive Budget.*

Table 16. Total Financial Plan Gap Closing Program, $ in millions

	FY 2004	**FY 2005**	**FY 2006**
Agency Program	$3,203	$3,086	$3,204
State and Federal Aid	$1,000	$1,000	$980
Fringe Benefit Cost Containment	$525	$550	$575
Transportation	$100	$500	$800
All Other	$404	$469	$450
Total	**$5,232**	**$5,605**	**$6,009**

If the City is to achieve savings and revenues of this magnitude it must begin to define and implement the outyear program in the immediate future. This is especially critical because the Comptroller's analysis, as illustrated on Table 2 on page 2, indicates that the outyear problem is more than $1 billion per year larger than the City anticipates.

IV. APPENDIX

Table A1. Financial Plan Preliminary Revenue Detail,
$ in millions

	FY 2003	FY 2004	FY 2005	FY 2006	Change FYs 2002-2006 Percent	Dollar
Taxes:						
Real Property	$8,866	$9,290	$9,689	$10,105	18.0%	$1,543
Personal Income Tax	$4,399	$4,689	$4,944	$5,309	22.6%	$980
General Corporation Tax	$1,428	$1,544	$1,644	$1,784	29.4%	$405
Banking Corporation Tax	$317	$386	$413	$458	29.7%	$105
Unincorporated Business Tax	$870	$935	$1,007	$1,072	34.2%	$273
Sale and Use	$3,564	$3,697	$3,845	$3,974	17.9%	$604
Commercial Rent	$364	$373	$387	$399	6.4%	$24
Real Property Transfer	$422	$454	$500	$533	22.8%	$99
Mortgage Recording Tax	$384	$393	$430	$450	1.8%	$8
Utility	$277	$278	$277	$271	1.1%	$3
All Other	$587	$607	$625	$641	10.1%	$59
Tax Audit Revenue	$427	$427	$427	$427	(7.6%)	($35)
Decouple from Federal Depreciation Rule	$128	$119	$109	$15		$15
State Tax Relief Program	$645	$699	$723	$773	22.3%	$141
Total Taxes	$22,678	$23,891	$25,020	$26,211	19.2%	$4,224
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$343	$342	$344	$338	1.8%	$6
Interest Income	$66	$119	$124	$125	56.3%	$45
Charges for Services	$429	$425	$426	$428	0.2%	$1
Water and Sewer Charges	$883	$871	$889	$905	6.1%	$52
Rental Income	$266	$405	$367	$122	10.9%	$12
Fines and Forfeitures	$489	$486	$485	$485	4.3%	$20
Miscellaneous	$724	$551	$276	$262	(69.2%)	($590)
Intra-City Revenue	$1,012	$1,007	$1,007	$1,007	(26.3%)	($359)
Total Miscellaneous	$4,212	$4,206	$3,918	$3,672	(18.1%)	($813)
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$394	$253	$228	$228	(35.6%)	($126)
Total Unrestricted Intergovernmental Aid	$721	$580	$555	$555	(18.5%)	($126)
Transitional Finance Authority 9/11	$1,500	$0	$0	$0	--	$0
Anticipated State and Federal Aid:						
Anticipated State Aid	$400	$250	$250	$250	--	$250
Anticipated Federal Aid	$230	$230	$230	$230	--	$230
Total Anticipated Aid	$630	$480	$480	$480	--	$480
Other Categorical Grants	$428	$397	$403	$410	(45.0%)	($335)
Inter Fund Agreements	$323	$317	$317	$317	(1.6%)	($5)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra City Revenue	($1,012)	($1,007)	($1,007)	($1,007)	(26.3%)	$359
TOTAL CITY FUNDS	**$29,465**	**$28,849**	**$29,671**	**$30,623**	**14.1%**	**$3,784**

Table A1 (con't). Financial Plan Preliminary Revenue Detail,
$ in millions

	FY 2003	FY 2004	FY 2005	FY 2006	Change FYs 2002-2006 Percent	Change FYs 2002-2006 Dollar
Federal Categorical Grants:						
Community Development	$267	$266	$259	$253	(29.9%)	($108)
Welfare	$2,318	$2,224	$2,227	$2,227	(12.4%)	($314)
Education	$1,237	$1,237	$1,237	$1,237	(2.1%)	($26)
Other	$536	$438	$438	$442	(80.6%)	($1,832)
Total Federal Grants	**$4,358**	**$4,165**	**$4,161**	**$4,159**	**(35.4%)**	**($2,280)**
State Categorical Grants						
Welfare	$1,570	$1,567	$1,573	$1,573	2.9%	$44
Education	$5,577	$5,653	$5,720	$5,745	2.6%	$145
Higher Education	$164	$164	$164	$164	1.9%	$3
Department of Public Health	$462	$477	$485	$493	11.3%	$50
Other	$271	$267	$269	$264	(19.8%)	($65)
Total State Grants	**$8,044**	**$8,128**	**$8,211**	**$8,239**	**2.2%**	**$177**
TOTAL REVENUE	**$41,867**	**$41,142**	**$42,043**	**$43,021**	**4.1%**	**$1,681**

Table A2. Agency Allocations, $ in thousands

	FY 2003	FY 2004	FY 2005	FY 2006	Change FYs 2002-2006 Percent	Dollar
Mayoralty	$78,927	$78,927	$78,927	$78,927	(38.2%)	($48,838)
Board of Elections	$46,040	$50,168	$50,168	$50,168	(34.0%)	($25,899)
Campaign Finance Board	$10,556	$18,771	$18,771	$18,771	(66.8%)	($37,717)
Office of the Actuary	$3,733	$3,734	$3,735	$3,735	11.0%	$370
President, Borough of Manhattan	$4,171	$4,012	$4,012	$4,012	(20.8%)	($1,055)
President, Borough of the Bronx	$5,907	$5,728	$5,728	$5,728	(21.0%)	($1,521)
President, Borough of Brooklyn	$5,039	$4,729	$4,729	$4,729	(30.6%)	($2,086)
President, Borough of Queens	$4,824	$4,560	$4,560	$4,560	(29.2%)	($1,877)
President, Borough of S.I.	$4,128	$4,040	$4,040	$4,040	(16.7%)	($809)
Office of the Comptroller	$46,541	$46,541	$46,541	$46,541	(21.0%)	($12,342)
Dept. of Emergency Management	$2,236	$2,236	$2,236	$2,236	--	$2,236
Tax Commission	$2,118	$2,119	$2,119	$2,119	0.8%	$16
Law Department	$96,082	$95,953	$95,846	$95,846	1.1%	$1,004
Department of City Planning	$19,853	$17,781	$17,781	$17,781	(21.4%)	($4,842)
Department of Investigation	$22,128	$22,128	$22,128	$22,128	(3.3%)	($748)
NY Public Library-Research	$16,348	$16,348	$16,348	$16,348	78.9%	$7,210
New York Public Library	$85,233	$85,233	$85,233	$85,233	84.7%	$39,077
Brooklyn Public Library	$62,265	$62,265	$62,265	$62,265	81.7%	$27,994
Queens Borough Public Library	$59,643	$59,643	$59,643	$59,643	83.0%	$27,044
Board of Education	$11,766,704	$11,806,016	$11,940,908	$12,080,053	3.4%	$392,099
City University	$458,328	$459,348	$460,369	$460,991	(2.1%)	($9,957)
Civilian Complaint Review BD.	$11,160	$11,783	$11,637	$11,637	16.0%	$1,607
Police Department	$3,361,353	$3,419,585	$3,411,875	$3,409,335	(10.4%)	($396,073)
Fire Department	$1,069,087	$1,065,437	$1,064,709	$1,063,681	(14.3%)	($177,490)
Admin. for Children Services	$2,335,317	$2,351,119	$2,351,119	$2,351,120	(2.4%)	($58,401)
Department of Social Services	$5,759,119	$5,931,251	$6,053,919	$6,173,919	6.4%	$373,713
Dept. of Homeless Services	$563,590	$594,064	$603,071	$603,003	9.9%	$54,125
Department of Correction	$924,355	$931,128	$932,892	$929,445	4.4%	$38,771
Board of Correction	$873	$952	$952	$952	2.1%	$20
Department of Employment	$96,349	$96,349	$96,349	$96,349	(33.3%)	($48,086)
Citywide Pension Contributions	$1,770,759	$2,195,614	$2,563,477	$3,224,561	99.0%	$1,604,389
Miscellaneous	$4,021,161	$4,092,692	$4,455,869	$4,622,575	17.4%	$685,837
Debt Service	$2,435,845	$3,246,304	$3,425,046	$3,704,355	316.3%	$2,814,592
M.A.C. Debt Service	$255,300	$489,200	$490,400	$491,900	9738.0%	$486,900
Public Advocate	$2,062	$2,062	$2,062	$2,062	(27.3%)	($774)
City Council	$46,296	$46,296	$46,296	$46,296	(3.2%)	($1,520)
City Clerk	$2,618	$2,618	$2,618	$2,618	(12.9%)	($389)
Department for the Aging	$209,134	$209,134	$209,134	$209,134	(14.2%)	($34,702)
Department of Cultural Affairs	$110,416	$110,416	$110,416	$110,416	(12.1%)	($15,169)
Financial Info. Serv. Agency	$33,186	$35,086	$35,086	$35,086	12.4%	$3,882
Department of Juvenile Justice	$108,825	$112,681	$111,681	$107,681	(3.1%)	($3,441)
Office of Payroll Admin.	$8,784	$8,525	$8,525	$8,525	36.3%	$2,272
Independent Budget Office	$2,764	$2,855	$2,855	$2,855	6.8%	$182
Equal Employment Practices Com	$617	$617	$617	$617	42.8%	$185
Civil Service Commission	$593	$593	$593	$593	21.3%	$104
Landmarks Preservation Comm.	$3,186	$3,187	$3,187	$3,187	(11.9%)	($430)
Districting Commission	$2,253	$0	$0	$0	--	$0
Taxi & Limousine Commission	$22,393	$22,518	$22,518	$22,518	(3.9%)	($917)
Commission on Human Rights	$7,799	$7,799	$7,799	$7,799	0.4%	$34

Table A2 (con't). Agency Allocations, $ in thousands

	FY 2003	FY 2004	FY 2005	FY 2006	Change FYs 2002-2006 Percent	Dollar
Youth & Community Development	$142,135	$136,853	$136,853	$136,853	(18.1%)	($30,309)
Conflicts of Interest Board	$1,701	$1,722	$1,722	$1,722	(4.1%)	($74)
Office of Collective Barg.	$1,552	$1,552	$1,552	$1,552	2.2%	$33
Community Boards (All)	$11,942	$11,942	$11,942	$11,942	(0.4%)	($44)
Department of Probation	$82,130	$82,239	$82,239	$79,491	(14.7%)	($13,700)
Dept. of Business Services	$34,140	$31,133	$31,133	$31,508	(52.9%)	($35,442)
Housing Preservation & Dev.	$371,369	$370,340	$367,198	$381,898	(18.3%)	($85,369)
Department of Buildings	$52,023	$46,289	$46,289	$46,289	(17.8%)	($10,047)
Department of Public Health	$1,297,329	$1,258,809	$1,304,704	$1,332,271	24.6%	$262,841
Dept. of Mental Health	$0	$0	$0	$0	(100.0%)	($660,516)
Health and Hospitals Corp.	$920,994	$936,135	$954,148	$972,456	6.2%	$56,985
Dept. of Environmental Prot.	$725,015	$696,126	$695,411	$694,411	0.7%	$5,149
Department of Sanitation	$966,541	$1,011,974	$1,036,811	$1,036,811	(0.4%)	($3,837)
Organized Crime Control Comm.	$4,081	$4,443	$4,443	$4,443	65.9%	$1,765
Department of Finance	$186,351	$188,220	$190,472	$190,472	(1.3%)	($2,413)
Department of Transportation	$488,802	$488,377	$488,527	$488,815	(9.8%)	($53,058)
Dept. of Parks and Recreation	$191,794	$204,690	$204,690	$204,690	(16.6%)	($40,776)
Dept. of Design & Construction	$86,001	$86,001	$86,001	$86,001	(89.8%)	($753,742)
Dept. of Citywide Admin. Services	$722,266	$727,834	$726,959	$726,059	8.3%	$55,471
D.O.I.T.T.	$174,111	$173,854	$173,847	$173,847	4.5%	$7,478
Dept. of Records & Info. Serv.	$4,035	$3,821	$3,822	$3,822	(15.6%)	($708)
Department of Consumer Affairs	$14,196	$14,079	$14,079	$14,079	(5.3%)	($781)
District Attorney - N.Y.	$68,767	$68,767	$68,767	$68,767	(15.9%)	($13,020)
District Attorney - Bronx	$41,218	$41,218	$41,218	$41,218	(8.5%)	($3,847)
District Attorney - Kings	$66,703	$66,703	$66,703	$66,703	(10.6%)	($7,932)
District Attorney - Queens	$35,240	$35,202	$35,202	$35,202	(11.3%)	($4,485)
District Attorney - Richmond	$5,901	$5,901	$5,901	$5,901	(14.7%)	($1,017)
Off. Of Prosec. & Spec. Narc.	$14,741	$14,741	$14,741	$14,741	(8.9%)	($1,443)
Public Administrator - N.Y.	$1,027	$1,027	$1,027	$1,027	6.8%	$65
Public Administrator - Bronx	$347	$347	$347	$347	2.1%	$7
Public Administrator - Brooklyn	$470	$470	$470	$470	1.3%	$6
Public Administrator - Queens	$363	$363	$363	$363	2.8%	$10
Public Administrator - Richmond	$247	$247	$247	$247	1.6%	$4
Prior Payable Adjustment	$0	$0	$0	$0	(100.0%)	$210,000
General Reserve	$200,000	$200,000	$200,000	$200,000	400.0%	$160,000
Energy Adjustment	$0	$11,853	$20,741	$29,191	--	$29,191
Lease Adjustment	$0	$18,621	$34,805	$50,485	--	$50,485
OTPS Inflation Adjustment	$0	$30,744	$61,488	$92,232	--	$92,232
City-Wide Totals	**$42,879,530**	**$44,812,782**	**$46,125,651**	**$47,594,399**	**11.4%**	**$4,887,742**

Glossary of Acronyms

BAN	Bond Anticipation Notes
BOE	Board of Education
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DCAS	Department of Citywide Administration Services
DEA	Detectives' Endowment Association
DEP	Department of Environmental Protection
DRM	Disaster Relief Medicaid
DSS	Department of Social Services
E-911	Emergency 911
FIRE	Financial Insurance and Real Estate
FFS	Fee-for-Service
FY	Fiscal Year
GCT	General Corporation Tax
G.O. Debt	General Obligation Debt
HDC	New York City Housing Development Corporation
HHC	Health and Hospitals Corporation
JFK	John F. Kennedy Airport
J & C	Judgments and Claims
MAC	Municipal Assistance Corporation

MTA	Metropolitan Transportation Authority
msf	Million square feet
MOE	Maintenance of Effort
NYC	New York City
NYCT	New York City Transit
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
OTB	Off-Track Betting Corporation
PA	Port Authority
PBA	Patrolmen's Benevolent Association
PERB	Public Employee Relations Board
PEG	Program to Eliminate the Gap (an action that is part of a gap closing program)
PI	Personal Injury
PIT	Personal Income Tax
SBA	Sergeants Benevolent Association
SNA	Safety Net Assistance
TANF	Temporary Assistance to Needy Families
TRS	Teachers' Retirement System
TSASC	Tobacco Settlement Asset Securitization Corporation
UFA	Uniformed Firefighters Association
UFT	United Federation of Teachers
WFA	Water Finance Authority
WTC	World Trade Center