# The State of the City's Economy and Finances 2004

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

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# I. Executive Summary

The Comptroller is required, under Section 233 of the City Charter, to report annually on the state of the City's economy and finances. This analysis demonstrates that while the City appears to have entered a stable economic period and is on course toward current-year budget balance, substantial budget deficits loom in the outyears.

The City's economy is expected to maintain its current growth for the remainder of 2004 and grow moderately in 2005. However, the City's economic growth continues to lag behind that of the nation.

In the October Modification for Fiscal Year 2005, the City presented a $49.60-billion budget. While the Comptroller's Office has identified risks in the City's FY 2005 budget totaling $165 million, the City is likely to end the year in balance. The revenue and expenditure projections are reasonable estimates and the level of reserves available to the City appear to be sufficient to offset the risks identified by the Comptroller's Office.

The outyears of the financial plan, however, contain multi-billion dollar deficits. Despite increasing the FY 2005 Budget Stabilization Account by $354 million to $574 million, the City faces a projected deficit of $2.97 billion in FY 2006. The projected gap grows to $4.18 billion in FY 2007 before narrowing to $3.35 billion in FY 2008.

The City has proposed a series of gap-closing actions to balance the FY 2006 budget as well as to reduce the outyear deficits. The City expects to address the FY 2006 gap in FY 2005 with actions that are projected to generate an additional $575 million surplus. This surplus will be used to reduce the FY 2006 budget gap. Among the gap-closing actions is the elimination, from the financial plan, of pay-as-you-go capital spending for school construction. This will allow the City to save $200 million annually in operating expenditures. However, the elimination of pay-as-you-go capital spending will result in increased debt service expenditures if the City requires additional borrowing to fund this construction.

The gap-closing plan also raises other concerns. For example, while the City anticipates $950 million of additional Federal and State aid during FY 2006, it is not clear that such aid will be forthcoming. In addition, because the City has yet to complete collective bargaining negotiations with some labor unions, labor costs will add unknown costs to the budget. It also remains unclear what costs the City will bear as a result of the New York State Court of Appeals' recent ruling that the State must provide additional funding for education. A final decision is expected next year.

The financial plan does contain some risks. The City continues to underestimate the amount it expects to spend on overtime pay. The Comptroller's Office projects that the City may have underestimated overtime spending by $96 million for FY 2005. In addition, health insurance, Medicaid, debt service, judgments and claims, and pension expenses continue to be the primary causes of the City's increasing expenditures. However, after rising by more than 20 percent in FY 2006, growth in pension contributions is expected to slow in the outyears, with growth dropping to approximately ten percent in FY 2007.

While the City has recognized the need to take early actions to address the outyear deficits, the City's gap-closing proposals do not specify how the savings will be achieved. The City must develop a detailed plan identifying the specific measures it will use to generate savings necessary to close the gap so that shortfalls can be identified early, and corrective actions implemented.

## *Table 1. FYs 2005-2008 Financial Plan*
## *October 2004 Modification*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Changes FY 2005-FY 2008 Dollar | Changes FY 2005-FY 2008 Percent |
|---|---|---|---|---|---|---|
| Revenues | | | | | | |
| Taxes: | | | | | | |
| General Property Tax | $11,768 | $12,240 | $12,772 | $13,582 | $1,814 | 15.4% |
| Other Taxes | $16,101 | $16,161 | $16,578 | $17,392 | $1,291 | 8.0% |
| Tax Audit Revenues | $523 | $508 | $509 | $509 | ($14) | (2.7%) |
| Tax Reduction Program | $0 | $0 | $0 | $0 | $0 | |
| Miscellaneous Revenues | $5,980 | $4,293 | $4,231 | $4,263 | ($1,717) | (28.7%) |
| Unrestricted Intergovernmental Aid | $562 | $562 | $562 | $562 | $0 | 0.0% |
| Anticipated State & Federal Actions | $50 | $0 | $0 | $0 | ($50) | (100.0%) |
| Less: Intra-City Revenues | ($1,189) | ($1,130) | ($1,129) | ($1,129) | $60 | (5.0%) |
| Disallowances Against Categorical Grants | ($15) | ($15) | ($15) | ($15) | $0 | 0.0% |
| Subtotal: City Funds | $33,780 | $32,619 | $33,508 | $35,164 | $1,384 | 4.1% |
| Other Categorical Grants | $803 | $877 | $866 | $866 | $63 | 7.8% |
| Inter-Fund Revenues | $349 | $335 | $331 | $331 | ($18) | (5.2%) |
| Total City & Inter-Fund Revenues | $34,932 | $33,831 | $34,705 | $36,361 | $1,429 | 4.1% |
| Federal Categorical Grants | $4,957 | $4,576 | $4,559 | $4,549 | ($408) | (8.2%) |
| Federal-FEMA Insurance Program | $1,000 | $0 | $0 | $0 | $0 | 0.0% |
| State Categorical Grants | $8,709 | $8,594 | $8,670 | $8,741 | $32 | 0.4% |
| Total Revenues | $49,598 | $47,001 | $47,934 | $49,651 | $53 | 0.1% |
| | | | | | | |
| Expenditures | | | | | | |
| Personal Service | | | | | | |
| Salaries and Wages | $17,205 | $17,268 | $17,256 | $17,156 | ($49) | (0.3%) |
| Pensions | $3,376 | $4,107 | $4,515 | $4,502 | $1,126 | 33.4% |
| Fringe Benefits | $5,160 | $5,431 | $5,724 | $6,069 | $909 | 17.6% |
| Subtotal-PS | $25,741 | $26,806 | $27,495 | $27,727 | $1,986 | 7.7% |
| Other Than Personal Service | | | | | | |
| Medical Assistance | $4,733 | $4,768 | $4,863 | $5,053 | $320 | 6.8% |
| Public Assistance | $2,353 | $2,302 | $2,303 | $2,303 | ($50) | (2.1%) |
| Pay-As-You-Go Capital | $200 | $200 | $200 | $200 | $0 | 0.0% |
| All Other | $14,509 | $12,859 | $13,033 | $13,211 | ($1,298) | (8.9%) |
| Subtotal-OTPS | $21,795 | $20,129 | $20,399 | $20,767 | ($1,028) | (4.7%) |
| Debt Service | | | | | | |
| Principal | $1,462 | $1,904 | $1,640 | $1,622 | ($936) | (36.6%) |
| Interest & Offsets | $1,788 | $1,001 | $2,428 | $2,728 | $2,036 | 294.2% |
| Total | $3,250 | $2,905 | $4,068 | $4,350 | $1,100 | 33.8% |
| Budget Stabilization | $574 | ($574) | $0 | $0 | ($574) | (100.0%) |
| Prepayment | ($1,923) | $0 | $0 | $0 | $1,923 | (100.0%) |
| MAC Debt Services | $120 | $0 | $0 | $0 | $0 | 0.0% |
| NYCTFA | | | | | | |
| Principal | $381 | $348 | $386 | $411 | $58 | 16.4% |
| Interest & Offsets | $549 | $608 | $591 | $572 | ($405) | (41.5%) |
| Total | $930 | $956 | $977 | $983 | $53 | 5.7% |
| General Reserve | $300 | $300 | $300 | $300 | $0 | 0.0% |
| | $50,787 | $51,096 | $53,239 | $54,127 | $3,340 | 6.6% |
| | | | | | | |
| Less: Intra-City Expenses | ($1,189) | ($1,130) | ($1,129) | ($1,129) | $60 | (5.0%) |
| Total Expenditures | $49,598 | $49,966 | $52,110 | $52,998 | $3,400 | 6.9% |
| | | | | | | |
| **Gap To Be Closed** | **$0** | **($2,965)** | **($4,176)** | **($3,347)** | **($3,347)** | |

NOTE: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.

*Table 2. Plan to Plan Changes, Adopted Budget FY 2004 vs. October Financial Plan*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| Revenues | | | | |
| Taxes: | | | | |
| General Property Tax | ($181) | ($174) | ($188) | $55 |
| Other Taxes | $637 | $462 | $426 | $409 |
| Tax Audit Revenues | $15 | $0 | $0 | $0 |
| Tax Reduction Program | $300 | $305 | $310 | $64 |
| Miscellaneous Revenues | $196 | $14 | $0 | ($1) |
| Unrestricted Intergovernmental Aid | $0 | $0 | $0 | $0 |
| Anticipated State & Federal Actions | ($400) | ($400) | ($400) | ($400) |
| Less: Intra-City Revenues | ($43) | $1 | $1 | $1 |
| Disallowances Against Categorical Grants | $0 | $0 | $0 | $0 |
| Subtotal: City Funds | $524 | $208 | $149 | $128 |
| Other Categorical Grants | ($4) | $47 | $26 | $27 |
| Inter-Fund Revenues | $1 | $0 | $0 | $0 |
| Total City & Inter-Fund Revenues | $521 | $255 | $175 | $155 |
| Federal Categorical Grants | $224 | ($70) | ($76) | ($76) |
| Federal-FEMA Insurance Program | $1,000 | $0 | $0 | $0 |
| State Categorical Grants | $83 | $34 | $35 | $35 |
| Total Revenues | $1,828 | $219 | $134 | $114 |
| *Expenditures* | | | | |
| Personal Service | | | | |
| Salaries and Wages | $143 | $4 | $3 | $3 |
| Pensions | $0 | $0 | $0 | $0 |
| Fringe Benefits | $8 | $0 | $2 | $1 |
| Subtotal-PS | $151 | $4 | $5 | $4 |
| Other Than Personal Service | | | | |
| Medical Assistance | ($33) | ($229) | ($331) | ($348) |
| Public Assistance | $60 | $0 | $0 | $0 |
| Pay-As-You-Go Capital | $0 | $0 | $0 | $0 |
| All Other | $1,341 | $75 | $71 | $71 |
| Subtotal-OTPS | $1,368 | ($154) | ($260) | ($277) |
| Debt Service | | | | |
| Principal | ($53) | $387 | $0 | $0 |
| Interest & Offsets | ($36) | ($949) | $41 | $51 |
| Total | ($89) | ($562) | $41 | $51 |
| Budget Stabilization | $354 | $0 | $0 | $0 |
| Prepayment | ($3) | $220 | $0 | $0 |
| MAC Debt Services | $120 | ($574) | $0 | $0 |
| NYCTFA | | | | |
| Principal | $28 | ($1) | ($1) | $0 |
| Interest & Offsets | ($58) | $2 | $2 | $1 |
| Total | ($30) | $1 | $1 | $1 |
| General Reserve | $0 | $0 | $0 | $0 |
| Less: Intra-City Expenses | ($43) | $1 | $1 | $1 |
| Total Expenditures | $1,828 | ($490) | ($212) | ($220) |
| **Gap To Be Closed** | $0 | $709 | $346 | $334 |

NOTE: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.

*Table 3. FYs 2005-2008 Financial Plan Risks and Offsets*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| **City Stated Gap** | **($0)** | **($2,965)** | **($4,176)** | **($3,347)** |
| **Revenue Assumptions** | | | | |
| General Property Tax | $0 | $50 | $50 | $50 |
| Personal Income Tax | ($45) | ($112) | ($132) | ($85) |
| Business Taxes | ($78) | ($167) | ($49) | ($53) |
| Sales Tax | $21 | $21 | ($35) | ($13) |
| All Other Taxes | 48 | 49 | $48 | $49 |
| **Expenditure Projections** | | | | |
| Overtime | ($96) | ($75) | ($75) | ($75) |
| Reduction in Sabbatical | $0 | ($34) | ($34) | ($34) |
| PA Grant Expenditure | ($15) | ($25) | ($25) | ($25) |
| **Total Risk** | **($165)** | **($293)** | **($252)** | **($186)** |
| **Restated Gap** | **($165)** | **($3,258)** | **($4,428)** | **($3,533)** |

# II. The State of the City's Economy

The U.S. economy, as measured by change in gross domestic product (GDP), grew strongly during the first ten months of 2004. Long-term concerns affecting the economic outlook include higher oil prices, heavy spending on the war in Iraq, a weak job recovery and increases by the Federal Reserve in the target fed funds rate. The trade deficit grew to well over the half-trillion-dollar annual rate and the budget deficit approached this number.

In addition to the national factors reflected above, the City's economy was also influenced by the continuing economic effects of 9/11. The City's economy was stronger than in 2003, but it grew more slowly than the nation's.

## A. ECONOMIC OUTLOOK

GDP is expected to continue growing during the remainder of 2004 and, at a slower pace, in 2005. The decline in the yield spread (as measured by the difference between the Baa corporate index and 20-year Treasuries) and a weaker dollar should encourage private investment. A lower yield spread reduces the cost of corporate borrowing, making more investments viable, and a weak dollar increases foreign demand for American goods. These factors should also increase labor demand and lower the trade deficit. Rising interest rates, higher oil prices, prolonged war, large trade deficits, and the likely persistence of large budget deficits will continue to present risks to the U.S. economy.

The City's economy is expected to maintain its current growth during the remainder of 2004 and to grow moderately in 2005. National job recovery is expected to help the City's recovery. Wall Street profits in 2004, although below the level of 2003, are reasonably strong and should remain close to the 2004 level in 2005. However, higher interest rates, regulatory challenges in the financial sector, Wall Street decentralization, and business outsourcing could slow the City's economic recovery. Table 4 provides a summary of U.S. and City economic forecasts for 2005.

***Table 4. Comptroller's Forecast of Five Key Economic Indicators, NYC and U.S., 2005***

| | Gross-Product Growth | Payroll-Jobs Growth | Wage-Rate Growth | Inflation Rate | Unemployment Rate |
|---|---|---|---|---|---|
| **NYC** | (GCP) 2.8% | 0.6% | 2.4% | 3.5% | 7.9% |
| **U.S.** | (GDP) 3.5% | 1.3% | 2.2% | 2.7% | 5.7% |

SOURCE: NYC Comptroller's Office, based on data from the U.S. Department of Labor(BLS) and the U. S. Department of Commerce (BEA). GCP=Gross City Product.

## B. THE U.S. ECONOMY

Low interest rates contributed significantly to strong economic growth during 2004. These low rates encouraged consumer spending, which (except for 2Q04) has been the primary reason for GDP growth for the past 16 out of 17 quarters. During the same period, job gains have been weak.

Economic highlights from the first eleven months of 2004 include the following:

- Real GDP growth averaged a strong 3.9 percent (annualized rate per quarter) during the first three quarters of 2004 (4.5 percent in the first quarter, 3.3 percent in the second quarter, and 3.9 percent in the third quarter). During the same period, personal consumption rose 3.6 percent, private domestic investment grew 11.4 percent, and government expenditures increased by two percent.

- Job growth, however, was much weaker. The nation gained 2,040,000 jobs during the first 11 months of 2004, averaging 185,455 jobs per month or an annualized rate of 1.7 percent. At this rate, it will require four more months to recover the 2,718,000 jobs lost from the beginning of the City's long recession from March 2001 to August 2003.

- Short-term interest rates rose in the second half, following 13 successive cuts that lowered the target fed funds rate by 5.5 percentage points, to one percent. As of November 2004, the fed funds rate is two percent. The Federal Open Market Committee (FOMC) is expected to raise the fed funds rate again to 2.25 percent, at its next meeting in 2004 and to increase it to 3.5 percent by the end of 2005.

- Inflation remained moderate. The inflation rate averaged 2.5 percent during the first nine months of 2004. The core inflation rate, which includes all items except food and energy, averaged 1.7 percent.

- Oil prices rose to record highs, as measured by the price of West Texas Intermediate (WTI) oil. High oil prices will likely exert inflationary pressures on the U.S. economy. Because of uncertainties surrounding the war in Iraq and higher world demand, especially by Asian countries, oil prices are expected to remain $10 or more per barrel above pre-war averages until at least the end of 2005. According to the Department of Energy, large changes in oil prices affect retail prices 10 days to four weeks later. As of November 1, 2004, the nationwide retail price of gas was $2.076, 49.9 cents above the price a year earlier. Every one-cent increase in the price of gasoline costs U.S. consumers about $1.4 billion a year. The higher price therefore translates into consumers spending $68 billion more on gas during the year that ended November 1, 2004.

- Both the U.S. budget deficit and the trade deficit reached new highs. The federal deficit is projected to total $422 billion in 2004, or approximately 3.6 percent of GDP. The trade deficit (net exports) is expected to be approximately $598 billion, or five percent of GDP.

- The dollar declined to historical lows against the euro. As of December 1, 2004, one dollar was worth approximately 0.75 euro, which represents a 7.7 percent depreciation against the euro from the same date a year earlier. However, the weaker dollar may help strengthen the U.S. economy by promoting U.S. exports.

- Business purchasing plans declined and consumer confidence fell. The Institute of Supply Management (ISM) Index fell to 57.8 in November 2004 from 61.3 in November 2003. At the same time, consumer confidence fell for four consecutive months to 90.5 in November.

The national economy is projected to grow 4.3 percent in 2004, an increase over its three percent growth during 2003. GDP is expected to increase by four percent in the fourth quarter. Consumer spending, which has fueled U.S. economic growth in the past 16 out of 17 quarters, is expected to moderate. In the absence of significant job increases, as interest rates and oil prices rise, consumer incomes and spending will be squeezed.

As a result of an analysis of the above factors, the Comptroller's Office has concluded that GDP will increase by 3.5 percent in 2005. Table 5 provides a summary of the Comptroller's projections for eight U.S. indicators in 2003 and 2004.

***Table 5. Eight U.S. Indicators, Actual 2003 and Comptroller's Projections, 2004-2005***

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Real GDP Growth, (2000 $) | 3.0% | 4.3% | 3.5% |
| Payroll Jobs, Percent Change | (0.3%) | 1.1% | 1.3% |
| Consumer Price Index (1982=100), % Change | 2.3% | 2.6% | 2.7% |
| Wage-Rate Growth | 2.9% | 2.6% | 2.2% |
| Unemployment Rate | 6.0% | 5.6% | 5.7% |
| Fed Funds Rate | 1.1% | 2.25% | 3.5% |
| 10-Yr T-Notes | 4.0% | 4.3% | 5.0% |

SOURCE: NYC Comptroller's Office based on BLS, BEA, and Federal Reserve Board of Governors. Actual data are shown in 2003 column, and the Comptroller's projections (averages for the year) are in the 2004 and 2005 columns.

Table 6 compares the Comptroller's forecast for 2004 and 2005 with the Mayor's forecast and the Blue Chip Economic Indicators.[1]

***Table 6. Percent Change in Real GDP, Inflation Rate, and Unemployment Rate, Projections, 2004 and 2005***

| | GDP Growth | | Unemployment Rate | | Change in CPI | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| 1. NYC Comptroller's Office | 4.3% | 3.5% | 5.6% | 5.7% | 2.6% | 2.7% |
| 2. Mayor | 4.3% | 3.4% | 5.5% | 5.4% | 2.6% | 2.1% |
| 3. Blue Chip Consensus | 4.4% | 3.5% | 5.5% | 5.3% | 2.6% | 2.4% |

SOURCE: OMB, NYC Comptroller's Office and Blue Chip Economic Indicators, November 10, 2004.
CPI=Consumer Price Index.

[1] The Blue Chip Economic Indicators is a general-circulation monthly that provides top analysts' forecasts for the U.S. economy for the year ahead.

## C. THE NYC ECONOMY AND ECONOMIC PERFORMANCE IN 2004

The City's economy improved significantly in 2004. After three years of decline, both gross city product (GCP) and payroll jobs grew in the first three quarters of 2004. Also, on a year-over-year basis, commercial real estate vacancy rates fell in the first three quarters of 2004. If this trend continues, both GCP and payroll jobs will post positive gains in 2004. However, the gains in 2004 will be less than the nation's. A brief summary of the City's economic performance during the first three quarters of 2004 follows:

- <u>First quarter</u>: Real GCP increased at a rapid annualized rate of 7.2 percent, the highest growth rate since the third quarter of 1999. Seasonally adjusted payrolls increased by an encouraging 20,100 jobs, the highest since the fourth quarter of 2000. The unemployment rate was 8.1 percent on a seasonally adjusted basis, the same as the fourth quarter of 2003 and the lowest since the third quarter of 2002.

- <u>Second quarter</u>: GCP growth slowed to 2.9 percent and seasonally adjusted payroll jobs increased by 6,600. The seasonally adjusted unemployment rate fell to 7.4 percent, but the inflation rate rose to 4.1 percent from 2.81 percent in the first quarter.

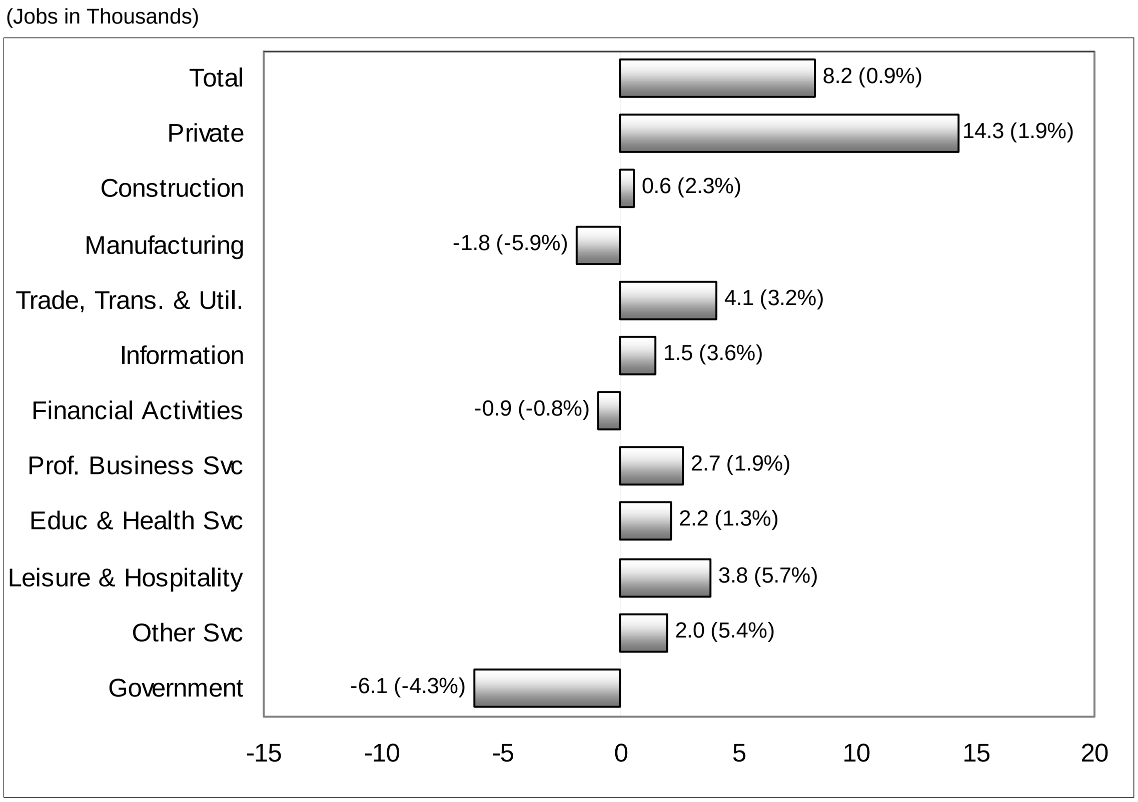
- <u>Third quarter</u>: GCP growth picked up to 3.4 percent and seasonally adjusted payroll jobs rose by 8,200. The unemployment rate fell to 7.0 percent and the inflation rate fell to 3.5 percent.

The City's economy began to recover in 2004. Real GCP grew at an average annualized rate of 4.5 percent during the first three quarters of 2004 (7.2 percent in the first quarter, 2.9 percent in the second quarter, and 3.4 percent in the third quarter). The increase in GCP primarily reflects gains in payroll jobs and income. In addition, commercial real estate rebounded and tourism was strong. Remaining weaknesses include higher inflation and a decline in Wall Street profits.

*Signs of Recovery*. Payroll jobs rose in the third quarter of 2004 for the fourth consecutive quarter after the City suffered 10 consecutive quarters of decline. All sectors posted gains except for the government, manufacturing, and financial-activities sectors, as shown in Chart 1.

Although the City added jobs in 2004, the pace of job growth was weak. From their highest point in December 2000 to their lowest point in July 2003, payroll jobs fell by 246,100, or seven percent. From July 2003, when payroll jobs began to recover, to October 2004, payroll jobs increased by 41,900. This recovery reflects merely 17 percent of the jobs lost during the City's recession. The City must create more than 200,000 additional jobs to recover to its pre-recession December 2000 level.

***Chart 1. Change in NYC Payroll Jobs, Seasonally Adjusted Annual Rate Third Quarter 2004 Compared with Third Quarter 2003***




SOURCE: Monthly Data from U.S. Department of Labor. Changes from the same period in 2003 computed by NYC Comptroller's Office.

Civilian employment, the number of NYC residents with jobs, increased by 108,300 (3.2 percent) during the first ten months of 2004. The number of unemployed residents fell by 71,100 during the same period. As a result, the City's labor force (the sum of the number of residents with jobs and the number of unemployed residents looking for work) rose by 37,200. The rise in the labor force and lower unemployment partly reflect the fact that discouraged unemployed residents are returning to the labor market.

Another sign of economic recovery is the lower commercial real-estate vacancy rate in Manhattan during the first three quarters of 2004. According to Cushman & Wakefield, Manhattan's overall commercial vacancy rate fell to 11.4 percent in the third quarter of 2004 compared with 12.5 percent in the third quarter of 2003. Vacancy rates declined in every business district. The biggest drop was in Midtown South, which fell from 13.7 percent in the third quarter of 2003 to 11.2 percent in the third quarter of 2004. However, rental rates were mixed. Manhattan's overall rental rate was $40.51 per square foot in the third quarter of 2004, slightly above $40.39 in the third quarter of 2003. However, Midtown rental rates reflected the lone increase, on a year-over-year basis, during the third quarter of 2004. Rents fell in Midtown South and Downtown.

The hotel-occupancy rate also improved, averaging 81.5 percent during the first nine months of 2004, 8.2 percentage points above the 73.3 percent in the first nine months of 2003. The average daily room rate was $197.4 during the first nine months of 2004, 8.4 percent above the average daily room rate during the first nine months of 2003.

*Signs of Weakness.* The City's inflation rate remains high. The City's average inflation rate was 3.4 percent during the first nine months of 2004, the highest since 1992, and 1.9 percentage points above the national average of 2.5 percent.

In addition, Wall Street profits show a decline on a year-over-year basis. Wall Street profits were $6.8 billion in the first half of 2004 and are expected to be $12 billion for the entire year. Wall Street profits were $8.9 billion in the first half of 2003 and were $16.8 billion for 2003.

## D. COMPTROLLER'S NYC FORECAST FOR 2005

Based on positive leading-indicator signals, the Comptroller's Office forecasts 2005 growth in both GCP and jobs. Two out of three leading economic indicators point to continued recovery during the remainder of 2004 and through 2005.

- The total number of building permits authorized rose 9.6 percent to 77,826 in the first nine months of 2004 compared with the first nine months of 2003. This was the largest increase since 1998.

- The City's Business Conditions Index, which is the National Association of Purchasing Management (NAPM-NY) composite gauge of current business conditions in the City, averaged 289 during the first ten months of 2004, 24 percent above the first ten months of 2003. Also, the 10-month average for the current condition was 64.2 in 2004, 44.7 percent above the average for the first 10 months of 2003. Finally, the 10-month average for the six-month outlook was 68.7 in 2004, 14.1 percent above the same average for 2003.

- The City's help-wanted-ads index averaged 17.1 for the first nine months of 2004, a drop of 4.9 percent on a year-over-year basis. However, a trend toward greater use of internet advertising could partly explain this decline. The nation's average help-wanted index was up 0.3 percent during the first nine months of 2004, on a year-over-year basis. Table 7 shows the forecast for selected City indicators.

***Table 7. Selected City Indicators, Actual 2003 and Forecasts, 2004-2005***

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| Real GCP, (2000 $), % Change | (2.8) | 3.0 | 2.6 |
| Payroll Jobs (Annual Change), '000s | (55.0) | 22.0 | 23.0 |
| Consumer Price Index (1982=100), % Change | 3.1 | 3.5 | 3.5 |
| Wage-Rate Growth, % | 1.5 | 2.6 | 2.4 |
| Unemployment Rate, % | 8.4 | 7.6 | 7.9 |

SOURCE: NYC Comptroller's Office based on BLS and BEA. GCP=Gross City Product.

The Comptroller's Office forecast for the NYC economy anticipates slower job growth and higher inflation rates than the Mayor's, as shown in Table 8.

***Table 8. Comparison of Forecasts of Real GCP, Employment, and Inflation, 2004-2005***

| | GCP Growth | | Change in Payroll Jobs | | Change in CPI | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| NYC Comptroller's Office | 3.0% | 2.8% | 22,000 | 23,000 | 3.5% | 3.5% |
| Mayor | 1.9% | 2.5% | 25,700 | 41,300 | 3.4% | 2.5% |

SOURCE: NYC OMB, November 2003 Plan and NYC Comptroller's Office.

# III. The FY 2005 Budget

The City raised its FY 2005 City-fund revenue in the October Modification by $521 million compared with the Adopted Budget estimates. This increase is driven by a rise in tax revenue projections of $771 million.[2] This increase is partially offset by a decrease of $251 million in non-tax revenues. This reduction resulted primarily from a $400 million lower projection of anticipated State and Federal Actions from $450 million to $50 million, and included an increase of $153 million in the miscellaneous revenue estimates.[3] The State takeover of Family Health Plus will provide additional budget relief of $77 million in FY 2005. This savings together with the revenue increase enabled the City to increase its Budget Stabilization Account (BSA) by almost $354 million, to $574 million. It also allows the City to fund new needs of $87 million in the Department of Education, restore $73 million in its program to eliminate the gap (PEG), as well as fund $120 million in FY 2005 first quarter MAC debt service.

The FY 2005 budget contains some risks including revenue risks of $54 million, overtime risks of $96 million, and risks of $34 million and $15 million in the City's assumption of sabbatical reduction and Public Assistance grant expenditure estimates, respectively. However, the $574 million BSA together with the general reserve of $300 million provides a comfortable cushion against any shortfalls in the budget. Nonetheless, any draw down on the BSA or general reserve will adversely affect the outyear projections.

## A. REVENUE OUTLOOK

### Tax Revenues

The City has raised its tax revenue assumptions in the October Modification as illustrated in Table 9.[4] These changes are the result of a combination of factors including the strength of FY 2004 final collections, lower expected refund payments for property, personal income (PIT) and business taxes, legislation affecting sales tax for FY 2005 and improved processing methods for real-estate-related taxes.

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[2] For consistency in comparing City-fund revenue and expenditure changes, the $771 million increase includes School Tax Relief (STAR) aid and tax audit revenues. Without STAR aid and tax audit revenue, the increase in tax revenue projections would be $753 million.

[3] The bulk of the $153 million increase in miscellaneous revenue is due to State reimbursement of $120 million for the first quarter FY 2005 MAC debt service. The $120 million does not provide any fiscal relief as it funds a corresponding increase in expenditure.

[4] The definition of tax revenues used in this section includes net lien sales to property and Transitional Finance Authority payments from personal income tax. It excludes refunds, audit revenues and the STAR aid.

*Table 9. Changes to the City's Tax Revenue Assumptions*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| **Adopted Budget – Total** | **$26,405** | **$27,093** | **$28,040** | **$29,647** |
| **Changes:** | | | | |
| Property | 67 | 73 | 60 | 53 |
| Personal Income (PIT) | 67 | 104 | 89 | 89 |
| Business | 77 | 109 | 93 | 96 |
| Sales | 144 | (20) | 23 | 31 |
| Real-Estate Related | 356 | 270 | 228 | 203 |
| All Other | 42 | 55 | 53 | 54 |
| **Total Change** | **753** | **591** | **546** | **526** |
| **Total Change - Percent** | **2.8%** | **2.2%** | **1.9%** | **1.8%** |

SOURCE:: NYC Office of Management and Budget

The October Modification estimates for total tax revenues have been increased by an average of $604 million a year compared with the June 2004 Financial Plan projections. FY 2005 projections were raised by $753 million. Two-thirds of this increase, or $500 million, stems from increases to sales tax and real estate transaction tax revenues. These increases are driven primarily by non-economic factors. The sales tax increase is a result of the extension of the reinstatement of tax on clothing and footwear under $110 to May 31, 2005. The higher estimates for real estate related taxes are due to improved processing and quicker revenue recognition associated with the real property transfer tax (RPTT) and the mortgage recording tax (MRT).

Projections for property tax revenues have been revised upward by an average of $63 million per year over the four years of the Plan. Revenue estimates for FY 2005 increased by $67 million from $11.55 billion in the Adopted Budget to $11.62 billion in the October Modification. Reductions of $50 million in the reserve for uncollectible, $10 million for prior year collections, and $30 million for refunds drove up the property tax revenue estimates. The increase was partially offset by deductions for STAR exemption by $3 million and a drop in lien sales estimate by $20 million. A similar situation exists for the outyears where the higher projections are a result of adjustments rather than higher forecasts for the levy.

The PIT forecast has been increased by an average of $87 million per year over the four years of the Plan. The FY 2005 estimate has been increased by $67 million from $5.5 billion in the Adopted Budget to $5.56 billion in the October Modification, as a result of an increase in gross projections and lower expected refunds. Most of this change is due to an increase in assumptions for settlement payments rather than a stronger economy, as the assumptions for withholding have been lowered for FY 2005. The higher projections in the outyears are driven by growth in capital gains and wage growth.

The City has increased its business tax estimates by an average of $94 million per year, over the four years of the Plan. The FY 2005 estimate has been increased by $77 million from $2.9 billion in the Adopted Budget to $2.98 billion in the October Modification, attributable mainly to the banking corporation tax (BCT) in the first two years. Estimated gross collections for the general corporation tax (GCT) have been lowered for FYs 2005 and 2006 because Wall Street profits have been lower than expected. FY 2005 BCT collections are projected to increase by $119 million as a result of lower refunds and a better outlook for the industry. This trend is expected to continue in the outyears.

Revenue estimates for FY 2005 sales tax have been revised upwards by $144 million from $3.98 billion in the Adopted Budget to $4.13 billion in the October Modification. The extension of the tax on clothing and footwear under $110 is forecasted to bring in an additional $177 million in FY 2005 while net collections have been increased by $144 million. This is because the economic forecasts for FYs 2005 and 2006 have been lowered.

The forecasts for the real property transfer tax and the mortgage recording tax have increased significantly over the Adopted Budget projections. For FY 2005, these projected increases are due to the strength of collections to date and improved processing methods. With the continued weakness of the stock market, the real estate market remains more resilient than expected. This resilience is reflected in the revised outyear forecast for the real estate related tax revenues. Even though forecasts have been raised, year-over-year growth is expected to decline in FY 2005 and FY 2006 and remain flat for the rest of the Plan period.

### Risks to the City's Tax Revenue Assumptions

The Comptroller's Office is projecting risks and offsets to the City's tax revenue assumptions as illustrated in Table 10. The Comptroller's Office has lowered its economic growth projections for both the City and the nation from its July forecast. The forecast for job growth has been revised downward and projections remain below the City's estimates.[5]

***Table 10. Tax Revenue Risks and Offsets***

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| Property | $0 | $50 | $50 | $50 |
| PIT | (45) | (112) | (132) | (85) |
| Business | (78) | (167) | (49) | (53) |
| Sales | 21 | 21 | (35) | (13) |
| All Other | 48 | 49 | 48 | 49 |
| **Total** | **($54)** | **($159)** | **($118)** | **($52)** |

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

[5] In the Comptroller's July 2004 report, "The Comptroller's Comments on the Adopted Budget for Fiscal Year 2005 and the Financial Plan for Fiscal Years 2005-2008," job growth was projected at 30,000 in 2004 and 44,000 in 2005. In this report, the respective projections are 22,000 for 2004 and 23,000 for 2005. See "The State of the City's Economy" in this report beginning on page 4 for a comparison of the City's and the Comptroller's projections for the October Modification.

The risks are due mainly to reduced PIT and business tax revenues as a result of a weaker outlook for jobs and Wall Street profits. For FY 2005, the Comptroller's Office is projecting a small risk of $55 million against the City's October estimates. Total collections for FY 2005 through November are above the October Modification estimates by $195 million. However, the withholding and estimated components of PIT for November are below the October Modification estimates. Because of the Comptroller's Office's comparatively weaker outlook for businesses as compared to the City's, the Comptroller's Office's projections of the income-based taxes are lower than the City's.

### Recovery of Tax Revenues

The City's economic recession is officially over and growth in non-property tax revenues, after adjusting for changes due to rate and other policy changes, turned positive in FY 2004 after declining for two consecutive years. The depth of this past tax recession was more severe than in previous recessions. The economically sensitive non-property taxes declined by 11 percent in FY 2002 compared with a two percent decline in the 1994-1995 recessions and a 3.6 decline in the 1989-1992 recessions.[6] A significant concern is the length of time it will take for tax revenues to recover to their pre-recession levels. Based on the City's estimates, Table 11 examines the recovery time associated with different taxes.

***Table 11. Recovery of Tax Revenues – Common-Rate-and-Base Tax Revenues***

| | Last Year Before Tax Decrease | | Expected Year of Recovery to Pre-Recession/Column 2 | | Years to Recover to Pre-Recession/Column 2 Level |
|---|---|---|---|---|---|
| | Year | Level ($bil.) | Year | Level ($bil.) | |
| Total Non-Property | FY 2001 | $15.97 | FY 2005 | $16.07 | 4 |
| PIT | FY 2001 | $6.53 | FY 2008 | $6.80 | 7 |
| Business | FY 2001 | $3.19 | FY 2005 | $3.20 | 4 |
| Sales | FY 2001 | $3.90 | FY 2004 | $3.97 | 3 |
| Total tax | FY 2001 | $23.63 | FY 2004 | $24.67 | 3 |

SOURCE: NYC Office of Management and Budget
NOTE: Total Non-property tax revenues include all-other non-tax revenues
Total tax revenues include property tax revenues

During the first year of recovery in FY 2004, total tax revenues surpassed the pre-recession level by about $1.03 billion. This increase over the FY 2001 level was due to property tax growth.[7] Strong growth of property tax revenues helped offset the decline in

[6] See the Comptroller's March 2003 report entitled "the Comptroller's Comments on the Preliminary Budget for Fiscal Year 2004 and the Financial Plan for Fiscal Years 2004-2007" for further comparisons of the behavior of tax revenues in the past three recessions.

[7] Property tax revenue growth is adjusted for the increase in property tax and provides a common rate and base for this analysis.

non-property tax revenues. Accordingly, total tax revenues have recovered to the FY 2001 or pre-recession level.

Non-property tax revenues are expected to return to pre-recession levels by FY 2005, requiring four years to fully mend. The sales tax component of non-property taxes rose above its pre-recession level in FY 2004, after remaining below that level for three years. The business tax component is expected to recover in FY 2005, taking four years to move beyond the pre-recession level. PIT revenue is not projected to regain pre-recession levels until FY 2008, taking seven years to recover. This is partly due to the weak job recovery as the City emerges from the recession.

## Miscellaneous Revenue

Miscellaneous revenues include fees for licenses and franchises, rental income, water and sewer revenues, fines, interest income and other miscellaneous revenue. Excluding intra-City revenues, the City's latest forecast for miscellaneous revenues, contained in the October Modification, increased by $153 million, to $4.8 billion in FY 2005 compared with the Adopted Budget. This increase reflects the reimbursement of $120 million that the City expects to receive from the Sales Tax Asset Receivable (STAR) Corporation for MAC debt service incurred in the first quarter FY 2005. The remaining change is expected to come from additional interest earned in overnight investments and proceeds from the tobacco settlement residual account. In the outyears, miscellaneous revenues are projected to remain virtually unchanged at $3.2 billion in FY 2006 and $3.1 billion in each of FYs 2007 and 2008.

The FY 2005 miscellaneous revenue forecast contains several one-time actions that are expected to generate approximately $1.7 billion in non-recurring payments. These revenues include $690 million in payments from the Port Authority for retroactive rents and past underpayments for JFK and LaGuardia airports, State reimbursement for MAC debt service of $621 million, $62 million in proceeds from tobacco residual revenues retained in a "trapping account" during FY 2004 that the City expects to be released in FY 2005, $65 million from the sale of taxi medallions and $67 million in other asset sales.[8] In addition, the City still anticipates the receipt of another one-time gain of $150 million from the Battery Park City Authority (BPCA) for the sale of City-owned properties.

As these non-recurring resources do not extend into the outyears, miscellaneous revenues are projected to drop sharply in FY 2006 and remain flat over the remainder of

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[8] The $4.8 billion is net of intra-City revenue of $1.2 billion. The State MAC debt service reimbursement of $621 million includes $501 million for FY 2004 MAC debt service and $120 million for the first quarter of FY 2005 MAC debt service. As such, only the $501 million reimbursement for FY 2004 will provide relief towards the FY 2005 deficit. In addition to the $690 million in retroactive rents and past underpayments, the City also expects rent payment of $93 million for FY 2005 from the Port Authority, bringing the total Port Authority payment to $783 million.

the plan period. Miscellaneous revenues are expected to decline by $1.6 billion in FY 2006, a drop of 34 percent.

## Federal and State Aid

In the October Modification, the City's projection of Federal and State grants has risen by a total of $1.31 billion to $14.67 billion for FY 2005. A majority of this increase is approximately $1 billion in FEMA funding that would be used to pay claims. Claim payments will be made through a captive insurance company created by the City, to contractors and subcontractors who performed clean-up work at or near the World Trade Center site. This additional FEMA funding provides no gap-closing benefits to the City's budget since the miscellaneous budget has already accounted for these future costs. Thus, the City will act merely as a pass-through for these funds. The remainder of the increase in Federal and State grants is mostly attributable to rollover of unspent Federal funds from FY 2004.

The City has also recognized the impact of the adopted State budget in the October Modification. Based on the State budget enacted in August, the City estimates that it will receive about $220 million in budget relief, falling short of the $400 million target contained in the City's Adopted Budget.[9] Most of this relief consists of additional tax revenues of $200 million resulting from the delayed expiration of sales tax on clothing and footwear under $110 until May 31, 2005 as discussed in the "Tax Revenue" section of this report. The residual benefit is mainly comprised of $33 million in net Medicaid cost containment savings, $20 million in variable rate debt service savings and $16 million in various revenue enhancements, offset by $45 million in net funding loss for Title XX child welfare services. However, the City has yet to reflect an additional $173 million in education aid based on education aid appropriations in the State budget, which will further increase its current State aid projection.[10] The outyear impact from these State actions is expected to grow significantly as the State begins to phase in the takeover of Medicaid costs under the Family Health Plus program, as discussed in greater detail in "Medical Assistance" beginning on page 24.

Federal and State grants are projected to fluctuate between $13.17 billion and $13.29 billion in the outyears of the plan. The City's baseline assumptions do not contain further Federal and State actions in addition to the baseline grants projections. However, the City has set ambitious targets for Federal and State assistance in its outyear gap-closing plan. The ambitious tone is most evident in the City's expected receipt of $650 million in additional State support for FY 2006. Combined with another $300 million in expected Federal actions, intergovernmental assistance would comprise $950 million or

[9] The October Modification reflects a lower net benefit of $199 million from the State budget, due to the fact that the City had already recognized approximately $21 million in net additional revenue from potential State actions in the Adopted Budget.

[10] The projected education aid increase will boost the Department of Education's budget, but will not provide any fiscal relief to the City.

about one-third of the total planned gap-closing actions of $2.97 billion for FY 2006. The values of these actions are projected to taper off to $700 million annually in FY 2007 and FY 2008, but they will remain key components of gap-closing plans of $1.85 billion and $1.65 billion contemplated in those years, respectively. The path to these savings is still being defined at this time, with the City planning to release its Federal and State Agenda in the next budget modification.

## B. EXPENDITURE ASSUMPTIONS

### Headcount

The City expects to end FY 2005 with 223,870 City-funded employees. This is an increase of 3,461 employees compared with headcount levels for June 30, 2004. The expected growth in headcount is due to net increases of 1,947 civilian and 1,881 pedagogical employees. A projected decline of 367 in uniformed employees partially offsets the increase in other employees. The increase in civilian headcount results mainly from the projected increase of 1,729 employees for the Departments of Health and Mental Services (DHMS), Social Services (DSS), Homeless Service (DHS), Transportation (DOT), Citywide Administration (DCAS), the Administration of Children Services (ACS), and Housing Preservation and Development (HPD). A little more than one-third of this increase is due to the reclassification of full-time equivalents (FTEs) employees in DSS, ACS, and DHS as full-time workers beginning FY 2005.

***Table 12. City-Funded Full-Time Headcount***

| | Uniform | Civilian | Pedagogical [a] | Total Full-Time |
|---|---|---|---|---|
| 6/30/04 Actual | 62,672 | 67,025 | 90,712 | 220,409 |
| 6/30/05 Estimates | 62,305 | 68,972 | 92,593 | 223,870 |
| 6/30/06 Estimates | 62,305 | 69,852 | 92,510 | 224,667 |
| 6/30/07 Estimates | 62,291 | 69,844 | 92,493 | 224,628 |
| 6/30/08 Estimates | 62,291 | 69,829 | 92,493 | 224,613 |

[a] Includes pedagogical in both Department of Education (DOE) and the City University of New York (CUNY). In addition,pedagogical headcounts reflect the reclassification, in FY 2004, of 13,576 DOE part-time employees as full-time employees.

Over the last ten years, the City has hired a larger percentage of pedagogical employees than any other employees. Most of the increase in pedagogical employees occurred in FY 1998 when pedagogical headcount rose by 6,671 or ten percent. Since then pedagogical headcount has remained relatively flat, growing by less than one-half percent annually between FYs 1998 and 2004.[11] The Department of Education (DOE) will add another 2,044 pedagogical employees by the end of FY 2005. This increase will be slightly offset by a projected decline of 163 pedagogical employees at the City University of New York (CUNY).

[11] For the purpose of consistency in comparing prior year headcounts, FY 2004 headcount in this analysis is net of the reclassification of part-time DOE employees as full-time employees.

The City-funded workforce is projected to increase by 797 employees by June 30, 2006 and then remain about the same through FY 2008. Projected hiring of civilian workers at the Police Department and at the DHMS drives most of the increase between FYs 2005 and 2006. In contrast, uniformed headcount is expected to decline slightly to 62,291 in FY 2008 from 62,305 in FY 2005. Despite this expected decline, the Police Department will still maintain Federal funding under the Federal Crime Bill, provided uniformed police headcount reaches 36,988 officers at least twice a year. This staffing level will be achieved on July 1st and January 1st with the swearing-in of attrition replacement recruits.

## Overtime

The City's current assumption of FY 2005 overtime spending reflects little change since the June 2004 budget adoption. The City now expects to spend about $655 million in FY 2005, an increase of about $19 million compared to the Adopted Budget. The City's FY 2005 overtime projection is $186 million lower than actual overtime expenditures for FY 2004 even after excluding approximately $22 million associated with the August 14-15, 2003 electrical blackout. At this time, the Comptroller's Office projects that the City may have underestimated its overtime spending by $96 million for FY 2005 as shown in Table 13.

***Table 13. Projected Overtime Spending, FY 2005***

($ in millions)

| | Comptroller's Office Projection Overtime FY 2005 | Planned Overtime FY 2005 | FY 2005 Risk |
|---|---|---|---|
| Uniform | | | |
| Police* | $331 | $271 | ($60) |
| Fire | 103 | 103 | (0) |
| Corrections | 55 | 43 | (12) |
| Sanitation | 70 | 66 | (4) |
| Total Uniformed | $559 | $483 | ($76) |
| Others | | | |
| Police-Civilian | $34 | $14 | ($20) |
| Admin for Child Svcs. | 17 | 17 | 0 |
| Environmental Protection | 20 | 20 | 0 |
| Transportation | 29 | 29 | 0 |
| All Other Agencies | 92 | 92 | 0 |
| Total Civilians | $192 | $172 | ($20) |
| **Total City** | **$751** | **$655** | **($96)** |

* Uniformed police overtime projection of $356 million is offset by an additional $25 million in Federal Funding for security during the Republican National Convention.
SOURCE: NYC Comptroller's Office and NYC Office of Management and Budget

Uniformed police overtime estimates account for $60 million or 63 percent of the City's overtime risk. Uniformed police overtime consumes about 40 percent of the City's annual overtime expenditures, growing from $151 million in FY 1999 to $345 million in FY 2004 as shown in Table 14. The Comptroller's Office estimates that police uniformed overtime spending will total $356 million in FY 2005. Uniformed police overtime is not alleviated by headcount increases and monitoring its usage presents a unique set of challenges. The City had included uniformed police overtime reduction initiatives of $20 million in its FY 2005 gap-closing programs. However, during the FY 2005 budget adoption, the City increased its projection for uniformed police overtime by $75 million. The City typically underbudgets uniformed employees' overtime at the beginning of each fiscal year. The City still expects other uniformed agencies to meet their target reductions, which total $20 million. However, these initiatives, like the initiatives that were targeted for police officers, may not succeed without careful monitoring.

***Table 14. Overtime Expenditures***

($ in millions)

| | Annual Overtime Costs | Uniformed Overtime | Police Uniformed Overtime |
|---|---|---|---|
| FY 2004 | $841 | $620 | $345 |
| FY 2003 | $829 | $613 | $336 |
| FY 2002 | $797 | $563 | $333 |
| FY 2001 | $738 | $508 | $317 |
| FY 2000 | $618 | $414 | $220 |
| FY 1999 | $532 | $353 | $151 |

NOTE: Overtime costs for FY 2002 and FY 2003 exclude expenditures related to the World Trade Center disaster and FY 2004 costs exclude expenditures related to the August 14-15, 2003 electrical blackout.

Uniformed employee overtime has fueled the continued growth of the City's annual overtime expenditures. Despite the decline in average headcount levels for uniformed employees, the average overtime costs per employee continued to increase annually from $5,181 to $9,824 as shown in Table 15. Civilian employees, in contrast, have seen their overtime costs per employee remain relatively flat during the last several years. To curb the growth in overtime spending, the City must develop more effective methods to manage overtime.

***Table 15. Overtime Costs per Average City-funded Headcount***

| | Average Uniformed Costs | Average Uniformed Headcount | Average Civilian Costs | Average Civilian Headcount |
|---|---|---|---|---|
| FY 2004 | $9,824 | 63,112 | $3,526 | 62,682 |
| FY 2003 | $9,412 | 65,126 | $3,552 | 60,811 |
| FY 2002 | $8,350 | 67,426 | $3,652 | 64,069 |
| FY 2001 | $7,371 | 68,922 | $3,587 | 64,126 |
| FY 2000 | $6,019 | 68,786 | $3,121 | 65,359 |
| FY 1999 | $5,181 | 68,138 | $2,721 | 65,774 |

NOTE: Civlian headcount does not include DOE and CUNY Pedagogical employees.

## Pensions

The City's October Modification projects that pension contributions will grow from $3.2 billion in FY 2005 to $4.4 billion in FY 2008, an increase of 34.8 percent. As indicated in Table 16, pension contributions towards the City's five actuarial pension systems account for almost the entire growth. Contributions are projected to rise by 35.5 percent from $3.1 billion in FY 2005 to $4.3 billion in FY 2008.

***Table 16. The City's Pension Contributions***

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| City Actuarial Pension System | $3,144 | $3,871 | $4,276 | $4,261 |
| Non-City Actuarial Pension System | 57 | 60 | 63 | 65 |
| City Non-Actuarial Pension System | 39 | 40 | 40 | 40 |
| **Total** | **$3,240** | **$3,971** | **$4,379** | **$4,366** |

SOURCE: NYC Office of Management and Budget

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

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

However, these projections may change significantly. The Pension Systems' Chief Actuary is expected to soon recommend several changes to the actuarial methods and assumptions that are used in the computations of the City's pension contributions effective from FY 2005.[12] The financial impact of the Chief Actuary's impending changes cannot be estimated at this time.

## Health Insurance

As shown in the figure to the right, the City's October modification projects that health insurance expenditures will increase from $2.7 billion in FY 2005 to $3.5 billion in FY 2008. The projections reflect a rate increase of 10.43 percent in FY 2005 and provisional rate increases of eight percent per year thereafter. However, historical rate increases have been higher than eight percent. Family coverage rates for active employees have increased an average of 9.7 percent between FYs 2000 and 2005 and an average of 8.1 percent between FYs 1984 and 2005. Family coverage rates for Medicare-eligible retirees (senior care) have increased an average of five percent between FYs 2000 and 2005, but have increased an average of 8.8 percent between FYs 1984 and 2005.

| City's Health Insurance Cost ($ in millions) | |
|---|---|
| FY 2005 | $2,665 |
| FY 2006 | $2,906 |
| FY 2007 | $3,154 |
| FY2008 | $3,450 |

## Labor

The City's labor reserve includes funding for projected wage increases mainly for employees whose unions have not yet reached contract agreements with the City. This group includes teachers and uniformed employees. As such, the labor reserve contains funding of approximately $267 million in FY 2005 and $270 million in each of FYs 2006

[12] Please see the "Pensions" section of "The Comptroller's Comments on the Adopted Budget for Fiscal Year 2005 and The Financial Plan for Fiscal Years 2005-2008" issued in July 2004 for a more detailed discussion of possible changes that may be recommended by the Chief Actuary.

through 2008. These funds would support agreements of unsettled contracts that conform to the citywide wage pattern that was agreed to by other unions such as District Council 37 (DC 37). Earlier this year, DC 37 accepted a three-year contract that offered employees a $1,000 bonus in the first year, a three percent wage increase in the second year, and a two percent increase in the third year.

The unions representing the teachers and the uniformed employees have rejected the terms of the agreement offered to them by the City and there has been little headway in their contract negotiations.

The Patrolmen's Benevolent Association (PBA) and the Uniformed Firefighters Association (UFA) have both filed for impasse proceedings with the New York State's Public Employment Relations Board (PERB). Hearings on the PBA contract began in November and will continue through December of 2004. In the past, uniformed employees and teachers have often achieved wage increases that were higher than those granted to civilian employees. This was the case in the 2000 to 2002 round of labor settlements. The figure to the right shows that each percentage point over the DC 37 wage increase would result in additional labor costs of $145 million for uniformed employees and teachers.[13]

**Cost of Additional One-Percentage Point Increase over DC 37 Agreement**
($ in millions)

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

## Public Assistance

The City's public assistance caseload has risen slightly since the end of FY 2004. After experiencing initial declines, public assistance caseload, as reported by the Department of Social Services, has reached 437,693 in October 2004. Compared with the June 2004 caseload of 437,453, the October caseload represents a modest year-to-date increase of 240 recipients. This increase masks the changing composition of the Safety Net Assistance (SNA) caseload. Thus far, in FY 2005, the SNA-time limit caseload has fallen by 1,145 recipients, offset by an increase of 1,443 in the regular SNA caseload. The time limit category is comprised of former Family Assistance (FA) recipients who crossed over to the SNA program after reaching a five-year lifetime limit. Meanwhile, the FA caseload has fallen by only 58 recipients.

The changes in the SNA caseload composition have had a minimal impact on monthly grants expenditures thus far in FY 2005, despite the fact that regular SNA recipients draw higher grants than time-limit recipients. For the first four months of FY 2005, the City's share of welfare grants expenditures has continued to fluctuate within a narrow range of between $41 million and $42 million each month, deviating only slightly from the spending reported in the final months of FY 2004. In contrast, when the City's

[13] This calculation maintains the City's assumptions that the non-retroactive wage increases will be funded with productivity gains.

welfare caseload grew by about 3.8 percent in FY 2004, from 421,546 in June 2003 to 437,453 in June 2004, the growth prompted an increase of 7.8 percent in the City's share of average monthly grants expenditures. The greater percentage increase was due to a more pronounced growth in the SNA caseload, which is a more costly program for the City.[14]

Projected spending for public assistance remains unchanged in the October Modification. The City continues to assume baseline grants expenditures of $491 million in FY 2005 and expects spending to remain flat at this level through the remainder of the plan. At the current rate of spending, the City's public assistance budget could face a risk of $15 million in FY 2005, which could rise to $25 million annually in FYs 2006-2008.

## Medical Assistance

In the October Modification, City-funded Medicaid spending (excluding HHC) is projected to be $3.85 billion for FY 2005, representing a net decrease of about $33 million compared with the Adopted Budget. The lower estimate reflects the impact of the State budget enacted in August. Among the Medicaid actions approved by the State are the phased-in takeover of the Family Health Plus (FHP) program that could save the City $77 million in FY 2005. The FHP savings are offset by a host of other actions that shift a net cost of about $44 million to the City, including lower State support for graduate medical education ($25 million), increase in home care savings target ($11 million), and reduction of overburden aid ($10 million).

The savings from Medicaid actions are more significant in the outyears as the FHP takeover begins to take full effect. Under the plan, the State would assume responsibility for 50 percent of FHP program costs beginning in January 2005 and then fully take over these costs in January 2006. In recognition, the City has baseline annual Medicaid savings of between $229 million and $349 million in FYs 2006-08. After adjusting for these savings, the City's Medicaid expenditures are projected to grow from $3.86 billion in FY 2006 to $4.15 billion in FY 2008. In comparison, the Adopted Budget contained Medicaid spending projections of between $4.09 billion and $4.5 billion over the same period.

Aside from providing substantial budget relief to the City, the FHP takeover should also stabilize a rapidly growing component of Medicaid expenditures. Prior to the approval of the takeover, the City estimated prepaid care spending would approach $1 billion by FY 2008.[15] As a result of the approved FHP takeover, the projected costs for prepaid care have been reduced to less than $650 million in FY 2008, which in

[14] The City funds 50 percent of expenditures in the SNA program and 25 percent of expenditures in the FA program.

[15] The prepaid care category under Medicaid is comprised of contracted costs through health maintenance organizations that provide care mainly to managed care and FHP recipients.

comparison, would be approximately $250 million lower than the FY 2004 spending for this category.

## Department of Education

The October Modification has raised the Department of Education (DOE) budget by $89 million to $13.14 billion in FY 2005. The new funding includes a $62 million increase for the opening of new schools and certain planned restructuring during the school year. The October Modification also provides an increase of $15 million in school allocations that would help the Department partially restore budget cuts that occurred at the beginning of FY 2005 due in part to uncertainty over the delayed State budget. Further, the City continues to increase funding for the Mayor's plan to end social promotions in grade schools, by allocating an additional $10 million in the October Modification targeting fifth graders. In related actions, the Mayor has already provided total funding of $115 million to implement various programs to end social promotions in the third grade, including specialized remedial instruction, the Summer Success Academy and maintaining average class size of 25 students.

The projected FY 2005 budget represents a slight decline from actual spending of $13.15 billion in FY 2004. However, the Department's budget should receive a further boost once the City incorporates the education aid increase contained in the finalized State budget. The City currently projects $5.87 billion in State grants in support of the Department's FY 2005 budget, but indicates that an estimated $173 million in net additional education aid will reach the baseline assumptions once the State aid increase is recognized. The additional State aid would likely extend into the baseline assumptions in the outyears, which are currently estimated at between $5.88 billion in FY 2006 and $6.02 billion in FY 2008. Meanwhile, the Department's spending is projected to range between $13.18 billion and $13.39 billion over the term of the financial plan. The spending increase is mainly driven by health insurance costs, special education private school payments, and funding for charter schools.

In addition, the outcome of the Campaign for Fiscal Equity court proceedings will have a significant impact on State education support for the City in the outyears. On November 30th, a panel of special masters released a set of recommendations that funding to the Department of Education be increased by $5.6 billion, to be phased in over a four-year period. In addition, the panel also recommended capital funding increases of about $1.84 billion annually over the next five years that would result in a cumulative increase of $9.18 billion for school construction and repairs. The panel was appointed by the State Supreme Court, after the State's failure to comply with a deadline for submitting a plan for education funding reform. Under the recommendations, the State Legislature would have the "first instance" to determine the share of funding between the State and the City, provided that it would not apportion an unreasonable share of the funding burden onto the City. A report containing these recommendations has been submitted to Justice Leland DeGrasse, who is expected to render a final decision in January.

## Debt Service

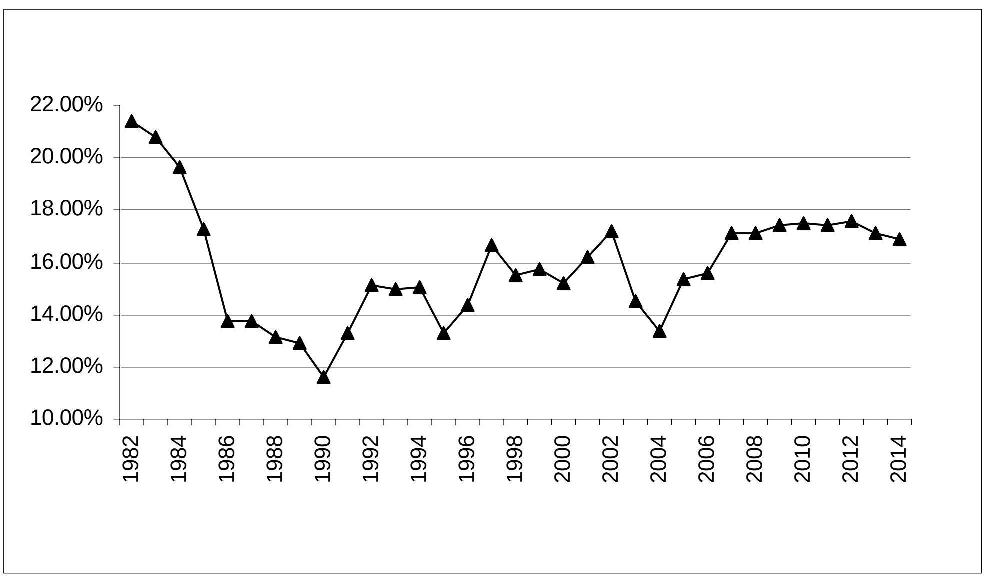
Debt service, excluding the impact of prepayments, will total $4.39 billion in FY 2005, $4.53 billion in FY 2006, $5.14 billion in FY 2007, and $5.43 billion in FY 2008.[16] This represents a decrease of $2 million in FY 2005, and increases in each of FY 2006-2008 of $13 million, $42 million, and $52 million, respectively from the June Financial Plan.

In FY 2005, although there was an increase of MAC debt service in the amount of $119.7 million, there were $121 million of offsets. The increase to MAC reflects the first quarter retention of sales tax for the payment of MAC debt service. This occurred because the STAR Corporation did not issue bonds for the redemption of MAC debt until the second quarter of FY 2005. Offsets in FY 2005 include estimated variable rate interest savings of $54.5 million, savings from the elimination of short-term note borrowing of $39.7 million, and over $26 million of projected NYCTFA savings.

Debt service increases in each of FYs 2006-2008 are primarily due to projected increases in borrowing of $430 million in FY 2005, $150 million in FY 2006, $150 million in FY 2007, and $300 million in FY 2008.

A popular measure of affordability is the debt service as a percent of local tax revenue. In FY 2005, debt service is projected to consume 15.3 percent of local tax revenues and is estimated to rise slightly to 15.6 percent in FY 2006, before increasing sharply to a projected 17.1 percent in each of FYs 2007 and 2008 as shown on Chart 3.

***Chart 2. Debt Service as a Percent of Tax Revenues, 1982-2014***




[16] This includes debt service for GO, NYCTFA, and TSASC debt as well as interest on short-term notes and lease-purchase debt.

# IV. The FY 2006 Budget Gap

The City has reduced its FY 2006 budget gap estimate by $709 million from its June 2004 Financial Plan projection. The City must now close an expected FY 2006 gap of nearly $3 billion before outyear gap-closing actions. The reduction in the size of the gap is due mainly to favorable revisions to the City's tax revenue forecast as well State legislation that will provide substantial relief to Medical Assistance expenditures in FY 2006.

As shown in Table 17, the City raised its FY 2005 revenue forecasts by $520 million. While the increase in revenues is partially offset by expenditure increases, the City expects to increase its Budget Stabilization Account by $354 million to $574 million. This increase will allow the City to raise the prepayment of FY 2006 expenditures by a like amount resulting in a reduction of $354 million in the FY 2006 budget gap.

***Table 17. Changes to the Adopted Budget Estimates***

($ in millions)

| | FY 2005 | FY 2006 |
|---|---|---|
| **Gap to be Closed Adopted Budget** | **$0** | **($3,674)** |
| **Changes since Adopted Budget** | | |
| **Revenues** | | |
| General Property | $70 | $73 |
| Other Taxes | 686 | 518 |
| Tax Audit Revenue | 15 | 0 |
| **Subtotal Tax Revenues** | **$771** | **$591** |
| Miscellaneous Revenue | $153 | $15 |
| Anticipated State & Fed. Actions | (400) | (400) |
| Other Categorical Grants | (4) | 47 |
| **Total Revenues** | **$520** | **$253** |
| **Expenditures** | | |
| New Needs | $87 | $0 |
| Family Health Plus Takeover | (77) | (254) |
| PEG Restoration and Substitution [a] | 73 | 54 |
| MAC Debt Service | 120 | 0 |
| NYCTFA Debt Service | (29) | 1 |
| BSA | 354 | (354) |
| All Other Expenditure | (8) | 97 |
| **Total Expenditures** | **$520** | **($456)** |
| **Gap to be Closed in October Modification** | **$0** | **($2,965)** |

NOTE: Changes in tax revenues include STAR and tax audit revenues.

[a] PEG restoration and substitution is net of Family Health Plus takeover. PEG restoration and substitution including Family Health Plus takeover sums to $4 million.

Further relief to the FY 2006 budget is due to improved FY 2006 revenue and expenditure estimates relative to the June 2004 Financial Plan projections. While the $253 million increase in the FY 2006 revenue estimates is significantly smaller than the FY 2005 revenue revision, the expected savings from the phase-in of the State takeover of Family Health Plus is expected to more than triple from $77 million in FY 2005 to $254 million in FY 2006. As a result, the revisions to the FY 2006 baseline revenue and expenditure forecasts, net of prepayment, lowered the FY 2006 gap by $354 million.

## A. OUTYEAR GAP-CLOSING ACTIONS

Despite the more optimistic baseline projections in the October Modification, the City still faces a sizeable gap of $2.97 billion in FY 2006. The City has proposed a series of gap-closing actions to balance the FY 2006 budget as well as to reduce the outyear gaps. As Table 18 shows, the City expects to begin addressing the FY 2006 gap in FY 2005 with gap closing actions that are projected to generate an additional $575 million surplus that will be used to reduce the FY 2006 budget gap.

***Table 18. Outyear Gap-Closing Actions***

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| **Gap to be Closed in October Modification** | **$0** | **($2,965)** | **($4,176)** | **($3,347)** |
| **Outyear Gap-Closing Plan** | | | | |
| Eliminate Pay-As-You-Go Capital | $200 | $200 | $200 | $200 |
| Agency Actions | 300 | 600 | 600 | 600 |
| Asset Sales | 75 | 315 | 150 | 150 |
| Pensions/Health Insurance | 0 | 325 | 200 | 0 |
| State Actions | 0 | 650 | 400 | 400 |
| Federal Actions | 0 | 300 | 300 | 300 |
| Prepay FY 2006 Expenses | (575) | 575 | 0 | 0 |
| **Total Outyear Gap-Closing Plan** | **$0** | **$2,965** | **$1,850** | **$1,650** |
| **Remaining Outyear Gaps** | **$0** | **$0** | **($2,326)** | **($1,697)** |

Among the gap-closing actions is the elimination, from the Financial Plan, of pay-as-you-go capital spending for school construction. This will allow the City to save $200 million annually in operating expenditures. However, the elimination of pay-as-you-go capital spending will result in additional debt service expenditures should the City need to borrow in the future, to fund these constructions.

In addition, the City is proposing agency gap-closing actions that are expected to be implemented in FY 2005. These agency initiatives, together with $75 million from asset sales and the elimination of pay-as-you-go capital spending, are expected to generate $575 million in additional resources that will be used to prepay FY 2006 expenses.

The City expects to continue asset sales during the outyears of the plan and anticipates revenues of $315 million in FY 2006 and $150 million in each of FYs 2007 and 2008 from these sales. Other gap-closing actions include the assumption of savings of $325 million and $200 million in FYs 2006 and 2007 respectively from as yet unspecified pension and health insurance initiatives; $950 million from State and Federal actions in FY 2006 declining to $400 million in FYs 2007 and 2008 and $300 million annually in Federal actions.

While it is encouraging that the City has recognized the need to take early actions to address the outyear gaps, the City's gap-closing proposals lack specificity as to how the savings will be achieved. The City must quickly develop a detailed plan to generate the savings to close the gap. Shortfalls in the programs can thereby be identified early and corrective actions or contingency programs can be initiated. This will ensure that the assumed savings will materialize.

## B. OUTYEAR RISKS

The Comptroller's Office's analysis indicates that there are risks ranging from $165 million to $293 million to the City's baseline projections, as shown in Table 3 on page 3. In general, more than half of the projected risks are due to the City's underestimation of expenditures. The City continues to underestimate its overtime expenditures. The Comptroller's Office estimates that the City may have understated overtime spending by as much as $96 million in FY 2005 and $75 million in each of FYs 2006-2008. The City also continues to assume annual savings of $34 million from the reduction of teacher sabbaticals despite a recent ruling by the New York State Public Employment Relations Board (PERB) that the City cannot unilaterally deny teacher sabbaticals in order to save money. Although the City believes that it will achieve these savings in FY 2005 without breaching the PERB ruling, the outyear savings remain questionable. In addition, the City's PA spending projections do not adequately account for the continuing growth in monthly grants. If monthly grants continue on their current trend, the City would face additional expenditures of $15 million in FY 2005 and $25 million in each of FYs 2006-2008 to fund the increase.

The risks to the City's revenue projections stem primarily from differences in tax revenue estimates by the Comptroller's Office and the City. The Comptroller's Office believes that the City may have overestimated its FY 2005 tax revenue by $54 million. The risk grows to $159 million in FY 2006 before declining to $118 million and $52 million in FYs 2007 and 2008, respectively. The risks to the City's revenue forecast are due primarily to the Comptroller's Office's lower estimates for the economically sensitive PIT and business tax revenues. This is because the Comptroller's Office projects a weaker outlook for businesses as compared with the City's projections.

In addition to the risks to the City's baseline assumptions, the Comptroller's Office estimates that the City has overstated the benefits from its outyear gap-closing program by as much as $1.3 billion. The City assumes that State and Federal actions will generate $950 million in gap-closing resources in FY 2006 and $700 million annually in the outyears. The City has not specified how it expects these resources will be generated. Furthermore, these initiatives rely on actions by the State and Federal governments. Without any clear indication that the State and Federal governments will agree to these initiatives the assumption of savings remains questionable.

*Table 19. Risks to the City's Outyear Gap-Closing Program*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 |
|---|---|---|---|---|
| **City Stated Gap After Gap-Closing Actions** | **$0** | **$0** | **($2,326)** | **($1,697)** |
| Risk to Baseline Projections | ($165) | ($293) | ($252) | ($186) |
| State Actions | $0 | ($650) | ($400) | ($400) |
| Federal Actions | $0 | ($300) | ($300) | ($300) |
| Pension/Health Benefits | $0 | ($325) | ($200) | $0 |
| **Restated Gap After Gap-Closing Actions** | **($165)** | **($1,568)** | **($3,478)** | **($2,583)** |

The City expects to achieve savings of $325 million and $200 million in pension and health benefits. The success of this initiative, like anticipated State and Federal actions, relies on actions that are outside of the City's control. The City would require the cooperation of the labor unions and the State to implement this initiative. In the absence of any details regarding how these savings will be achieved, the savings remain uncertain.

# Appendix – Revenue and Expenditure Details

### Table A1. *FY 2004 October Modification Revenue Detail*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Change FYs 2005-08 Percent | Change FYs 2005-08 Dollar |
|---|---|---|---|---|---|---|
| **Taxes:** | | | | | | |
| Real Property | $11,768 | $12,240 | $12,772 | $13,582 | 15.4% | $1,814 |
| Personal Income Tax | $6,123 | $6,160 | $6,217 | $6,633 | 8.3% | $510 |
| General Corporation Tax | $1,624 | $1,769 | $1,864 | $1,981 | 22.0% | $357 |
| Banking Corporation Tax | $417 | $423 | $425 | $427 | 2.4% | $10 |
| Unincorporated Business Tax | $941 | $1,010 | $1,064 | $1,110 | 18.0% | $169 |
| Sale and Use | $4,128 | $4,009 | $4,200 | $4,384 | 6.2% | $256 |
| Commercial Rent | $439 | $451 | $465 | $478 | 8.9% | $39 |
| Real Property Transfer | $598 | $573 | $590 | $597 | (0.2%) | ($1) |
| Mortgage Recording Tax | $748 | $666 | $665 | $683 | (8.7%) | ($65) |
| Utility | $301 | $303 | $304 | $302 | 0.3% | $1 |
| Cigarette | $136 | $132 | $129 | $126 | (7.4%) | ($10) |
| Hotel | $241 | $261 | $277 | $291 | 20.7% | $50 |
| All Other | $405 | $404 | $378 | $380 | (6.2%) | ($25) |
| Tax Audit Revenue | $523 | $508 | $509 | $509 | (2.7%) | ($14) |
| Tax Initiatives Program | $0 | $0 | $0 | $0 | 0.0% | $0 |
| **Total Taxes** | **$28,392** | **$28,909** | **$29,859** | **$31,483** | **10.9%** | **$3,091** |
| | | | | | | |
| **Miscellaneous Revenue:** | | | | | | |
| Licenses, Franchises, Etc. | $358 | $354 | $352 | $352 | (1.7%) | ($6) |
| Interest Income | $62 | $56 | $61 | $74 | 19.4% | $12 |
| Charges for Services | $521 | $518 | $512 | $511 | (1.9%) | ($10) |
| Water and Sewer Charges | $933 | $930 | $946 | $967 | 3.6% | $34 |
| Rental Income | $861 | $173 | $176 | $176 | (79.6%) | ($685) |
| Fines and Forfeitures | $709 | $705 | $704 | $704 | (0.7%) | ($5) |
| Miscellaneous | $1,347 | $427 | $351 | $350 | (74.0%) | ($997) |
| Intra-City Revenue | $1,189 | $1,130 | $1,129 | $1,129 | (5.0%) | ($60) |
| **Total Miscellaneous** | **$5,980** | **$4,293** | **$4,231** | **$4,263** | **(28.7%)** | **($1,717)** |
| | | | | | | |
| **Unrestricted Intergovernmental Aid:** | | | | | | |
| N.Y. State Per Capital Aid | $327 | $327 | $327 | $327 | 0.0% | $0 |
| Other Federal and State Aid | $235 | $235 | $235 | $235 | 0.0% | $0 |
| **Total Unrestricted Intergovernmental Aid** | **$562** | **$562** | **$562** | **$562** | **0.0%** | **$0** |
| | | | | | | |
| **Anticipated State and Federal Aid:** | | | | | | |
| Anticipated State Aid | $0 | $0 | $0 | $0 | **0.0%** | **$0** |
| Anticipated Federal Aid | $50 | $0 | $0 | $0 | **(100.0%)** | **($50)** |
| **Total Anticipated Aid** | **$50** | **$0** | **$0** | **$0** | **(100.0%)** | **($50)** |
| | | | | | | |
| **Other Categorical Grants** | $803 | $877 | $866 | $866 | 7.8% | $63 |
| | | | | | | |
| Inter Fund Agreements | $349 | $335 | $331 | $331 | (5.2%) | ($18) |
| | | | | | | |
| Reserve for Disallowance of Categorical Grants | ($15) | ($15) | ($15) | ($15) | 0.0% | $0 |
| | | | | | | |
| Less: Intra-City Revenue | ($1,189) | ($1,130) | ($1,129) | ($1,129) | (5.0%) | $60 |
| | | | | | | |
| **TOTAL CITY FUNDS** | **$34,932** | **$33,831** | **$34,705** | **$36,361** | **4.1%** | **$1,429** |

## Table A1 (Con't). *FY 2004 October Modification Revenue Detail*

($ in millions)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Change FYs 2005-08 Percent | Dollar |
|---|---|---|---|---|---|---|
| **Federal Categorical Grants:** | | | | | | |
| Community Development | $294 | $242 | $242 | $242 | (17.7%) | ($52) |
| Welfare | $2,071 | $2,026 | $2,034 | $2,033 | (1.8%) | ($38) |
| Education | $1,733 | $1,733 | $1,733 | $1,733 | 0.0% | $0 |
| Other | $1,859 | $575 | $550 | $541 | (70.9%) | ($1,318) |
| **Total Federal Grants** | **$5,957** | **$4,576** | **$4,559** | **$4,549** | **(23.6%)** | **($1,408)** |
| | | | | | | |
| **State Categorical Grants** | | | | | | |
| Welfare | $1,792 | $1,770 | $1,767 | $1,767 | (1.4%) | ($25) |
| Education | $5,871 | $5,881 | $5,949 | $6,019 | 2.5% | $148 |
| Higher Education | $177 | $178 | $178 | $178 | 0.6% | $1 |
| Department of Health and Mental Hygiene | $485 | $474 | $482 | $482 | (0.6%) | ($3) |
| Other | $384 | $291 | $294 | $295 | (23.2%) | ($89) |
| **Total State Grants** | **$8,709** | **$8,594** | **$8,670** | **$8,741** | **0.4%** | **$32** |
| | | | | | | |
| **TOTAL REVENUES** | **$49,598** | **$47,001** | **$47,934** | **$49,651** | **0.1%** | **$53** |

## Table A2. *FY 2004 October Modification Expenditure Detail*

($ in thousands)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Change FYs 2005-08 Percent | Dollar |
|---|---|---|---|---|---|---|
| Mayoralty | $73,336 | $70,480 | $70,480 | $70,480 | (3.9%) | ($2,856) |
| Board of Elections | $75,401 | $73,090 | $68,590 | $68,590 | (9.0%) | ($6,811) |
| Campaign Finance Board | $8,967 | $17,819 | $17,819 | $17,819 | 98.7% | $8,852 |
| Office of the Actuary | $4,778 | $4,728 | $4,728 | $4,728 | (1.0%) | ($50) |
| President, Borough of Manhattan | $3,896 | $3,083 | $3,083 | $3,083 | (20.9%) | ($813) |
| President, Borough of the Bronx | $5,622 | $4,419 | $4,419 | $4,419 | (21.4%) | ($1,203) |
| President, Borough of Brooklyn | $5,166 | $3,863 | $3,863 | $3,863 | (25.2%) | ($1,303) |
| President, Borough of Queens | $4,966 | $3,647 | $3,647 | $3,647 | (26.6%) | ($1,319) |
| President, Borough of S.I. | $3,920 | $3,085 | $3,085 | $3,085 | (21.3%) | ($835) |
| Office of the Comptroller | $56,880 | $56,713 | $56,762 | $56,762 | (0.2%) | ($118) |
| Dept. of Emergency Management | $17,917 | $4,792 | $4,792 | $4,792 | (73.3%) | ($13,125) |
| Tax Commission | $2,425 | $2,325 | $2,325 | $2,325 | (4.1%) | ($100) |
| Law Department | $108,937 | $108,038 | $106,192 | $106,192 | (2.5%) | ($2,745) |
| Department of City Planning | $18,684 | $18,299 | $18,299 | $18,299 | (2.1%) | ($385) |
| Department of Investigation | $17,144 | $16,638 | $16,638 | $16,638 | (3.0%) | ($506) |
| NY Public Library-Research | $9,864 | $16,134 | $16,134 | $16,134 | 63.6% | $6,270 |
| New York Public Library | $51,079 | $85,672 | $85,672 | $85,672 | 67.7% | $34,593 |
| Brooklyn Public Library | $37,863 | $63,471 | $63,471 | $63,471 | 67.6% | $25,608 |
| Queens Borough Public Library | $35,960 | $59,915 | $59,915 | $59,915 | 66.6% | $23,955 |
| Department of Education | $13,128,839 | $13,170,309 | $13,309,844 | $13,382,393 | 1.9% | $253,554 |
| City University | $546,198 | $511,905 | $509,485 | $509,254 | (6.8%) | ($36,944) |
| Civilian Complaint Review BD. | $10,056 | $8,966 | $8,966 | $8,966 | (10.8%) | ($1,090) |
| Police Department | $3,480,589 | $3,456,206 | $3,457,937 | $3,459,565 | (0.6%) | ($21,024) |
| Fire Department | $1,190,120 | $1,146,177 | $1,145,477 | $1,145,262 | (3.8%) | ($44,858) |
| Admin. for Children Services | $2,197,881 | $2,093,635 | $2,094,715 | $2,094,352 | (4.7%) | ($103,529) |
| Department of Social Services | $6,849,423 | $6,865,563 | $6,972,914 | $7,162,236 | 4.6% | $312,813 |
| Dept. of Homeless Services | $685,467 | $656,943 | $657,442 | $657,441 | (4.1%) | ($28,026) |
| Department of Correction | $824,367 | $829,134 | $826,084 | $826,084 | 0.2% | $1,717 |
| Board of Correction | $927 | $813 | $813 | $813 | (12.3%) | ($114) |
| Department of Employment | $0 | $0 | $0 | $0 | 0.0% | $0 |
| Citywide Pension Contributions | $3,240,223 | $3,971,086 | $4,378,845 | $4,366,381 | 34.8% | $1,126,158 |
| Miscellaneous | $5,774,849 | $5,213,638 | $5,468,890 | $5,773,796 | (0.0%) | ($1,053) |
| Debt Service | $2,781,365 | $2,904,561 | $4,067,902 | $4,350,201 | 56.4% | $1,568,836 |
| M.A.C. Debt Service | $119,667 | $0 | $0 | $0 | (100.0%) | ($119,667) |
| NYCTFA Debt Service | $530,385 | $955,567 | $977,185 | $982,721 | 85.3% | $452,336 |
| Public Advocate | $3,105 | $1,746 | $1,746 | $1,746 | (43.8%) | ($1,359) |
| City Council | $46,736 | $46,518 | $46,518 | $46,518 | (0.5%) | ($218) |
| City Clerk | $3,003 | $2,934 | $2,934 | $2,934 | (2.3%) | ($69) |
| Department for the Aging | $227,481 | $199,646 | $199,556 | $199,556 | (12.3%) | ($27,925) |
| Department of Cultural Affairs | $123,728 | $103,860 | $103,860 | $103,860 | (16.1%) | ($19,868) |
| Financial Info. Serv. Agency | $37,549 | $37,608 | $37,608 | $37,608 | 0.2% | $59 |
| Department of Juvenile Justice | $101,400 | $104,640 | $104,640 | $104,640 | 3.2% | $3,240 |
| Office of Payroll Admin. | $11,505 | $10,399 | $10,352 | $10,352 | (10.0%) | ($1,153) |
| Independent Budget Office | $2,744 | $2,714 | $2,714 | $2,714 | (1.1%) | ($30) |

## Table A2 (Con't). *FY 2004 October Modification Expenditure Detail*

($ in thousands)

| | FY 2005 | FY 2006 | FY 2007 | FY 2008 | Change FYs 2005-08 Percent | Change FYs 2005-08 Dollar |
|---|---|---|---|---|---|---|
| Equal Employment Practices Com | $612 | $515 | $515 | $515 | (15.8%) | ($97) |
| Civil Service Commission | $582 | $582 | $582 | $582 | 0.0% | $0 |
| Landmarks Preservation Comm. | $3,876 | $3,529 | $3,529 | $3,529 | (9.0%) | ($347) |
| Districting Commission | $0 | $0 | $0 | $0 | 0.0% | $0 |
| Taxi & Limousine Commission | $23,989 | $23,753 | $23,436 | $23,436 | (2.3%) | ($553) |
| Commission on Human Rights | $6,990 | $6,951 | $6,951 | $6,951 | (0.6%) | ($39) |
| Youth & Community Development | $247,363 | $190,526 | $185,443 | $185,443 | (25.0%) | ($61,920) |
| Conflicts of Interest Board | $1,533 | $1,390 | $1,390 | $1,390 | (9.3%) | ($143) |
| Office of Collective Barg. | $1,586 | $1,586 | $1,586 | $1,586 | 0.0% | $0 |
| Community Boards (All) | $12,551 | $12,496 | $12,496 | $12,496 | (0.4%) | ($55) |
| Department of Probation | $75,549 | $72,240 | $72,240 | $72,240 | (4.4%) | ($3,309) |
| Dept. of Small Business Services | $110,738 | $90,474 | $86,370 | $86,370 | (22.0%) | ($24,368) |
| Housing Preservation & Dev. | $453,426 | $431,642 | $429,175 | $429,175 | (5.3%) | ($24,251) |
| Department of Buildings | $59,410 | $53,747 | $51,976 | $51,855 | (12.7%) | ($7,555) |
| Department of Public Health & Mental Hygiene | $1,485,246 | $1,380,567 | $1,408,045 | $1,408,825 | (5.1%) | ($76,421) |
| Health and Hospitals Corp. | $833,002 | $947,684 | $944,484 | $938,384 | 12.7% | $105,382 |
| Dept. of Environmental Prot. | $769,284 | $740,815 | $739,265 | $739,265 | (3.9%) | ($30,019) |
| Department of Sanitation | $1,059,632 | $1,082,480 | $1,081,541 | $1,081,302 | 2.0% | $21,670 |
| Business Integrity Commission | $5,140 | $5,396 | $5,396 | $5,396 | 5.0% | $256 |
| Department of Finance | $193,699 | $191,326 | $192,560 | $192,629 | (0.6%) | ($1,070) |
| Department of Transportation | $498,705 | $450,063 | $450,133 | $450,133 | (9.7%) | ($48,572) |
| Dept. of Parks and Recreation | $230,949 | $215,806 | $215,806 | $209,807 | (9.2%) | ($21,142) |
| Dept. of Design & Construction | $91,385 | $87,968 | $87,968 | $87,968 | (3.7%) | ($3,417) |
| Dept. of Citywide Admin. Services | $256,388 | $245,857 | $245,827 | $245,937 | (4.1%) | ($10,451) |
| D.O.I.T.T. | $122,273 | $158,993 | $154,570 | $155,525 | 27.2% | $33,252 |
| Dept. of Records & Info. Serv. | $3,661 | $3,661 | $3,661 | $3,661 | 0.0% | $0 |
| Department of Consumer Affairs | $13,265 | $13,032 | $13,144 | $13,144 | (0.9%) | ($121) |
| District Attorney - N.Y. | $73,653 | $62,922 | $62,922 | $62,922 | (14.6%) | ($10,731) |
| District Attorney – Bronx | $39,405 | $37,049 | $37,049 | $37,049 | (6.0%) | ($2,356) |
| District Attorney – Kings | $65,317 | $64,171 | $64,171 | $64,171 | (1.8%) | ($1,146) |
| District Attorney – Queens | $35,920 | $33,017 | $33,017 | $33,017 | (8.1%) | ($2,903) |
| District Attorney – Richmond | $5,994 | $5,383 | $5,383 | $5,383 | (10.2%) | ($611) |
| Off. Of Prosec. & Spec. Narc. | $14,406 | $13,407 | $13,407 | $13,407 | (6.9%) | ($999) |
| Public Administrator - N.Y. | $1,002 | $1,002 | $1,002 | $1,002 | 0.0% | $0 |
| Public Administrator – Bronx | $338 | $338 | $338 | $338 | 0.0% | $0 |
| Public Administrator – Brooklyn | $465 | $465 | $465 | $465 | 0.0% | $0 |
| Public Administrator – Queens | $363 | $363 | $363 | $363 | 0.0% | $0 |
| Public Administrator – Richmond | $257 | $257 | $257 | $257 | 0.0% | $0 |
| Prior Payable Adjustment | $0 | $0 | $0 | $0 | 0.0% | $0 |
| General Reserve | $300,000 | $300,000 | $300,000 | $300,000 | 0.0% | $0 |
| Energy Adjustment | $40,000 | $67,612 | $66,780 | $70,724 | 76.8% | $30,724 |
| Lease Adjustment | $0 | $18,912 | $34,932 | $50,609 | 0.0% | $50,609 |
| OTPS Inflation Adjustment | $0 | $36,990 | $75,022 | $110,970 | N/A | $110,970 |
| **City-Wide Totals** | **$49,598,366** | **$49,965,746** | **$52,109,538** | **$52,997,528** | **6.9%** | **$3,399,162** |

# GLOSSARY OF ACRONYMS

| | |
|---|---|
| **ACS** | Administration for Children Services |
| **BCI** | Business Conditions Index |
| **BCT** | Banking Corporation Tax |
| **BLS** | Bureau of Labor Statistics |
| **BPCA** | Battery Park City Authority |
| **DC 37** | District Council 37 |
| **DCAS** | Department of Citywide Administration Services |
| **DHS** | Department of Homeless Services |
| **DHMS** | Departments of Health and Mental Services |
| **DOE** | Department of Education |
| **DOT** | Department of Transportation |
| **DSS** | Department of Social Services |
| **FA** | Family Assistance |
| **FEMA** | Federal Emergency Management Agency |
| **FTE** | Full-Time Equivalents |
| **FHP** | Family Health Plus |

| | |
|---|---|
| **FY** | Fiscal Year |
| **GCP** | Gross City Product |
| **GCT** | General Corporation Tax |
| **GDP** | Gross Domestic Product |
| **GO Debt** | General Obligation Debt |
| **HHC** | Health and Hospitals Corporation |
| **HPD** | Housing Preservation Development |
| **MAC** | Municipal Assistance Corporation |
| **MTA** | Metropolitan Transportation Authority |
| **MRT** | Mortgage Recording Tax |
| **NYC** | New York City |
| **NYCTFA** | New York City Transitional Finance Authority |
| **NYS** | New York State |
| **OMB** | Office of Management and Budget |
| **OTPS** | Other Than Personal Services |
| **PBA** | Police Benevolent Association |
| **PERB** | Public Employment Relations Board |

| | |
|---|---|
| **PIT** | Personal Income Tax |
| **RPTT** | Real Property Transfer Tax |
| **SNA** | Safety Net Assistance |
| **STAR** | School Tax Relief Program |
| **TSASC** | Tobacco Settlement Asset Securitization Corporation |
| **UFA** | Uniformed Firefighters Association |
| **UFT** | United Federation of Teachers |
| **U.S.** | United States |
| **WTI** | West Texas Intermediate |