The Comptroller's Comments on the Adopted Budget for Fiscal Year 2004 and the Financial Plan for Fiscal Years 2004-2007

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

July 2003

Prepared by the New York City Office of the Comptroller, Bureau of Fiscal and Budget Studies
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Executive Summary

The City has adopted a FY 2004 budget that charts a reasonable course toward current-year balance. The level of risk identified by the Comptroller should be within the City's ability to address over the course of the fiscal year. The outyears of the Financial Plan, however, continue to present multi-billion dollar deficits as a consequence of the City's ongoing structural imbalance.

At the end of June the City Council and the Mayor reached agreement on a $43.8 billion budget for FY 2004. The budget was balanced through a series of tax increases, spending cuts, and the use of a $1.3 billion FY 2003 surplus. Analysis of the budget indicates that the City chose a set of responsible solutions to address the FY 2004 deficit. The spending cuts, while significant and painful, were generally limited in scope. Similarly, the income and sales tax increases are scheduled to expire over the next several years. The Comptroller's analysis has identified $484 million in risks within the FY 2004 budget, a reduction of $134 million from his prior analysis due to actions taken by the City. However, at this point in the budget cycle, the City has sufficient explicit and implicit reserves to be reasonably confident that the FY 2004 budget will end the fiscal year in balance.

The major problem facing the City in the FYs 2004-2007 Financial Plan is the outyear budget gaps. The City projects that the FY 2005 gap will exceed $2 billion, and the Comptroller finds that the deficit which will need to be resolved is approaching $3 billion.

The fiscal problems now facing the City are primarily the result of the embedded structural imbalance exacerbated by the ongoing impact of the September 11th terrorist attacks. The major sources of growth in the City's expense budget are well known – rising pension costs due to benefit increases and investment losses, rising debt service costs due to capital planning decisions made in the last administration and rising medical costs reflected in increased Medicaid and employee health insurance costs. In addition, the City regularly underestimates the actual cost of its overtime expenditures.

Over the past year, the City developed credible solutions to the FY 2004 budget deficit by acting expeditiously and decisively once the FY 2003 budget was adopted. Similarly this year, the City must immediately begin to address the FY 2005 shortfall by developing the actions necessary to close the looming gap. The extent to which these initiatives are recurring will help determine whether the current budget problems will be contained or will be ongoing.

Table 1. FYs 2004-2007 Financial Plan

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Revenues				
Taxes:[a]				
General Property Tax	$11,447	$11,751	$12,176	$12,621
Other Taxes	$14,201	$14,689	$15,182	$15,741
Tax Audit Revenues	$525	$505	$505	$505
Tax Program	$0	$0	$0	$0
Miscellaneous Revenues	$4,287	$4,605	$4,095	$4,048
Unrestricted Intergovernmental Aid	$555	$555	$555	$555
Less: Intra-City Revenue	($1,094)	($1,080)	($1,079)	($1,079)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)
Subtotal: City Funds	$29,906	$31,010	$31,419	$32,376
Other Categorical Grants	$842	$764	$785	$800
Inter-Fund Revenues	$321	$313	$312	$312
Total City & Inter-Fund Revenues	$31,069	$32,087	$32,516	$33,488
Federal Categorical Grants	$4,622	$4,467	$4,452	$4,462
State Categorical Grants	$8,173	$8,179	$8,159	$8,232
Total Revenues	$43,864	$44,733	$45,127	$46,182
Expenditures				
Personal Service				
Salaries and Wages	$16,319	$16,281	$16,284	$16,288
Pensions	$2,615	$3,239	$4,051	$4,458
Fringe Benefits	$4,795	$5,048	$5,343	$5,640
Subtotal-PS	$23,729	$24,568	$25,678	$26,386
Other Than Personal Service				
Medical Assistance	$3,871	$4,372	$4,516	$4,520
Public Assistance	$2,054	$2,054	$2,057	$2,058
All Other	$12,315	$11,974	$12,181	$12,386
Subtotal-OTPS	$18,240	$18,400	$18,754	$18,964
Debt Service				
Principal	$1,546	$1,644	$1,677	$1,727
Interest & Offsets	$1,616	$1,919	$2,042	$2,173
Total	$3,162	$3,563	$3,719	$3,900
Budget Stabilization & Prepayments[b]	($1,303)	$0	$0	$0
MAC Debt Service	$0	$0	$0	$0
NYCTFA				
Principal	$185	$361	$375	$391
Interest & Offsets	$645	$635	$618	$605
Total	$830	$996	$993	$996
General Reserve	$300	$300	$300	$300
	$44,958	$47,827	$49,444	$50,546
Less: Intra-City Expenses	($1,094)	($1,080)	($1,079)	($1,079)
Total Expenditures	$43,864	$46,747	$48,365	$49,467
Gap To Be Closed	$0	($2,014)	($3,238)	($3,285)

[a] Property tax includes School Tax Relief (STAR) aid, other taxes include NYCTFA revenues.

[b] Budget Stabilization & Prepayments includes prepayments of subsidies of $313 million, lease debt service of $73 million and general obligation debt of $293 million, and a NYCTFA grant in FY 2003 to pay $624 million of FY 2004 NYCTFA debt service, bringing the total FY 2004 benefit to $1,303 million.

Table 2. FYs 2004-2007 Financial Plan Risks and Offsets

($ in millions)

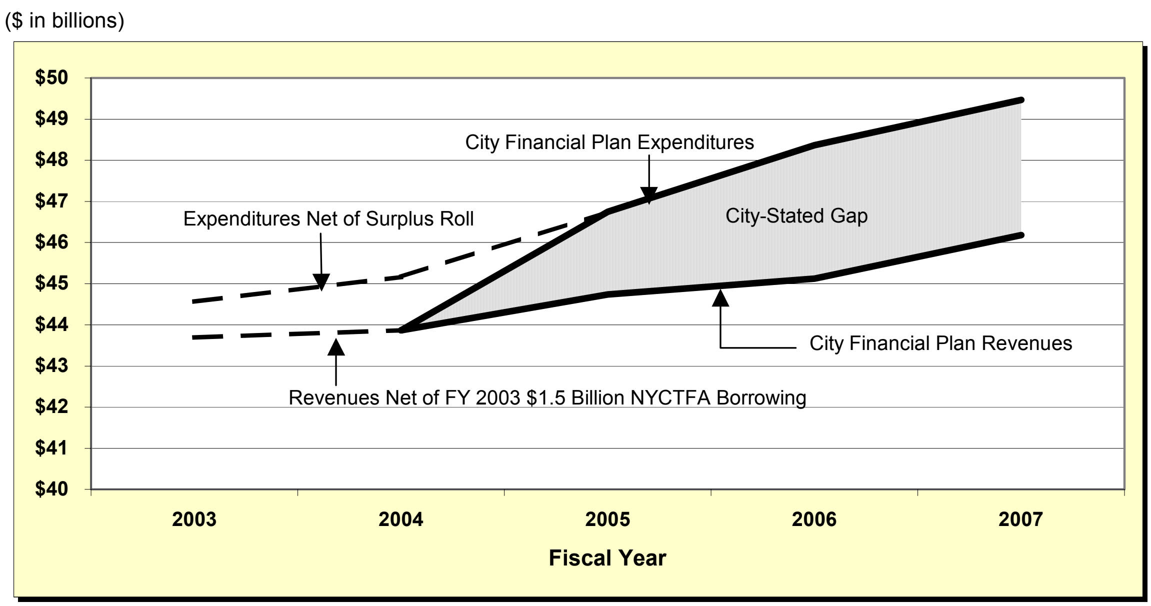
	FY 2004	FY 2005	FY 2006	FY 2007
City Stated Gap	**$0**	**($2,014)**	**($3,238)**	**($3,285)**
Revenue Assumptions				
Personal Income Tax	$13	$91	$3	$37
Business Taxes	$46	$27	$34	$95
Sales Tax	$46	$17	($41)	$45
All Other Taxes	($52)	($48)	($54)	($59)
Airport Rent	($190)	($573)	($86)	($89)
Expenditure Projections				
Overtime	($199)	($199)	($199)	($199)
Private Bus Subsidy	($75)	($145)	($148)	($153)
Public Assistance	($23)	($30)	($35)	($35)
Disaster Relief Medicaid	($50)	($40)	($40)	($40)
Baseline Medicaid	$0	($70)	($120)	($260)
Total Risk	**($484)**	**($970)**	**($692)**	**($658)**
Restated Gap	**($484)**	**($2,984)**	**($3,924)**	**($3,943)**

The FYs 2004-2007 Financial Plan

The City's FY 2004 Adopted Budget assumes receipts and spending of $43.9 billion. Even after balancing the FY 2004 budget, the City projects multi-billion dollar deficits in the outyears of the financial plan beginning at $2 billion in FY 2005 and growing to $3.3 billion by FY 2007.[1] The persistence of sizeable gaps in the City's budget reflect both the use of non-recurring resources to balance the budget as well as the underlying imbalance between expenditure and revenue growth.[2]

Both FY 2003 and FY 2004 budget balance rely on the use of significant non-recurring resources. The most substantial non-recurring resources used to balance FY 2003 were the borrowing of $1.5 billion to support operating expenses and the prepayment of $677 million in FY 2002 of FY 2003 expenditures. These non-recurring resources supported the prepayment of $1.3 billion in FY 2004 expenditures. As shown in Chart 1 below, without the benefits of prepayments, FY 2004 expenditures would have grown by 1.4 percent from $44.6 billion to $45.2 billion, while revenues are projected to show only a modest increase of $175 million in FY 2004, to $43.9 billion.

Chart 1. The City's Structural Imbalance of Revenues and Expenditures

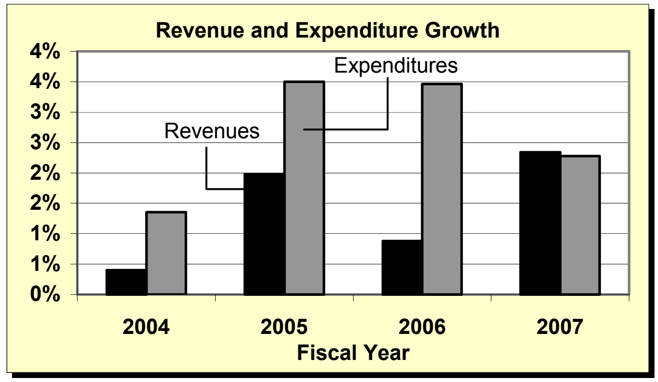


NOTE: Expenditures and revenues are adjusted to reflect the effect of NYCTFA debt service.

[1] The City's revenue and expenditure projections are adjusted to reflect NYCTFA debt service.

[2] As shown in Table 2 on page 2, the Comptroller projects the City's outyear gaps will range from nearly $3 billion in FY 2005 to almost $4 billion by FY 2007.

The misalignment between the City's revenue and expenditure growth, after adjusting for the impact of prepayments and deficit financing, is illustrated in the figure to the right. It is evident that the growth in expenditures significantly outpaces that of revenues in the first three years of the financial plan. It is only in the final year of the financial plan, after the cummulative disparity in expenditure and revenue growth has widened the gap to more than $3 billion, that revenue growth is expected to edge ahead of expenditure growth.



As shown in Table 3, the FYs 2004-2007 Financial Plan assumes that revenues will grow by 5.7 percent, from $43.7 billion in FY 2003 to $46.2 billion in FY 2007, over the financial plan period. This growth is substantially below the expected 8.8 percent rise in consumer price index (CPI).[3] Revenue growth over this period is propelled by a projected increase of 21.2 percent in tax revenues. Tax revenues account for more than half of total revenues. At the same time, all non-tax revenues are projected to decline by 12.9 percent.[4] The healthy growth in tax revenues is due largely to the mid-year property increase of 18.5 percent in FY 2003 and the recently enacted personal income tax (PIT) increase for high-income earners. The impact of these two legislative actions are reflected in the surge in property tax and PIT revenues in FY 2004 of 13.8 percent and 15.9 percent respectively. Growth in other non-property tax revenues is expected to accelerate in the latter part of the financial plan period and be driven mainly by increasing business tax revenues.

Table 3. Projected Revenue Growth

($ in millions)

	FY 2003	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 03-07	FY 2007
Property Tax	$9,942	13.8%	2.7%	3.7%	3.7%	25.6%	$12,491
Personal Income Tax	4,476	15.9%	3.8%	1.1%	1.4%	23.2%	5,517
Other Non-Property Tax	9,391	2.9%	2.8%	4.4%	4.7%	15.6%	10,859
Miscellaneous Revenue	3,064	4.2%	10.4%	(14.4%)	(1.6%)	(3.1%)	2,969
Others	1,200	(4.3%)	(7.5%)	1.9%	1.4%	(8.6%)	1,097
Intergovernmental Aid	1,675	(66.9%)	0.0%	0.0%	0.0%	(66.9%)	555
Federal Categorical Grant	5,467	(15.5%)	(3.4%)	(0.3%)	0.2%	(18.4%)	4,462
State Categorical Grant	8,474	(3.6%)	0.1%	(0.2%)	0.9%	(2.9%)	8,232
Total Revenue	**$43,689**	**0.4%**	**2.0%**	**0.9%**	**2.3%**	**5.7%**	**$46,182**

[3] The FY 2003 revenue estimate is adjusted to exclude $1.5 billion in NYCTFA borrowing. All revenue projections are adjusted to include the portion of PIT revenue retained for NYCTFA debt service.

[4] This number represents the aggregation of the change in all non-tax revenue shown in Table 3. The large drop in Intergovernmental Aid is due to the extraordinary FEMA Aid received in FY 2003.

While revenue growth is projected to be lower than the rate of inflation, spending is projected to grow substantially more than the rate of inflation. Over the financial plan period, expenditures are projected to rise by 11 percent, from $44.6 billion in FY 2003 to $49.5 billion in FY 2007.[5] This is 2.2 percentage points above expected inflation and almost twice the projected growth in revenues. As Table 4 shows, the City's projected growth in spending is driven mainly by non-discretionary spending on pension contributions, debt service, health insurance, settlements for judgments and claims (J&C) and Medicaid. Together, spending in these areas are projected to grow by 50.9 percent, or $5.9 billion, over the next four fiscal years.

Table 4. Projected Expenditure Growth

($ in millions)

	FY 2003	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 03-07	FY 2007
Pensions	$1,630	53.1%	25.0%	26.0%	10.4%	166.2%	$4,338
Debt Service	3,264	22.3%	14.2%	3.3%	3.9%	50.0%	4,896
Health Insurance	2,218	6.9%	10.4%	9.0%	8.0%	40.0%	3,106
J & C	613	4.9%	5.2%	5.4%	5.4%	22.7%	752
Medicaid	3,948	(1.9%)	12.9%	3.3%	0.1%	14.5%	4,520
Subtotal	***$11,673***	***14.6%***	***14.8%***	***9.0%***	***5.3%***	***50.9%***	***$17,612***
Fringe Benefits	$2,358	1.4%	0.2%	2.4%	1.7%	5.8%	$2,489
Salaries and Wages	16,936	(4.4%)	(0.2%)	0.0%	0.0%	(4.6%)	16,159
Public Assistance	2,329	(11.8%)	(0.0%)	0.1%	0.1%	(11.6%)	2,058
Other OTPS	11,273	(0.9%)	(3.2%)	1.6%	1.5%	(1.1%)	11,149
Subtotal	***$32,890***	***(3.3%)***	***(1.2%)***	***0.7%***	***0.7%***	***(3.1%)***	***$31,855***
Total Expenditure	**$44,563**	**1.4%**	**3.5%**	**3.5%**	**2.3%**	**11.0%**	**$49,467**

The City must control spending in the areas exhibiting high rates of growth to address the structural imbalance between revenue and expenditure growth. To be effective, any initiatives taken to reduce spending in these categories must have recurring benefits. As an example, the recent legislation enacted by the City Council that shifted the liability for sidewalk injuries on multi-dwelling and commercial properties from the City to owners of the properties should have such an effect. The City projects that this legislation will save $40 million annually in tort settlements by FY 2008.[6] In contrast, the City expects the State's Medicaid cost containment initiative to provide significant relief only in FY 2004 with expected savings of $133.6 million. Beginning in FY 2005, the projected savings drop significantly, to $16.7 million annually.

Over the course of FY 2003, the City has proposed various initiatives to reduce spending in these high cost categories. Many of these initiatives, including the creation of a new pension tier, State legislative tort reform and health insurance co-payment, are targeted at the high growth non-discretionary spending categories. However, it appears that these proposals have stalled.

[5] Expenditure estimates are adjusted to net out the effect of prepayments and include NYCTFA debt service.

[6] Because the City Council legislature does not affect claims that have already been filed, the City will not realize the full savings until all cases currently on file have been settled.

The Impact of Economic Trends

THE U.S. ECONOMY

Conventional economic theory would suggest that recovery of the U.S. economy should be well under way. Unfortunately, few signs of such recovery are evident. In the labor market, continuing unemployment insurance claims are at the highest levels since early 1983.

In June 2003, the Federal Reserve cut its Fed Funds rate by 25 basis points to one percent, the lowest rate since 1958. June's cut was the thirteenth since January 2001. Lower interest rates and the anticipation of a flatter yield curve ordinarily boost personal income, by extending the potential for mortgage refinancing, increasing credit availability, and lowering the cost of credit to businesses and consumers. Personal income also received a boost from the latest Federal tax cuts, which began showing up in July paychecks.[7]

However, evidence that these stimuli are yielding their intended results is elusive. Increases in local and state taxes offset most of the gains from the federal income tax cuts. The potential for additional mortgage refinancing is not large, because the marginal interest-rate decline is small. In addition, oil prices (at approximately $30 per barrel) are high and have created a drag on consumption. Finally, the relatively high unemployment rate and threat of job losses have discouraged consumer spending.

THE NEW YORK CITY ECONOMY

New York City's troubles are more intractable than those of the nation. The City's difficulties began in March 2000 with the bursting of the dot-com bubble. This was followed by a broad and deep decline in the equity markets. Both the City and national economies went into recession in the first quarter of 2001. Then the September 11 attacks on the World Trade Center kept the City in a recession from which it has still yet not recovered, while the nation appears to have emerged from recession in the fourth quarter of 2001.

In 2002, NYC's real Gross City Product (GCP) fell 3.7 percent, after falling 1.4 percent in 2001. The City's payroll jobs fell by 117,500, the worst drop since the 191,300 decline in 1991. In 2002, every industrial sector lost jobs except education, health services and government. Of all the industries that lost jobs, only manufacturing lost fewer jobs in 2002 than in 2001, as shown in Chart 2.

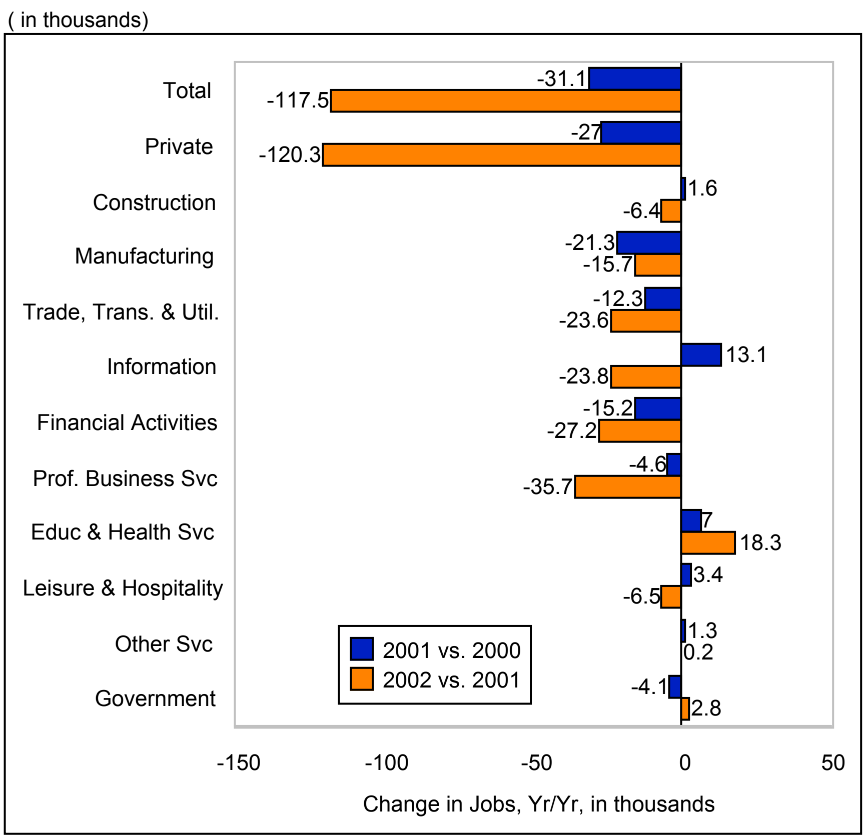
Household employment has also deteriorated. The number of unemployed civilians rose by 75,000 in 2002 compared with a rise of 9,100 in 2001. As a result, the unemployment rate rose to 7.9 percent in 2002, well above the six percent in 2001.

[7] The stimulus of the cuts on New Yorkers will be dampened by the impact of the Alternative Minimum Tax.

Lack of job growth in part reflects companies' attempts to cut costs. More evidence that firms are reining in spending was provided by weakness in the commercial office space market. The Manhattan commercial vacancy rate rose to 12 percent in 2002, one-third higher than the nine percent rate in 2001.

Finally, the $25 billion tourism industry, despite having suffered from fear of terrorism and economic weakness, edged up slightly in 2002. However, threats of terrorism and the general economic slowdown continue to haunt this industry.

Chart 2. Year-over-Year Changes in Jobs by Industry Sector, 2002 and 2001



SOURCE: NYS and U.S. Department of Labor. Categories follow the new North America Industry Classification System (NAICS).

FORECASTS OF THE U.S. AND NYC ECONOMIES

The Comptroller's forecast for 2004 is for a slower economic recovery, in both the City and the nation, than the Mayor's forecast. The Comptroller's analysis, especially for the City, weighs more heavily certain local factors that could delay restoration of the City's prosperity despite an improvement in the national economy.

United States

The Comptroller projects that U.S. GDP will grow two percent in 2003, less than the 2.4 percent growth in 2002 but slightly higher than the City's assumption. Overall, the Comptroller's forecast calls for a positive GDP growth in 2003 and in 2004, but below the 3.5 percent growth rate necessary to support sustained recovery. This reflects the Comptroller's view that the Federal monetary and tax stimulus will take longer to work their intended effects that the Mayor projects. A comparison of the Comptroller's and the Mayor's projections is shown in Table 5.

Table 5. Projected Real GDP, Percent Change, 2003-2007

	2003	2004	2005	2006	2007
Comptroller	2.0	3.2	3.4	2.9	3.0
Mayor	1.9	4.0	3.4	3.1	2.8

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the NYC Office of Management and Budget.

The economic growth projected for 2003 is not expected to generate job gains, prompting many economists to label the current situation a "jobless recovery." The Comptroller expects payroll jobs, which declined 0.9 percent in 2002, to fall 0.5 percent in 2003 because of cost cutting and a low level of corporate investment. The Comptroller's and the Mayor's projections are shown in Table 6.

Table 6. Forecasts of Payroll Jobs, Percent Change, 2003-2007

	2003	2004	2005	2006	2007
Comptroller	-0.5	0.4	1.4	1.4	1.6
Mayor	0.0	1.8	1.8	1.3	1.0

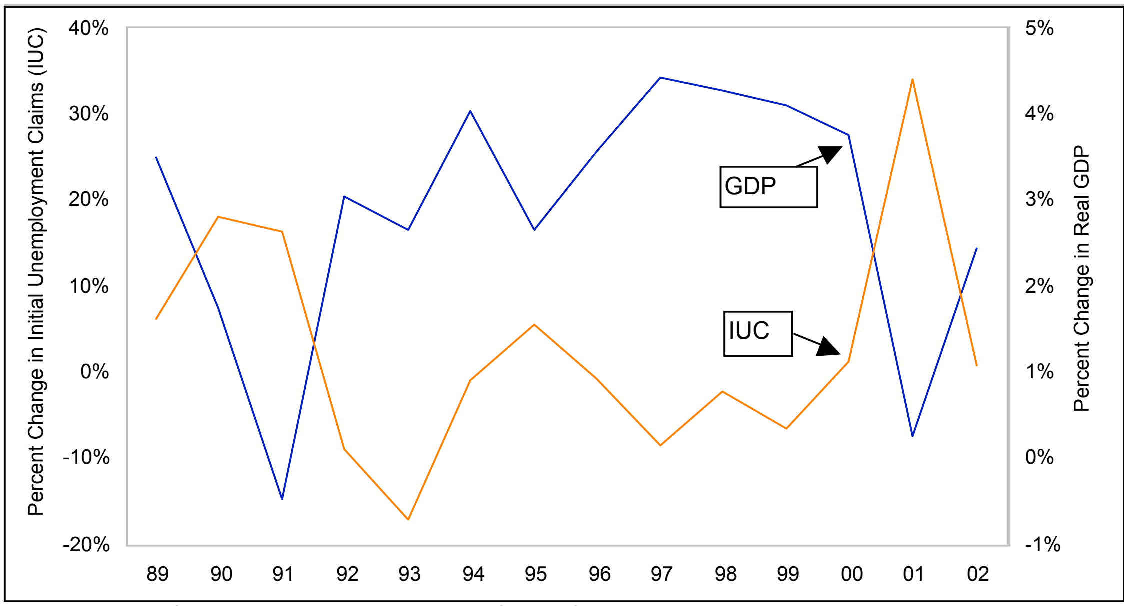
SOURCE: Comptroller=Forecast by the NYC Comptroller's Office for 2003-2007. Mayor=Forecast by the NYC Office of Management and Budget for 2003-2007.

The Comptroller's forecast reflects the continuing global and national uncertainties, including conflicting messages in the economic data. For example, on the one hand, there has been a positive GDP growth of 1.4 percent in the first quarter of 2003 and the other hand the labor market's decline is signaling an ongoing recession.

The labor market at mid-2003 was weak. Over the past 15 years, changes in initial unemployment claims have moved inversely to changes in real GDP, as shown in Chart 3. Initial unemployment claims were for weeks above the benchmark 400,000 level, indicating continued workforce cutbacks and below-potential-growth GDP, although the July number fell to 386,000 for the first time since February. The help-wanted advertising index remained unchanged at 36 in May, after falling continuously for three months, putting it at the lowest level since the 35 in September 1961. A weak labor market is further signaled by the Institute for Supply Management (ISM) index. Historically, the ISM index and changes in real GDP have been closely correlated, as shown in Chart 4. Although the ISM index rose to 49.8 in June 2003, that still remains below the key benchmark index level of 50. Cumulatively since 1998, the U.S. has shed 2.8 million of manufacturing jobs.

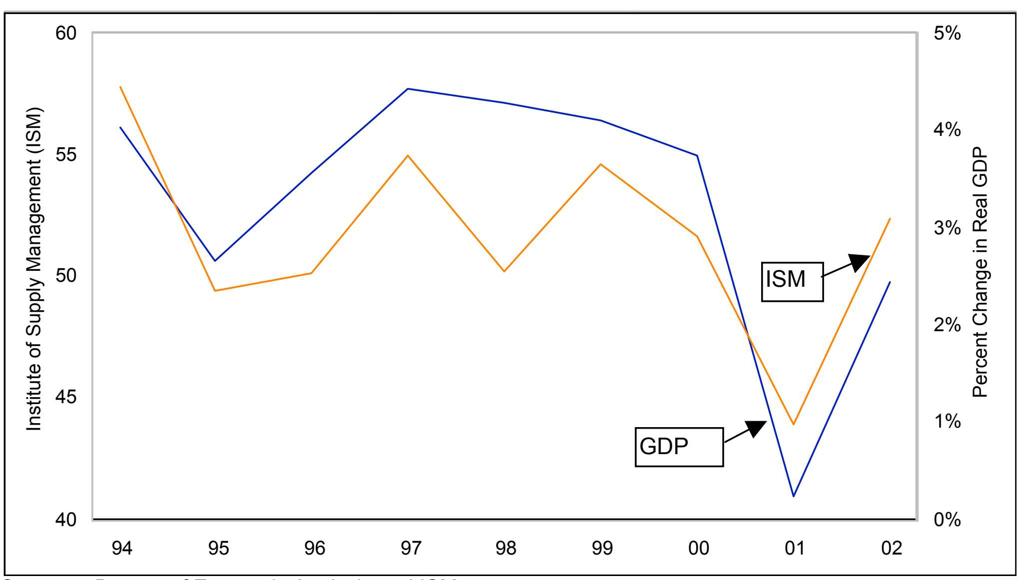
The equity markets have shown some recent strength and promise of further recovery. While still far below its historical high, from January 2, 2003 to July 18, 2003 the S&P 500 index has increased by 12.9 percent. The bond markets are also more favorable for financing. The quality yield spread, as measured by the difference between the yield on private debt (Baa corporate bonds) and government debt (20-year Treasury bonds) is tightening.

Chart 3. Changes in Real GDP vs. Changes in Initial Unemployment Claims, Percent, 1989–2002



SOURCE: Bureau of Economic Analysis and Bureau of Labor Statistics.

Chart 4. Changes in Real GDP vs. ISM Index, 1994–2002



SOURCE: Bureau of Economic Analysis and ISM.

New York City – Comptroller's Forecast for 2003 Through 2007

The Comptroller projects that the City's economy will begin to recover in 2004, as shown in Table 7. Unlike the nation's, the City's GCP and payroll jobs are expected to be negative in 2003. Furthermore, the City's economic recovery in 2004 is expected to be milder than the nation's.

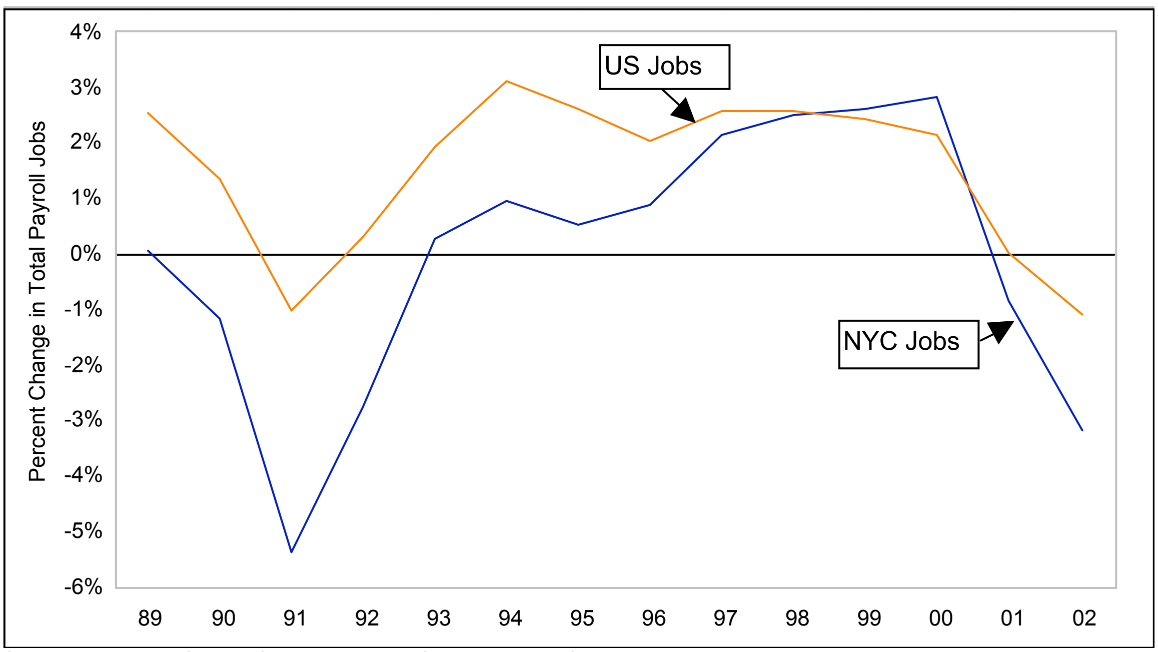
Table 7. NYC, Projected Real GCP and Payroll Jobs, Percent Change, 2003-2007

	2003	2004	2005	2006	2007
Real GCP, %	-1.6	2.0	2.8	3.3	3.6
Payroll Jobs,'000	-54.9	12.8	58.5	44.0	44.0

SOURCE: NYC Comptroller's Office.

A U.S. economic revival in the second half of 2003 would not necessary pull the City out of its recession until 2004. Historically, the City's recessions have been deeper and longer than the nation's, as shown in Chart 5.

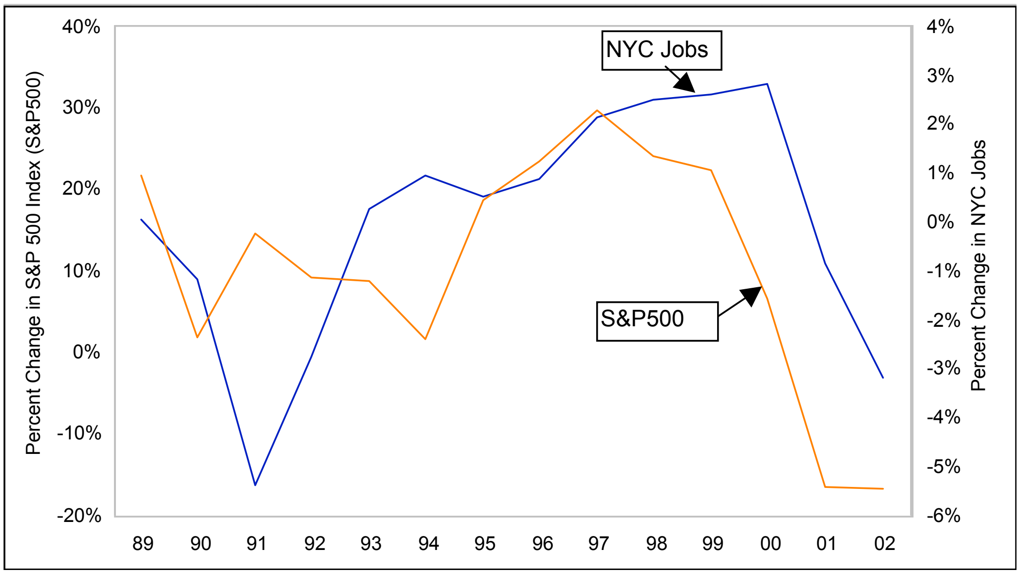
Chart 5. Changes in Total Payroll Jobs, NYC vs. US, 1989–2002



SOURCE: Bureau of Labor Statistics and NYS Department of Labor.

The City's economy is closely tied to the securities industry. Changes in the stock market and yield curve strongly affect the pace of job growth in the City. Chart 6 shows the historical relationship between changes in the City's jobs and the S&P 500 index. Wall Street profits were surprisingly high in the first half of 2003─about $7 billion─but they were derived almost entirely from bond trading. Wall Street performance for the remainder of 2003 will depend more on equity trading and Merger and Acquisition (M&A) activity. The Securities Industry Association (SIA) anticipates Wall Street profits of $15 billion. If the SIA is right, Wall Street could help lead the City out of recession.

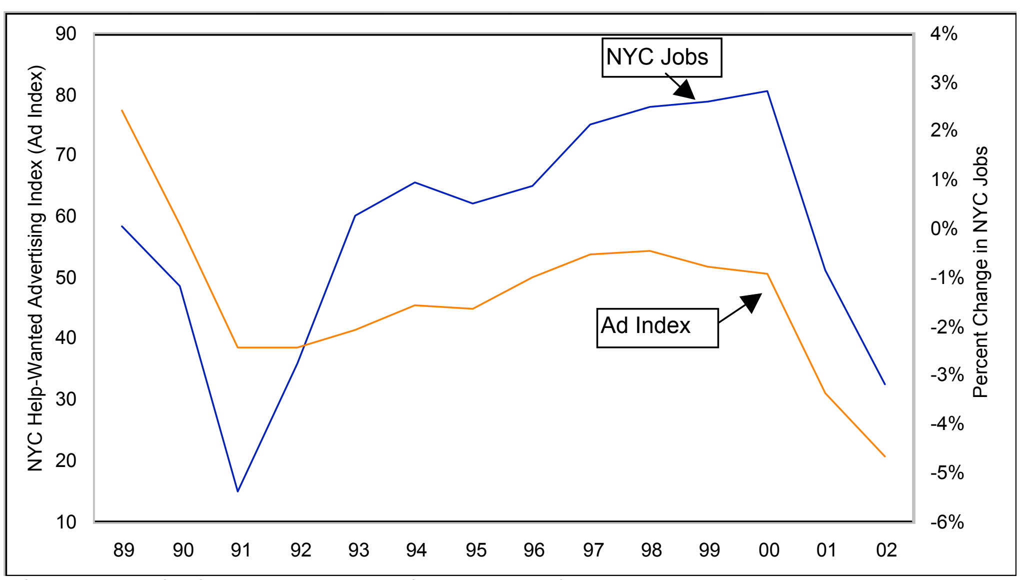
Chart 6. Total NYC Payroll Jobs vs. S&P 500 Index, Percent Change, 1989–2002



SOURCE: Yahoo and NYS Department of Labor.

As of May 2003, the City's leading economic indicators were mixed on a year-over-year basis. The number of building permits authorized increased, while the help-wanted advertising index fell 17.3 percent during the first five months of 2003. Historically, changes in the City's jobs and help-wanted advertising index have been strongly correlated, as shown in Chart 7.

Chart 7. Percent Change in Total NYC Payroll Jobs vs. Help-Wanted Advertising Index, 1989–2002



SOURCE: The Conference Board and NYS Department of Labor.

Finally, the New York City National Association of Purchasing Managers (NAPM) Business Conditions Index (NY-BCI) fell for the seventh consecutive month to 226.7 in June from 230.2 in May. Changes in NYC payroll jobs are highly correlated with changes in the NY-BCI as well. A decline in the NY-BCI therefore implies further job losses.

New York City – Comments on the Mayor's Forecast

The comparison between the Mayor's and the Comptroller's forecasts of real GCP growth and payroll-job growth are provided in Tables 8 and 9. Both the Mayor and the Comptroller project that the City's economy will continue to falter in 2003. Also, they both project a City recovery in 2004. The difference between the two forecasts is in the magnitude of the change. In general, the Comptroller's forecasts predict a lesser loss in 2003 and a smaller gain in 2004 than the Mayor's. The reason for this difference is that the Comptroller projects a longer lag between the U.S. and local recovery than the Mayor.

Table 8. Projected NYC GCP, Percent Change, 2003-2007

	2003	2004	2005	2006	2007
Comptroller	-1.6	2.0	2.8	3.3	3.6
Mayor	-3.3	2.9	3.1	3.7	3.1

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the Mayor (Office of Management and Budget) in the Executive Budget.

Table 9. Projected Payroll Jobs, Change in Thousands, 2003-2007

	2003	2004	2005	2006	2007
Comptroller	-54.9	12.8	58.5	44.0	44.0
Mayor	-75.0	20.0	37.4	46.8	39.7

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office, 2003-2007. Mayor=Forecast by the NYC Office of Management and Budget, 2003-2007.

TAX REVENUES

The City has not changed its economic assumptions since the release of the Executive Budget on April 15, 2003. Tax revenue assumptions are basically the same for FYs 2004-2007 except for adjustments resulting from changes to the tax program.

The Comptroller has changed his economic assumptions since the Executive Budget was released. Economic data since April suggests cautious optimism. The risks and offsets noted by the Comptroller as compared to the City's assumptions are illustrated in Table 10. These risks and offsets reflect both the differences in the anticipated impact of both tax policy changes and economic assumptions.

Table 10. Tax Revenue Risks and Offsets, FYs 2004-2007

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Personal Income Tax	$13	$91	($3)	$37
Business Taxes	46	27	34	95
Sales Tax	46	17	(41)	45
All Other Taxes	(52)	(48)	(54)	(59)
Total Taxes	$53	$87	($64)	$118

The Comptroller's projections of PIT collections from the rate increase are higher than the City's projections by $160 million in FY 2004, $90 million in FY 2005 and $23 million in FY 2006. These estimations are offset, however, by continuing economic concerns. Of the sales tax offset in FY 2004, $21 million is a result of different projections for the effect of changes in tax policy. The City expects the reinstatement of the sales tax on clothing to yield $262 million while the Comptroller is expecting the yield to be $246, resulting in a risk of $16 million. The City expects to forego a total of $70 million from the two-week tax exemption for clothing costing $110 and less in September and January and from the expiration of this tax on June 1 instead of June 30. The Comptroller believes the loss is closer to $33 million resulting in an offset of $37 million. The remainder of the difference comes from assumptions that the City will see greater collections than it currently forecasts.

Excluding the effect of changes in the tax program, the City is expecting tax revenues to return to the ten-year annual growth rate as shown in Table 11. Total tax revenues are expected to return to trend growth by FY 2005 as a result of economic recovery. Property tax revenues are expected to remain above the ten-year average even as their growth slows after FY 2004. Non-Property tax revenues are expected to recover after FY 2004 and stay at the ten-year average. Business and sales tax collections are also projected to return to the ten-year average by FY 2005. Personal income tax (PIT) collections are not expected to recover to the ten-year average until FY 2007. The Comptroller believes these projections are generally reasonable, as economic recovery is not expected until 2004.

Table 11. Common-Rate-and-Base Tax Revenues, Adjusted Ten-Year Average and Forecasts

(Percent)

	Annual Growth FYs 1992-2002	FY 2004	FY 2005	FY 2006	FY 2007
Total	3.92	2.48	5.25	4.84	4.90
Property	1.32	5.15	2.17	3.60	3.67
Non-Property	5.87	0.80	7.27	5.62	5.65
PIT	7.80	3.45	6.39	5.41	7.14
Business	5.06	0.23	14.87	7.88	4.66
Sales	5.05	2.53	5.48	5.39	5.35

SOURCE: Office of Management and Budget (OMB)
Common-rate-and-base taxes adjust collections for changes in tax policy.

The expected actual flow will be more volatile over the forecast period because of the impact from the adjustment of tax rates during the financial plan period as shown in Table 12. These rate changes are discussed in more detail beginning on page 17.

Table 12. Tax Revenues, Actual Ten-Year Average and Forecasts

(Percent)

	Annual Growth FYs 1992-2002	FY 2004	FY 2005	FY 2006	FY 2007
Total	2.43	11.58	0.09	3.63	3.57
Property	1.01	13.83	2.69	3.66	3.69
Non-Property	3.50	9.89	-1.92	3.61	3.47
PIT	2.23	26.63	-11.94	2.28	0.71
Business	4.22	2.08	15.81	8.40	5.22
Sales	4.04	9.82	-0.34	2.44	5.24

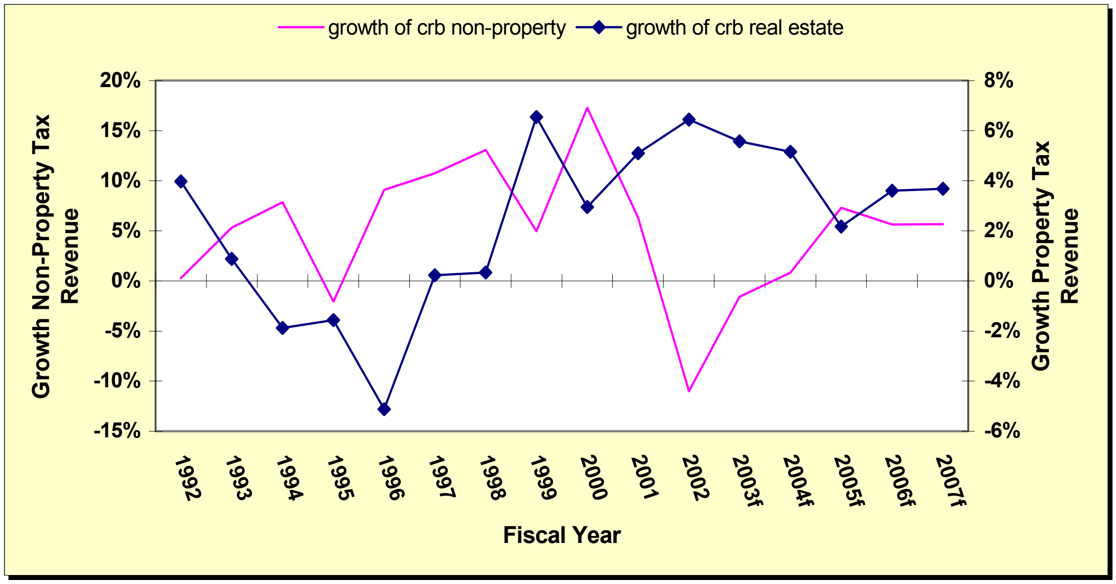
SOURCE: OMB

Actual collections for both PIT and sales tax are expected to grow significantly above trend in FY 2004 because of rate changes to PIT and sales taxes and the base change to the sales tax. In FY 2005, the actual growth of both PIT and sales tax revenues are projected to decline as the rate increase to PIT is lowered and the sales tax policy change is eliminated. The sales tax rate change expires in FY 2004 and the PIT rate change is lowered each year until it expires in FY 2006. The property tax rate, which was increased in the middle of FY 2003, remains in effect over the course of the financial plan. The full-year effect of the rate change accounts for more than half of the anticipated actual growth to property tax revenues in FY 2004. The PIT and sales tax revenues, and the policy changes to these taxes, accounts for most of the expected growth to FY 2004 non-property tax revenues. The FY 2004 non-property tax revenues are projected to grow only 0.8 percent as a result of the economy while actual non-property tax revenues are projected to grow 9.89 percent.

The Moderating Effect of Real Estate Taxes

During the City's current recession, real estate tax revenues have been a stabilizing factor in total tax revenue collections. Real estate tax revenue has offset some of the reduction in the economically sensitive non-property taxes, which are experiencing their worst decline since the 1970's. This relationship is historically consistent as shown in Chart 8.

Chart 8. Growth of Common-Rate-and-Base Property and Non-Property Tax Revenues



SOURCE: OMB.
NOTE: f=forecast by OMB.
Common-rate-and-base (crb) taxes adjust collections for changes in tax policy.

The growth of property tax revenues is less volatile than that of non-property tax revenues. Non-property tax collections typically track the economy while property tax revenues are generally less variable because increases and decreases in values in Class 4 and some Class 2 properties are phased in over a five-year period.[8] Historically, the changes in property and non-property tax revenues move in opposite directions in most years. When the growth of non-property tax revenues slows, the growth of property tax collections accelerates, and when the growth of non-property tax revenues increases, the growth of property tax revenues decelerates. These two effects moderate the fluctuations in total tax collections.

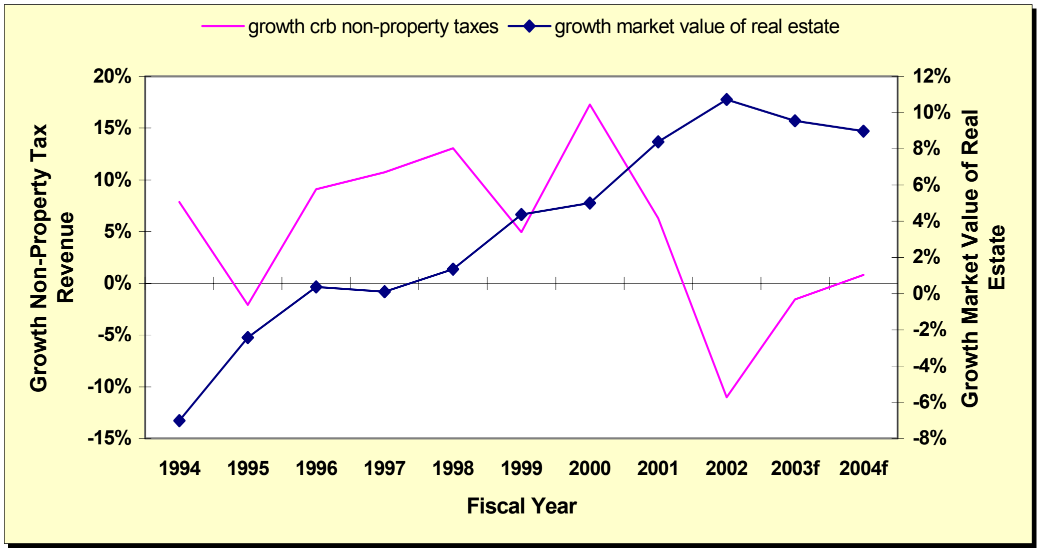
The opposing movement of property tax revenue change to non-property tax revenue change, among other things, reflects changes in the market value of property as shown in Chart 9.

One possible explanation for the apparent inverse relationship as depicted in Chart 10 is that real property and stocks served as alternative forms of holding assets even before the current recession. As illustrated in Chart 10, from as early as 1994, the growth in the market value of property appears to be showing some relationship to the growth in the stock market as measured by the growth of the S&P 500 index. When

[8] Properties are divided into four classes for tax purposes. Class 1 is one to three family homes and small condos, Class 2 is all other residential properties, Class 3 is utility properties and Class 4 is commercial properties.

stock market growth accelerates, growth in the market value of real estate slows and when stock market growth slows, the market value growth of property accelerates.

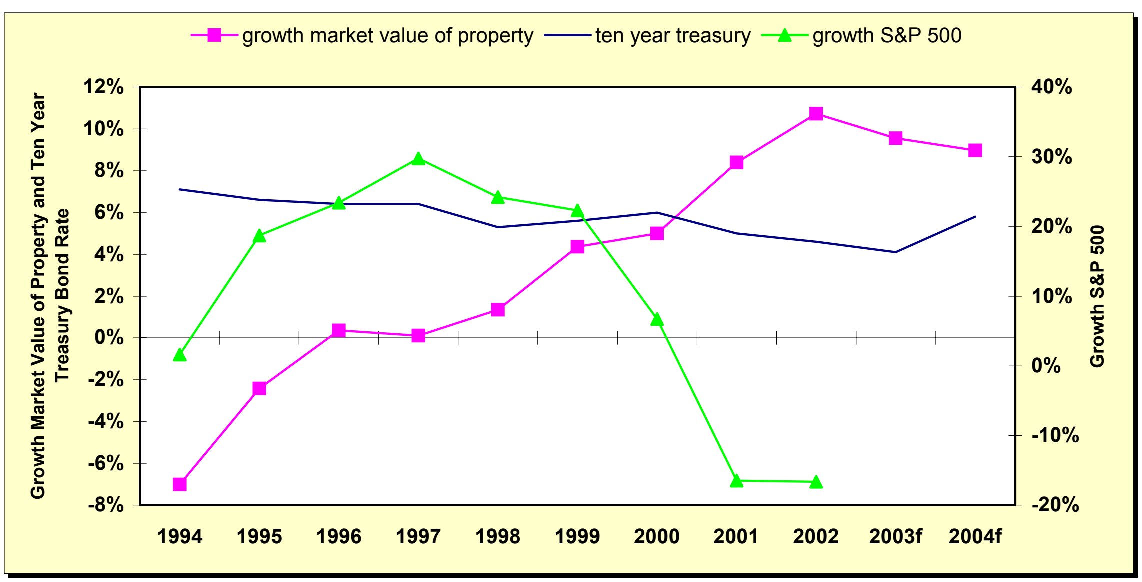
Chart 9. Growth of Non-Property Tax Revenues and the Market Value of Real Estate



SOURCE: OMB and Department of Finance

In addition, movements in interest rates have also been influential since the mid-1990s. When interest rates fall the market value growth of property increases as lower rates make property more affordable. The chart also illustrates a strong relationship between interest rates and stock market performance.

Chart 10. Growth of Market Value of Real Estate, S&P 500 and the Ten Year Treasury Bond Rate



SOURCE: OMB

Based on the City's projections, as illustrated in Chart 8 on page 15, the relationship between property and non-property tax revenues is expected to continue over the forecast period. This may not be unreasonable as the economy and the markets may be correcting for the unprecedented growth in non-property taxes in 2000 which was due largely to the stock market bubble, and the previously unprecedented drop in non-property tax growth in 2002 due to 9/11 and its effects.

Changes in the City's Tax Policy

The State Legislature recently approved actions and tax increases worth $2.7 billion for FY 2004 to help the City close its budget gap. Tax-related actions total about $1.2 billion as shown in Table 13. This represents about 44 percent of $2.7 billion legislative package. The package includes a menu of actions including increased rates for personal income tax and sales tax, reinstatement of the sales tax on clothing and footwear items costing under $110, tax amnesty, closing tax loopholes, raising interest rates on underpayment of taxes, and raising payments-in-lieu-of-taxes (PILOTS) on Battery Park City.

Table 13. Main Tax-Related Actions to Help Close the City's Budget Gaps

($ in millions)

State Actions - Current:	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
Personal Income Tax Rate Increase	$--	$644	$545	$315	$13
Sales Tax Rate Increase of 0.125	5	115	--	--	--
Sales Tax Reinstatement of items Under $110	11	192	--	--	--
Business Tax Amnesty	--	20	--	--	--
Close RPTT Loophole/MRT reimbursement/Auto evasion	1	5	4	5	4
Raise Interest Rates on Tax Underpayments	--	28	8	8	8
PILOTS-Battery Park City	--	150	--	--	--
GCT Combined Reporting	--	40	40	--	--
Total	$17	$1,194	$597	$328	$25
State Actions – Already Enacted in FY 2003:					
Cigarette Tax Increase from $0.8 to $1.50	$77	$58	$56	$53	$53
De-couple From Federal Depreciation Rule	108	111	100	10	--
Total Overall State Actions	**$202**	**$1,363**	**$753**	**$391**	**$78**
City Council Actions:					
Property Tax Rate Increase 18.5%	$837	$1,727	$1,800	$1,875	$1,963
Total Actions	**$1,039**	**$3,090**	**$2,553**	**$2,266**	**$2,041**

The package approved by the State Legislature, as shown in the figure to the right, included PIT rate increases for three calendar years 2003-2005, on incomes exceeding

Changes to the City's PIT Rates

	2002	**2003**	**2004**	**2005**
>$100,000 single	3.648	4.25	4.175	4.05
>$150,000 married	3.648	4.25	4.175	4.05
>$500,000 all	3.648	4.45	4.45	4.45

$100,000.[9] Rates revert to 3.648 in 2006.[10] The rate increases are projected to bring in the amounts shown in Table 13. The City estimates that the increase will bring in $644 million from January 2003 to June 2004. The Comptroller's calculations indicate an estimate closer to $800 million.

The City's sales tax rate was increased from four percent to 4.125 percent and the sales tax for items of clothing and footwear costing under $110 was reinstated from June 4, 2003 to June 1, 2004.[11] The sales tax for items of clothing and footwear costing under $110 will be exempted for one week in September and one week in January. The City estimates that the loss in revenue for the two weeks will be about $47 million. The Comptroller believes that the loss will be less than this and closer to $20 million. The sales tax reinstatement is projected to yield $262 million for the full year. The Comptroller believes the revenue yield will be $246 million.

The Impact of Changes in the City's Tax Policy

One way to look at the effect of changes in tax policy on the citizenry is by reviewing tax burdens. Tax burden measures the price individuals in society pay for goods and services provided by the government. Aggregate measures are first analyzed to identify overall trends and changes in trends associated with changes in policy. These measures are subject to various limitations. For example, by looking at average or general trends, they ignore the varying impact on different groups, so this analysis also examines the effect of changes in tax policy on specific economic groups.

Tax Burdens – Overall Trends

The effect of City taxes on the citizenry is examined using four indices as illustrated in Chart 11 on page 19.[12] Until 2001, these indices grew slowly or declined, very likely due to the tax cuts in the 1990's. In 2002, they all fell because of the severe contraction in taxes due to the recession which was compounded by the effects of 9/11, rather than to changes in tax policy. The impact of increased tax rates can be observed in 2003, and especially in 2004, as all the indices jump.

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[9] The recapture provision will keep the average top rate at 4.45 percent.

[10] Rate increases with a similar structure have been imposed by the State for the State PIT.

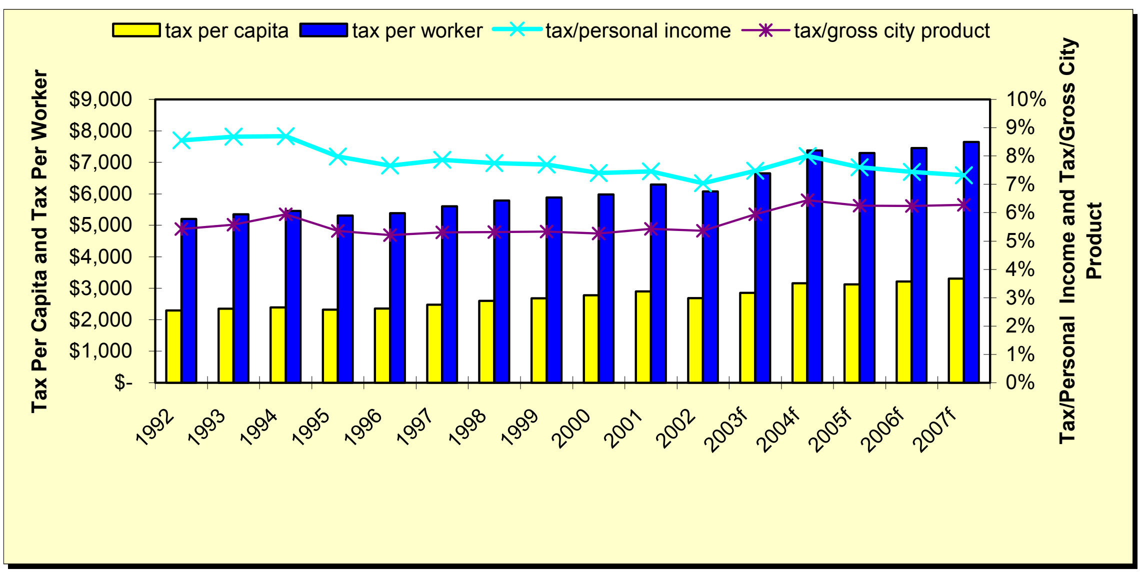
[11] The State sales tax rate was also increased, from four percent to 4.25 percent. Including the 0.25 percent for the Metropolitan Transportation Authority (MTA), the total sales tax rate paid by New York City residents is now 8.625 percent, up from 8.25 percent.

[12] The discussion examines the burden of changes in the City's tax. It does not address the effect of Federal and State taxes on New York City's residents. Both residents and visitors pay New York City taxes. It is assumed that the portion paid by visitors is not significant and so it is not removed from total taxes before calculating the burden on residents. The analysis also performed with the inclusion of fees and fines as these represent forms of taxation or levies. However, including fees and fines did not change the results significantly. For example, the results for tax/personal income increased by about one-fifth of one percent. Business taxes are included in the discussion since businesses are also residents and citizens ultimately bear the burden of business taxes in terms of higher prices and so on.

Tax per capita is the ratio of total taxes to the population and measures on average, how much of total taxes each member of the population is liable for. Per capita taxes increased at a moderate annual rate of three percent for the ten-year period 1991-2001, about 15 percent more than the annual increase in the rate of inflation of about 2.6 percent. Per capita taxes increased from $2,155 in 1991 to $2,899 in 2001. In 2002, per capita taxes declined by seven percent because of the contraction in the economy and tax revenues associated with 9/11. Largely as a result of changes in tax policy, per capita taxes are expected to increase by six percent in 2003, 11 percent in 2004, and return to trend growth by 2006 when the bulk of the change in the tax program is to be eliminated.

Taxes are more directly borne by workers (rather than the entire population) as the producers of output and earners of the income that are subject to taxation. Tax per worker is about twice the tax per capita. Tax per worker increased from $4,710 in 1991 to $6,297 in 2001. This kept pace with per capita taxes, also increasing by three percent annually from 1991 to 2001. In 2002, tax per worker fell by 3.5 percent to $6,075 because of the recession rather than tax policy changes. The changes to the tax program will increase tax per worker by nine percent in 2003, by 11 percent in 2004, and trend growth will return by 2007.

Chart 11. The Burden of New York City Taxes



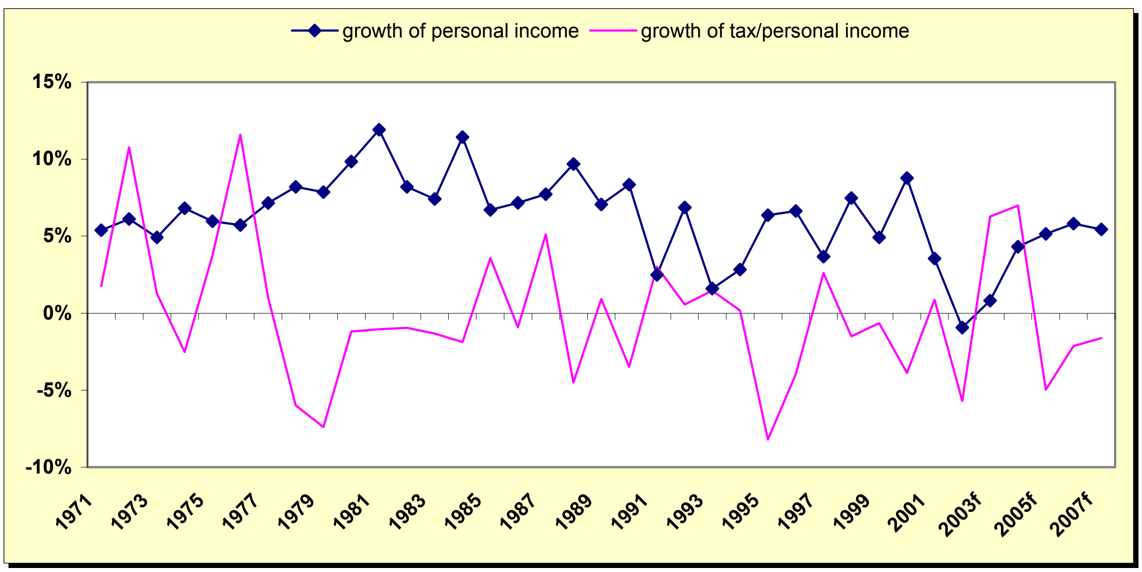
SOURCE: OMB. *The Comprehensive Annual Financial Report of the Comptroller*.
Population projections for 2002-2007 are calculated using the growth trend for the last 10 years.
Economic data measured on calendar year basis, tax data measured on fiscal year basis.
The last year of actuals for personal income is 2001.

Taxes as a fraction of GCP measures the portion of output consumed by taxes. This has remained fairly flat, absorbing about five percent of GCP. This rises to over six percent in 2003 and 2004.

Personal income is a measure of income received, whether earned or transferred, by City residents. Taxes as a fraction of personal income show that for every dollar earned in personal income, City residents pay between seven and nine cents in taxes to the City. Taxes as a fraction of personal income have been falling over the period as a result of the tax cuts enacted since 1995 but is expected to increase in 2003 and 2004. Taxes on personal income declined at an annual rate of 1.3 percent from 8.5 cents in 1991 to 7.5 cents in 2001. The rate increases by six percent in 2003 and seven percent in 2004 and then returns to trend in 2007.

The effect of the tax program on standards of living and real incomes can be examined by reviewing at the growth of personal income compared with the growth of the tax burden as measured by the ratio of taxes to personal income as shown in Chart 12.

Chart 12. Growth of Personal Income and the Tax Burden



Source: OMB.
Note: Tax data on fiscal year basis and economic data on calendar year basis.

In 2003 and 2004, the tax burden will grow faster than personal income, that is, taxes will increase faster than income. In 2003, personal income is expected to increase 0.8 percent while tax to personal income will increase six percent and total taxes will increase seven percent. In 2004, personal income is expected to increase 4.3 percent while the ratio of tax to personal income will increase seven percent and total taxes will increase 12 percent.

The last time the tax burden increased significantly faster than personal income was in the 1970's when tax rates were also increased, along with cuts in expenditures, to help address the fiscal crisis. In both 1972 and 1976, tax revenues increased 18 percent while personal income increased six percent. According to the revenue section in the 1982 Executive Budget, actual gross revenues from these taxes more than doubled from 1970 to 1976, growing at an annual average rate of 13 percent per year. But this growth was due to rate changes. The average personal income tax rate more than doubled as did the financial corporation tax rate and base. The general corporation tax rate increased by fifty percent and sales tax rate grew by one third.

Population fell annually from 1970 to 1980 but personal income grew moderately by at least four percent, so the increase in the tax burden was due mainly to tax increases.

Another notable feature from Chart 12 is that in general, the change in personal income and the change in the tax burden move in opposite direction except for the period 2001 to 2005 when they are expected to move together. When the growth of personal income increases, the growth of the tax burden slows and often declines as personal income increases faster than taxes. When the growth of personal income slows, the growth of the tax burden increases, as taxes do not slow as fast as personal income. In general, the growth of personal income is higher than the growth of the tax burden. They have moved together since 2001. Personal income actually fell in 2001, the first time in more than 30 years, declining 0.9 percent. In the recession of the early 1990's, the growth of the tax burden also exceeded the growth of personal income but by very small amounts.

Tax Burden – Distribution Among Groups

While the average overall burden on the City's residents will increase, the burden will not increase uniformly. The PIT, for instance, was raised on incomes over $100,000 and so the burden on these groups will increase disproportionately.

Table 14. FY 2004 Impact of PIT Rate Changes

(Percent)

	Change in Tax Liability	Effective Tax Rate Before Tax Increase	Effective Tax Rate After Tax Increase
Less than $19.9K	-	2.32	2.32
$20K-$49.9K	-	3.16	3.16
$50K-$99.9K	-	3.41	3.41
$100K-$149.9K married	-	3.69	3.69
$100K-$149.9K single/married file separately	16.43	3.53	4.11
$150K-$499.9K married	16.97	3.58	4.18
$500K and over	21.83	3.65	4.45
Overall	**11.99**	**3.49**	**3.91**

SOURCE: Based on 2000 tax data from the Office of Tax Policy, New York State Department of Taxation.
NOTE: Calculations include recapture provision.

Table 14 illustrates the FY 2004 effect of the PIT changes. While the average PIT liability will increase about 12 percent, only the three most affluent groups will experience a change in liability. The change in liability will progressively increase with income. The overall effective tax rate, taxes paid as a proportion of income subject to taxation, increases by about 12 percent from 3.49 percent to about 3.91 percent. The effective tax rate is about 57 percent higher for the highest income group compared with the lowest income group before the rate change. This differential rises to about 92 percent after the rate increase.

In January 2003, the overall property tax rate was raised by 18.5 percent from 10.366 to 12.283. The distribution of the burden among the different classes is shown in Table 15.

Table 15. FY 2003 Change in Real Estate Tax Burden for the Average Property in Each Class Resulting From the Rate Increase

	Total	Class 1	Class 2	Class 3	Class 4
Average Change in Tax Per Property	$1,902	$345	$3,568	$344,976	$9,932
Percent Change in Average Change in Tax Per Property	18.49%	18.63%	18.49%	18.46%	18.45%
Average Change in Tax Per Property as a Percent of Average Change in Market Value Per Property	4.77%	0.97%	7.73%	11.38%	18.02%

Source: Calculations from Department of Finance data.

The relative increase in taxes is fairly evenly distributed among the classes. However, if the tax burden is instead measured by the change in tax as a percentage of the change in market value, then the increase in burden is lowest in Class 1. This is due to a number of factors including the low assessment ratio for Class 1 and the limit on annual assessment increases. Class 4 bears the highest change in tax burden by tax increase relative to change in market value.

Disaggregated sales tax data are not readily available to estimate the impact of the change in the sales tax rate. Estimates were done using data for the nation and assuming that the same relationships apply to the City. The results are shown in Table 16.

Table 16. Effect of Sales Tax Rate Increase on Different Income Groups

	Total	Less than $20K	$20K-$39.9K	$40K-$69.9K	$70K and Over
Average Income After Tax	$44,585	$9,670	$28,486	$48,967	$104,685
Average Annual Expenditure	$41,395	$20,703	$32,027	$45,518	$76,124
Percent of Expenditure Subject to Tax	42.7%	43.7%	44.2%	44.0%	41.1%
Amount of Expenditure Subject to Tax	$17,676	$9,047	$14,156	$20,028	$31,287
Tax at Old Tax Rate 4%	$707	$362	$566	$801	$1,252
Tax at New Tax Rate 4.125%	$729	$373	$584	$826	$1,291
Extra Tax	$22	$11	$18	$25	$39
Extra Tax as a Percent of Income	0.0493%	0.1138%	0.0620%	0.0511%	0.0373%

Source: Bureau of Labor Statistics *Consumer Expenditure Survey*, 2001.

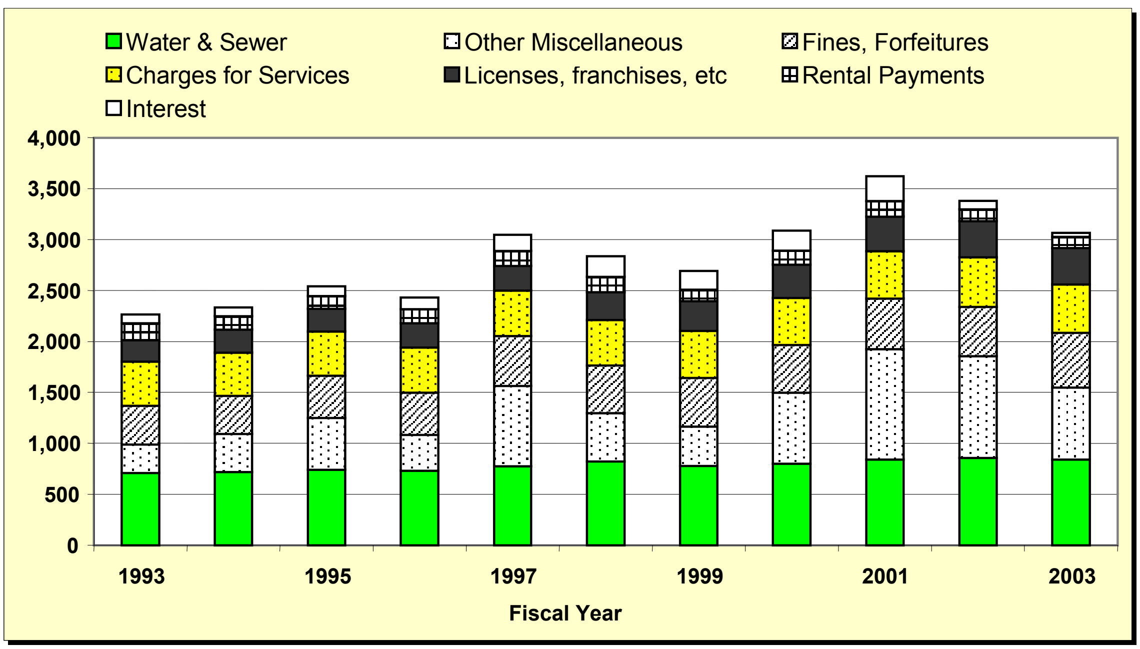
The added burden, or extra taxes paid as a percent of income, is higher as income gets lower. The group with income under $20,000 per year will face the highest burden.

MISCELLANEOUS REVENUE

The three main components of income for New York City are taxes, state and federal aid and non-tax or miscellaneous revenues. Miscellaneous revenues include a variety of non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, interest income, water and sewer revenues and asset sales. These receipts have on average accounted for eight percent of total City income during the last decade. Although the share of miscellaneous revenue to total revenues has remained steady, the individual components that make up these revenues have changed over time. While miscellaneous revenue represents a significantly smaller percentage of the City's total revenues compared to personal income or sales taxes, it nonetheless reduces the income that otherwise would have to be raised from major tax revenue sources. As Chart 13 shows, the two largest sources of revenue in this category are water and sewer charges and "other" miscellaneous.

Chart 13. Shares of Miscellaneous Revenue Components

($ in thousands)



When trying to balance a budget, cities typically seek to improve non-tax revenue performance by identifying efficiencies and/or increasing fees and fines for violations of local laws and regulations.[13] In New York City, a variety of fees and fines have been raised including traffic and parking tickets, sanitation fines, E-911 surcharges and water and sewer charges. Even though most of these revenue sources provide a recurring stream of income, miscellaneous revenues also include receipts from a variety of initiatives that are more uncertain and harder to classify such as City asset sales, mortgages, and cash recoveries from litigation and audits among others. These initiatives, which we refer to as other miscellaneous, have substantially contributed to the City's miscellaneous revenue as well as the volatility associated with it. Starting in FY

[13] It should be noted that in a number of categories, including water and sewer charges, the City charges are limited to reimbursement for the cost of the service provided.

2000, proceeds from the tobacco settlement were included in this category further increasing its share of total miscellaneous revenue. In addition, the City's increasing reliance on "one-shot" revenues, including the sale of City assets has at times contributed to the growth and unpredictability of "other miscellaneous." Over the last ten years, receipts from other miscellaneous have grown from $281 million or 12 percent of total miscellaneous revenues in FY 1993 to over $1 billion or 30 percent in FY 2001. This share is expected to drop to about ten percent in the outyears of the financial plan as proceeds from the tobacco settlement are expected to decrease and other components such as fines & forfeitures are expected to generate a larger share of miscellaneous revenue.

Proceeds from water and sewer charges have averaged nearly $800 million or 28 percent of total miscellaneous revenues during the last decade constituting, with the exception of FYs 2001-2002, the largest single revenue source in the miscellaneous category. Throughout the financial plan, these proceeds are expected to comprise between 26 percent and 32 percent of total miscellaneous revenue. Water and sewer revenues are collected by the New York City Water Board to pay for the operation and maintenance of the water distribution and sewage disposal systems and rent. On July 1, 2003, water rates for all in-City customers increased by 5.5 percent.

Revenues from Fines and Forfeitures have grown from $380 million in FY 1993 to a projected $534 million in FY 2003. Over the last decade, proceeds from fines and forfeitures have, on average, accounted for 16 percent of total miscellaneous revenue. In comparison, over the next four years, these revenues are expected to reach nearly $700 million annually and make up about 22 percent of total miscellaneous revenue. The increase in parking fines instituted in the first half of FY 2003 along with the employment of 300 new traffic enforcement agents is expected to generate approximately $547 million in parking fines in FY 2004.

Charges for services, which include tuition from students enrolled at community colleges, have remained stable during the last decade averaging 16 percent of total miscellaneous revenues. Over the course of the financial plan, these revenues are expected to remain virtually flat.

Licenses, franchises and permits have historically provided the City with a steady stream of income. Over the past ten years these receipts have on average accounted for ten percent of miscellaneous revenue and are expected to remain relatively stable over the next four years.

Interest income is determined by the City's cash balances, tax receipts and interest rates. Interest income from the overnight investment of cash balances represents a small share of miscellaneous revenue. Over the past ten years, these proceeds ranged from a high of $245 million in FY 2001 to a projected low of $36 million in FY 2003. Low interest rates and low cash balances have also reduced the City's estimate of interest income for FY 2004 from $55.6 million in the Executive budget to $35.9 million in the Adopted Budget.

Rental payments of City-owned properties have historically accounted for just under five percent of miscellaneous revenue. These proceeds have been relatively stable over the past decade. In contrast, over the next four years this revenue source is expected to fluctuate considerably due to the City's anticipation of additional rental income for JFK and LaGuardia airports.

Miscellaneous Revenue Forecast

As Table 17 shows, in the FYs 2004-2007 Financial Plan, the City projects miscellaneous revenues of $3.2 billion in FY 2004, a projected increase of four percent from FY 2003, $3.5 billion in FY 2005 and $3 billion in each of FYs 2006-2007. Projected growth in miscellaneous revenues between FYs 2004-2005 solely reflects the anticipation of additional rental payments from the Port Authority for the operation of the City's airports. Net of airport income, miscellaneous revenue is expected to decline by four percent between FYs 2004-2007. Interest income, which has declined substantially since FY 2001 due to low cash balances and low interest rates, is projected to yield only $36 million in FY 2004 and to recover gradually throughout the financial plan period as projected cash balances are expected to rise. Other miscellaneous revenue, which includes receipts from City asset sales, mortgages and tobacco settlement income is projected to decline by 36 percent in FY 2004, compared to FY 2003. This decline is primarily due to lower refund payments and lower proceeds from the tobacco settlement.

Table 17. Miscellaneous Revenue, FYs 2004-2007

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Licenses, Franchises, Etc.	$352	$355	$349	$348
Interest Income	$36	$53	$74	$76
Charges for Service	$468	$471	$469	$465
Water and Sewer Charges	$912	$916	$934	$947
Rental Income	$287	$662	$175	$178
Fines and Forfeitures	$682	$697	$697	$697
Miscellaneous	$456	$371	$318	$258
Total	$3,193	$3,525	$3,016	$2,969

Airport Leases

The City expects to renegotiate a new lease with the Port Authority of NY and NJ (PA) for the operation of JFK and LaGuardia airports and collect rent and back rental payments worth $200 million in FY 2004, $583 million in FY 2005, $96 million in FY 2006 and $99 million in FY 2007. The current lease expires in 2015. The issue of back-rental claims and the new lease renegotiation have been under arbitration for several years. Since FY 1994, the City has attempted to collect retroactive rental payments from the PA. Since that time, the City has repeatedly included these receipts in its financial plan only to remove the allocation in subsequent budget modifications. The City's expectations that it will both collect prior-year rent and negotiate new leases for its airports during the current fiscal year poses a risk to the financial plan, as shown in Table 28 which is discussed in "Risks and Offsets" beginning on page 60.

INTERGOVERNMENTAL AID

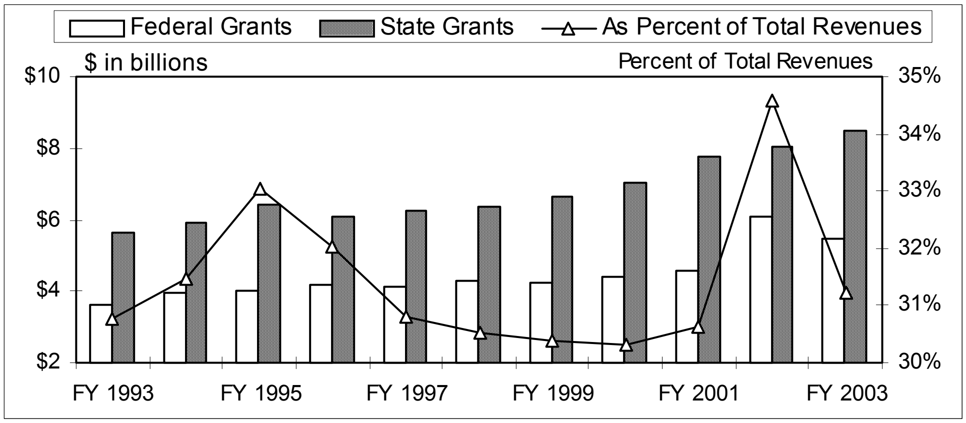
The Adopted Budget reflects a net shortfall of $18 million compared with the City's previous assumption of State assistance. According to City estimates, the enacted State budget provides about $468 million less than the City had requested in additional revenues, including regional transportation initiatives. However, this shortfall is mostly offset by expenditure reductions of about $450 million. The major actions recognized in the Adopted Budget include personal income tax rate increases for top income earners ($644 million), MAC debt refinancing ($530 million), reinstatement of sales tax on clothing and footwear ($262 million), Battery Park City PILOT revenue ($150 million), and a sales tax rate increase ($115 million). In addition, the Adopted Budget also provides funding for extended school days and reflects restoration of most of the education aid cuts proposed by the Governor.[14]

In the outyears of the plan, the City estimates that the impact of the enacted State budget will increase the City's budget gap by $1.16 billion in FY 2005, $1.87 billion in FY 2006 and $2.35 billion in FY 2007. The dramatic rise in the State budget impact is primarily due to the non-recurring nature of certain revenues, such as the Battery Park City PILOT, the May 2004 sunset of the reinstatement of sales tax on items of clothing and footwear costing under $110, and the sunset of the sales tax increase after FY 2005. The phase-out of the personal income tax increase and the elimination of savings assumptions from regional transportation initiatives also play a major role in the expanding State budget impact in the latter years of the plan.

The City projects Federal and State categorical grants will remain stagnant over the course of the current plan, fluctuating between $12.6 billion and $12.8 billion annually. The June Financial Plan expects these grants to comprise between 28.1 percent and 29.3 percent of the City's total revenues between FYs 2004 and 2007. In a historical context, Federal and State grants have constituted between 30.3 to 34.6 percent of the City's total revenues over the past ten years, as shown in Chart 14. The high end of this range was reached in FY 2002, owing to a considerable spike in Federal assistance following the WTC attacks. In FY 2002, the City recognized a total of $1.13 billion in FEMA funding for the clean-up and recovery costs related to the disaster. The residual flow of these funds is expected to provide an additional $1.12 billion in FY 2003, as the Federal government broadens the scope of FEMA funding coverage. However, unlike in FY 2002, the bulk of the FEMA funding in FY 2003 is classified as unrestricted aid by the City. Thus, the impact of FEMA funding on Federal and State categorical grants is more muted for FY 2003 and will be more in line with the norm of between 30 and 31 percent of the City's overall revenues, as seen prior to FY 2002.

[14] See "Department of Education" beginning on page 43 for a more detailed discussion on changes in State education aid.

Chart 14. Federal and State Grants as a Percent of Total Revenues FY 1993-FY 2003



SOURCE: NYC Office of the Comptroller and Office of Management and Budget.

Federal and State aid has grown from $9.3 billion in FY 1993 to about $13.9 billion in FY 2003, reflecting an increase of approximately 50 percent for these two revenue sources combined. In comparison, this growth actually surpasses the growth in all other City revenues, which are anticipated to grow by 47 percent over the same period based on the June Financial Plan revenue projections. A significant shift has also occurred in the composition of these grants during this period. Due to the precipitous decline in the City's welfare caseload, the share of Federal and State grants devoted to welfare has dwindled from 44 percent in FY 1993 to 31 percent in FY 2003. Meanwhile, support for education comprises about 53 percent of Federal and State grants, compared with 45 percent in FY 1993. This increase is partly driven by new State education aid dedicated to early grade education initiatives that came into effect in the past five years.

As a percent of total City revenues, Federal and State aid projections in the June Financial Plan are expected to fall below the recent norm. This is likely a reflection of the fiscal difficulties faced by all levels of government and the State's reluctance to commit to higher grant levels given its own budget constraints. Changes from the State budget are not expected to have a major impact on the State aid assumptions in the June Financial Plan. The majority of the additional assistance provided by the State has been in the form of greater tax authority and mandate relief measures, without boosting aid to the City in any significant manner. In fact, State support in many areas, most notably for education and welfare, are projected to decline between FY 2003 and FY 2004.

PENSION CONTRIBUTIONS

The FY 2004 Adopted Budget projects that the City's contributions to its five actuarial pension systems will increase from $2.543 billion in FY 2004 to $4.364 billion in FY 2007. However, the projections are expected to be somewhat reduced as investments performed slightly better than anticipated in the final days of FY 2003. As a result, there will be approximate savings of $8 million in FY 2004, $22 million in FY

2005, $41 million in FY 2006 and $63 million in FY 2007, resulting in lower pension contributions, as shown in Table 18.

Table 18. City's Contributions to the Five Actuarial Pension Funds

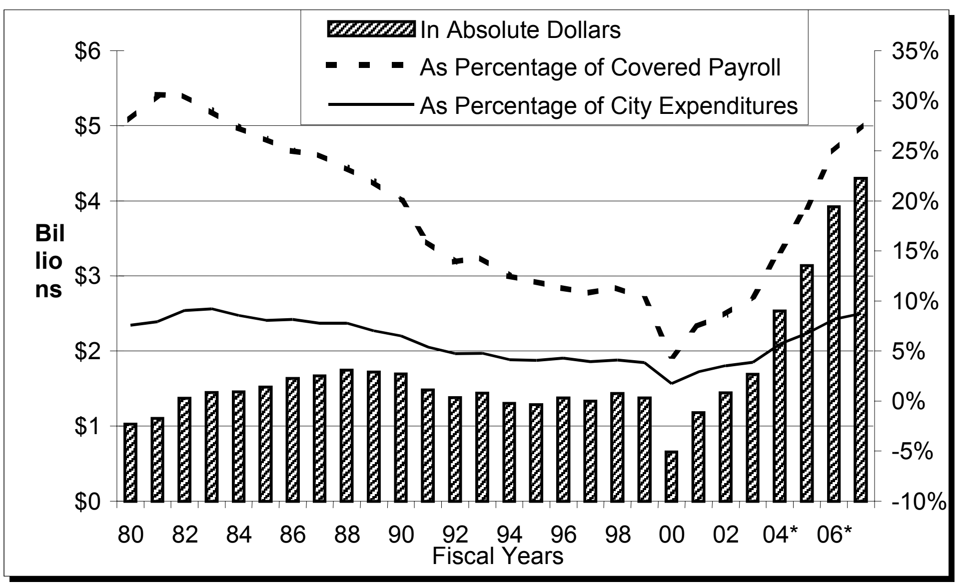
($ in millions)

	FY 2003[a]	FY 2004	FY 2005	FY 2006	FY 2007
Adopted Budget Projections	$1,690	$2,543	$3,159	$3,963	$4,364
Savings from Contingency Provision for Potential FY 2003 Investment Losses	--	(8)	(22)	(41)	(63)
Revised Contributions	$1,690	$2,535	$3,137	$3,922	$4,301

[a] Final actual City contributions for FY 2003. FYs 2004 through 2007 are projections.

Even after the above reductions, the City's pension costs are expected to rise to unprecedented levels in dollar terms and will approach the peaks established in the early 1980's when measured as a percentage of covered payroll or gross City expenditures, as shown in Chart 15.

Chart 15. The City's Pension Costs



*=projected

Most of the increases are due to poor investment performance in FY 2001, 2002 and 2003, as shown in Table 19. Pension fund investments lost 8.3 percent in each FY 2001 and FY 2002 and gained approximately 3.8 percent in FY 2003. If investments had earned eight percent in each of these fiscal years, pension costs would have been relatively stable between FY 2004 and FY 2007, as Table 19 shows.[15]

[15] The City, in its projections of pension expenditures, assumes that pension fund investments will earn eight percent each fiscal year. This is known as the Actuarial Investment Return Assumption, or

*=projected

The contributions also reflect increased costs for benefit enhancements that have been granted in the last few years. The City's Chief Actuary estimates that benefit improvements enacted between 1995 and 2002 added about $20 billion to the employer pension liability.[16] Without these benefit increases, pension costs would have been lower.

Longer-Term Pension Fund Investment Returns

Average Annual Investment Return For Periods Ending June 30, 2003	
3-year	(4.4)%
5-year	1.6%
7-year	6.8%
10-year	8.3%
15-year	9.7%
20-year	10.2%

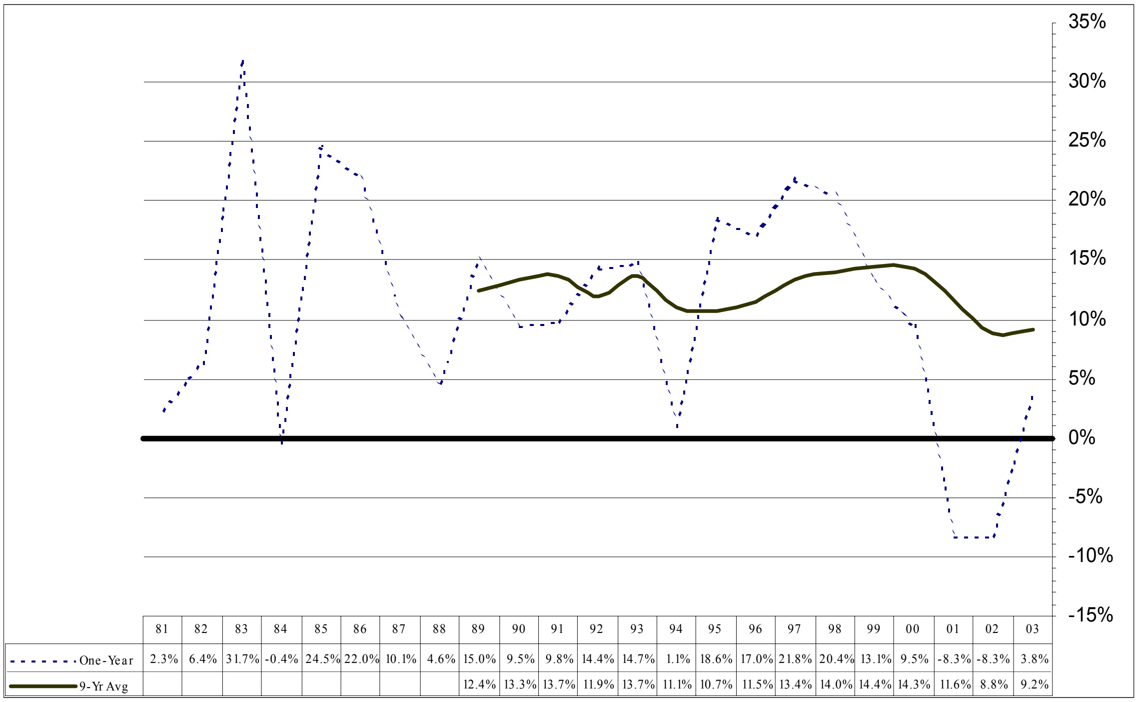
Following two years of negative returns, pension fund investments earned approximately 3.8 percent during FY 2003. However, investment performance measured over such a short term tells only part of the story. Due to the long-term nature of pension liabilities and the volatility and cyclical nature of investment markets, long-term pension fund investment performances is a better metric than is short-term performance. As reflected in the figure to the right, the City's pension fund investments have performed well when longer periods of time are considered. In fact, over the fifteen or twenty year period ending June 30, 2003, the pension funds have earned well above the actuarial investment return assumption, in spite of the dismal performance over the last three years.

Further perspective is provided in Chart 16, which includes a comparison of nine-year rolling average returns with one-year returns. The nine-year rolling average dampens the peaks and valleys of the one-year returns. Notably, for all nine-year periods since 1981, the City pension funds have earned at least an annual average of 8.8 percent per year, in spite of the recent bear markets.

AIRA. To the extent that actual investment performance in a year is lower or higher than the AIRA, the City's contributions correspondingly increase or decrease in subsequent years.

[16] For a more detailed discussion, please see page 24 of *The Comptroller's Comments on the Preliminary Budget for Fiscal Year 2004 and the Financial Plan for Fiscal Years 2004-2007* published in March 2003.

Chart 16. Investment Returns



Revision of Actuarial Assumptions and Methods

The completion of the charter-mandated actuarial audit currently being conducted by Gabriel, Roeder, Smith & Company (GRS) and its final reports are expected in the Fall.[17] The Chief Actuary of the City's retirement systems is expected to recommend changes in actuarial assumptions and methods based on his own analysis of GRS' findings. These changes may result in significant changes to the pension contributions projected in Table 19.

Table 19. City's Projected Contributions to the Five Actuarial Pension Funds

($ in millions)

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Adopted Budget Projections	$1,690	$2,543	$3,159	$3,963	$4,364
Contribution Due to FY 2001 Investment Losses	$233	$474	$793	$1,173	$1,173
Contribution Due to FY 2002 Investment Losses	82	294	526	804	1,127
Contingency Provision for FY 2003 shortfalls	--	53	129	228	346
Contributions For Other Than Investment Losses	$1,375	$1,722	$1,711	$1,758	$1,718

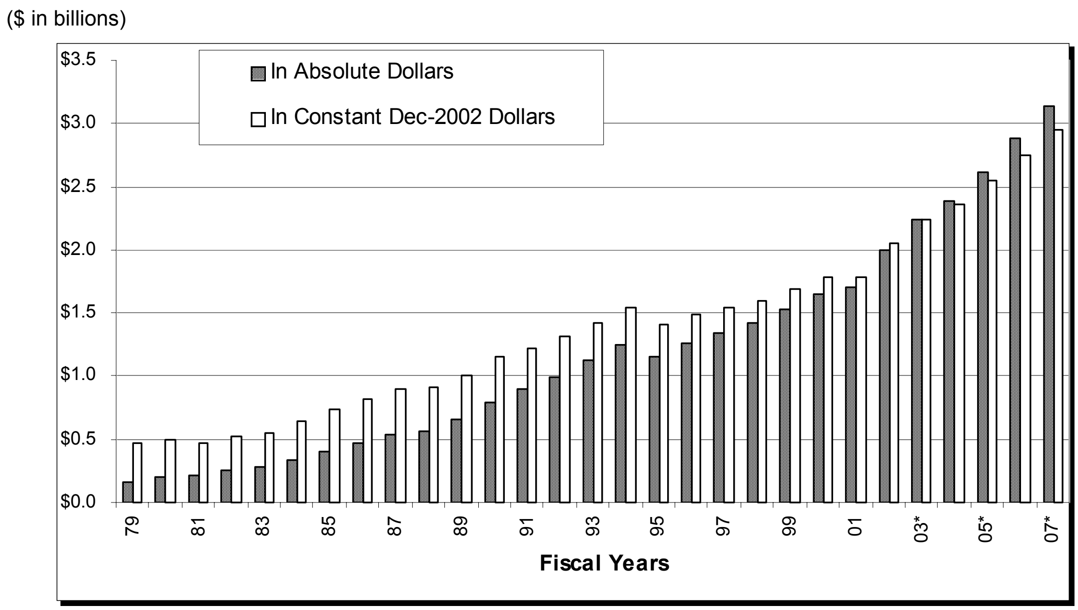
[a] Final actual City contributions for FY 2003. FYs 2004 through 2007 are projections

[17] Please see *The Comptroller's Comments on The Fiscal Year 2004 Executive Budget* released in May 2003 for background information.

HEALTH INSURANCE

The FY 2004 Adopted Budget and FYs 2004-2007 Financial Plan projects that the City's health insurance costs for employees and retirees will increase from $2.4 billion in FY 2004 to $3.1 billion in FY 2007 as Chart 17 shows. The City reports that the projections assume approximately eight-percent annual increases in health insurance premiums and factor in the headcount changes envisaged in the financial plan.

Chart 17. The City's Health Insurance Expenditures



NOTE: Annual inflation beyond December 2002 has been assumed to be 1.5 percent. *=projected

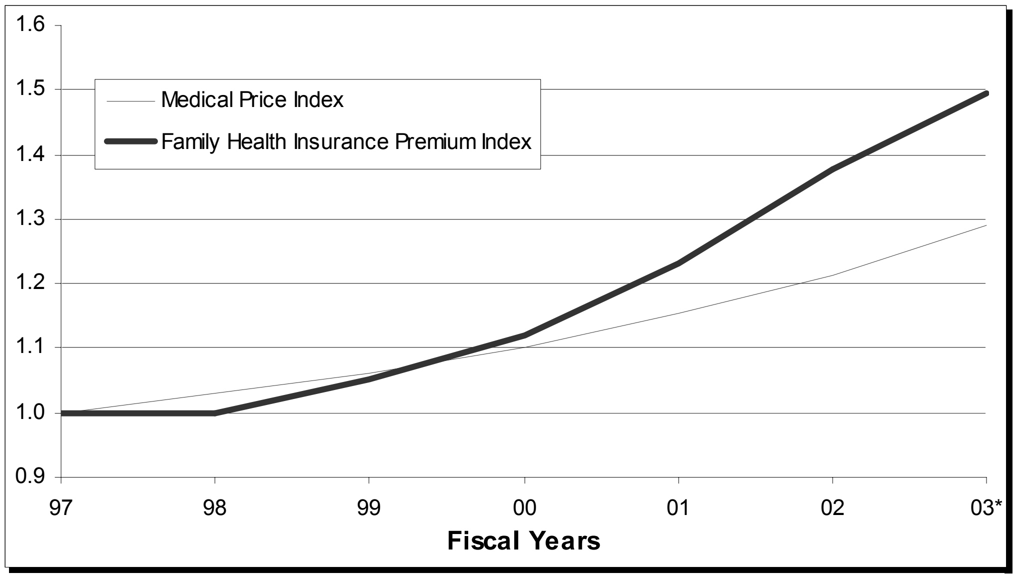
As shown in Chart 18, indexed growth rates since FY 1997 demonstrate that the City's health insurance rates have generally grown at a greater rate than a Medical Price Index (MPI) constructed by the Comptroller's Office.[18] The City was able to hold health insurance premiums in check in FYs 1997 and 1998 due to an agreement between Health Insurance Providers (HIP) and the City to freeze rate increases for these two years.[19] As a result, the growth in health insurance premiums in these two years was below that of

[18] The Medical Price Index was constructed by combining the indices for "Physicians' Services", "Services by Other Medical Professionals" and "Hospital Services" (which uses the U.S. Department of Labor's Medical CPI ratio of 1.516 : 0.250 : 1.367 for these categories) as published by the Bureau of Labor Statistics in the U.S. Department of Labor as components of the Consumer Price Index (CPI) for all Urban Consumers. The U.S. City average data used were not seasonally adjusted. Only these three indices were combined because the City health insurance expenditures discussed in this report does not include prescription drugs, dental or eyeglass benefits.

[19] HIP rates for non-medicare eligible individuals and families remained frozen from FY 1996 through FY 1998.

the MPI. However, beginning in FY 1999, growth in health insurance premiums began to edge ahead of the MPI.

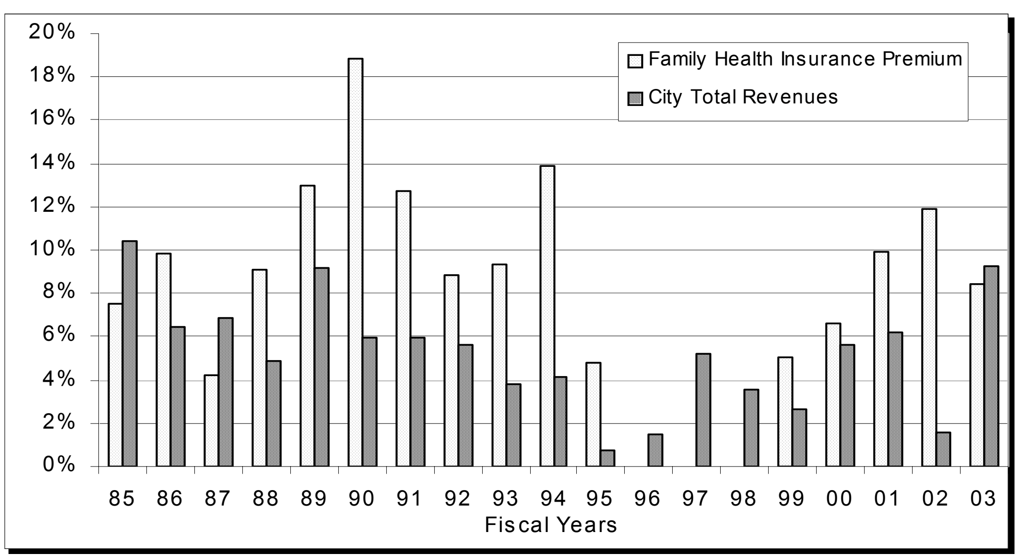
Chart 18. Growth Rates



NOTE: Medical CPI is based on national data not local data. *=projected

Chart 19 compares the year-over-year growth rates of health insurance premiums paid for non-Medicare-eligible families to that of the City's total revenues. In 13 of the 19 years between 1985 and 2003, the family health insurance premiums increased at a higher rate than the City's total revenues. Between FY 1984 and FY 2003, the family health insurance premium rate increased 331 percent while the City's revenues increased 162 percent.

Chart 19. Year-Over-Year Growth Rates



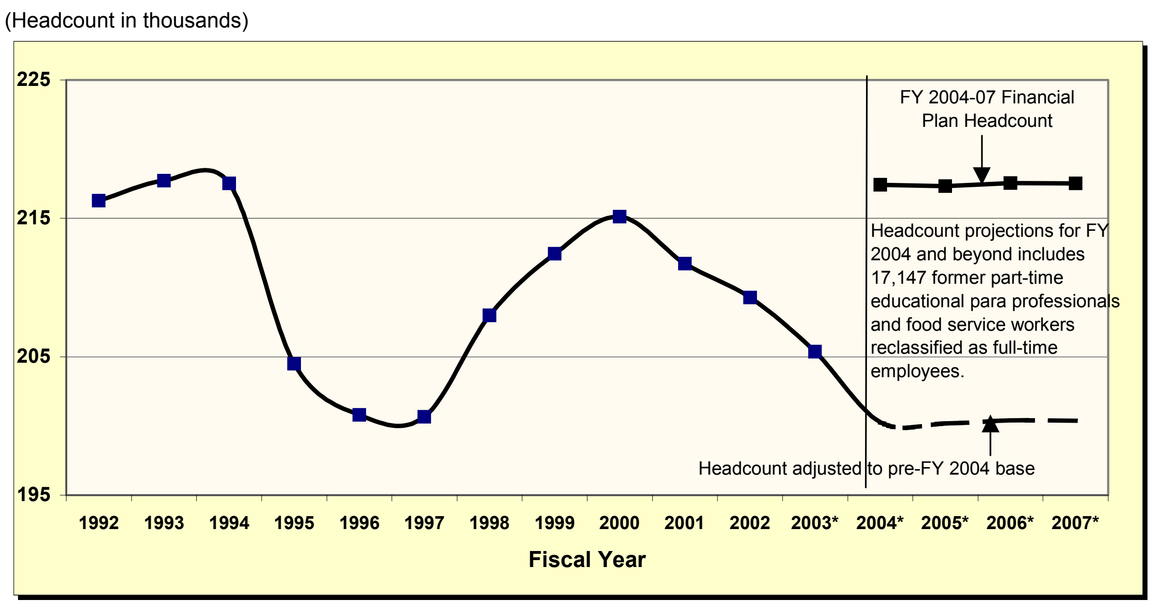
Simultaneously, the total number of beneficiaries covered, i.e., the sum of the number of employees and retirees, keeps increasing over the years. As a result, the City's health insurance expenditures have exerted an increasing burden on the City's resources by consuming increasing percentages of the City's revenues. The City's health insurance expenditures as a percentage of the City's total revenues have increased from about two percent in FY 1984 to about five percent in FY 2003, an increase of over $1.9 billion.

The Impact of Fiscal Stress

HEADCOUNT

The City-funded workforce is projected to be 217,423 by June 30, 2004 and remain relatively flat through the end of FY 2007. However, the City's projections for FYs 2004-2007 include the reclassification of 17,147 former part-time paraprofessionals and food service workers as full-time employees. As shown in Chart 20, after adjusting for the reclassification, headcount in FY 2004 is projected to fall by about 5,000 employees or 2.5 percent compared with June 30, 2003. Between FY 1993 and FY 1997, the City's workforce declined by 17,064. Most of the decline in workforce levels between FY 1993 and FY 1997 resulted from the participation of 13,834 employees in the City's severance programs during FY 1994 and FY 1995.

Chart 20. City Funded Employees, FY 1992-FY 2007



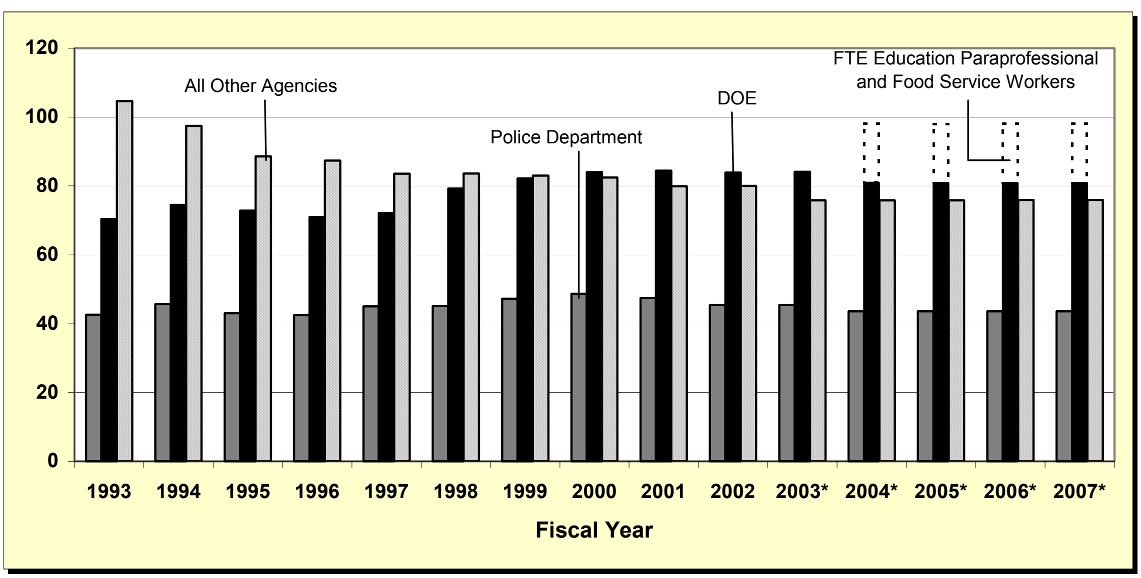
The City implemented a series of severance incentive programs in FY 1994 and FY 1995 as part of an agreement with the Municipal Assistance Corporation (MAC) to reduce the workforce level. In response to the financial difficulties facing the City in FY 1994, the City signed an agreement with the Municipal Assistance Corporation (MAC), whereby MAC would provide $230 million to the City to invest in a workforce reduction program. As shown in Table 20, of the 13,834 employees who participated in the severance programs, 11,654 were full-time employees and 2,180 were part-time employees.

Table 20. Severance Incentive Programs

Severance Programs	Reduction in Workforce	Full-time Employees	Part-time Employees
Severance 1 (April 1 to May 4 1994)	6,126	6,126	0
Severance II & II Reopener			
(October 26 to November 18, 1994)	5,374	3,893	1,481
Severance IIB & IIB Reopener			
(January 3 to January 18, 1995)			
(January 19 to January 27, 1995)	629	511	118
Severance II C			
(March 13 to March 31, 1995)	1,383	872	511
Severance II Reopener			
(April 3 to April 12, 1995)	322	252	70
Total	13,834	11,654	2,180

Beginning in FY 1998, the City's workforce rose steadily through FY 2000 reflecting a shift in the City's focus towards education and crime prevention as shown in Chart 21. The number of teachers increased from 67,453 or 34 percent of the workforce as of June 30,1997 to 77,530 or 37 percent of the workforce as of June 30, 2002. As shown in Table A4 of the Appendix, it is expected that the number of teachers will increase to 77,937 by June 30, 2003. Over the last several years, the Department of Education (DOE) has undertaken a number of initiatives, such as project read, class size reduction and pre-kindergarten expansion. These programs coupled with enrollment growth led to the increase in the teaching workforce.

Chart 21. Employees, DOE, Police & All Other, FY 1992-FY 2007



Most of the increase in the police force, which began in FY 1997, was supported by funding made available through the Office of Community Oriented Policing Services (COPS) Universal Hiring Program (UHP) as part of the Federal Crime Bill.[20] Under this program, the Federal government provided funding to add additional uniformed officers nationwide and civilian support personnel. The City added approximately 3,500 police officers between FY 1997 and FY 1999 that were partly supported by the Federal funds. The City has continued to seek Federal funds annually, which are used to partly fund new recruit classes. However, in recent years, the Police Department has had difficulty attracting new officers. As such, the department has negotiated waivers with the Federal government to reduce the peak uniformed headcount requirement. Uniformed headcount, which was 40,754 as of October 30, 2000, was projected to be 36,878 as of June 30, 2003.

City-funded headcount in FY 2000 began to approach the staffing levels of FYs 1992 through 1994. In response, the City implemented a series of early retirement programs and hiring freezes, which resulted in a downward trend in headcount levels. The decline began in the latter half of FY 2001 with the implementation of an early retirement incentive program in December 2000. Since then, the City has implemented additional early retirement incentive programs in FY 2002 and again in FY 2003.

Currently, the City has been faced with financial difficulties and has been implementing actions to reduce the workforce level. Since the latter half of FY 2002, City agencies have being eliminating vacant positions and were expected to layoff 5,925 employees by the end of FY 2003. Together with vacancies and the elimination of unfilled positions this represented a net reduction of 17,727 full-time and full-time equivalent (FTE) positions. As shown in Table 21, 2,181 employees, including 619 DOE employees, have been laid off in May since the program was announced in April 2003. Furthermore, an additional 2,610 employees at the DOE were given layoff notices effective the end of the current school year. However, because of the actions taken by the City in balancing its budget, some of the proposed layoffs for FY 2004 have been reversed.

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[20] COPS provides grants through the UHP, to fund 75 percent of an entry-level officer's salary and benefits, up to a maximum of $75,000 per officer for three years. Localities are required to maintain the higher officer strength for one additional year beyond the Federally funded three-year period. Localities failing to meet the retention requirements can face sanctions, including the suspension or revocation of current funding, rejection of pending grant applications, and exposure to other legal remedies. The U.S. Department of Justice evaluates a locality's retention compliance on a case by case basis, and does not generally penalize grantees that have experienced natural disasters and/or severe and unforeseen fiscal conditions such as those caused by the terrorist attacks on September 11, 2001.

Table 21. Layoffs May -June 20, 2003 Excluding Pedagogical Employees

	Civilian	Uniformed	Total
Borough President Bronx	8		8
Borough President Brooklyn	2		2
Borough President Staten Island	2		2
Investigation	20		20
DOE	619		619
Fire	51		51
Administration for Children Services	281		281
Homeless	84		84
Correction	131	312	443
Board Of Correction	2		2
Probation	2		2
Aging	5		5
FISA	1		1
Human Rights Commission	7		7
Conflicts of Interest Board	4		4
Health & Mental Hygiene	25		25
Sanitation	19	504	523
Finance	29		29
Transportation	42		42
Citywide Administrative Services	31		31
Total	**1,365**	**816**	**2,181**

Impact of Headcount Reductions

The City's budget reflects the impact of headcount reductions, which were implemented to address the FY 2004 budget gap. Although the programs implemented affected most City agencies, approximately 24 percent of proposed layoffs were employees at uniformed agencies. As shown in Table 22, towards the end of FY 2003 2,181 employees, mainly uniformed personnel, working at these agencies were laid off. Programs and personnel cuts that will be affected by these actions range from reduced recycling collections to fewer Correction officers.

Police Department

The Police Department has reduced expenditures by $112 million between January 2002 and January 2003 by not hiring 3,500 police officers. To further address the fiscal problems facing the City, the Department had planned to eliminate the July 2003 class of police officers, resulting in savings to the City of $56 million. However, the financial relief provided through the taxing authority granted by the State Legislature allowed the City to proceed with the hiring of 1,350 recruits on July 1, 2003. Overall, the City has indicated that approximately 2,100 police recruits will be hired in FY 2004 and achieve a peak headcount of 37,210 officers. Despite the fact that the Police Department has indicated that the reduction in officers would affect the enforcement of narcotics programs, anti-drug initiatives and quality of life violations, recent FBI statistics released showed that the City's crime rate declined 4.5 percent in 2002 when compared to 2001. Even though the City scaled back on hiring police recruits between January 2002 and

January 2003 and at the same time dealt with counter-terrorism initiatives, anti-crime programs were successful in lowering the overall crime rate.

Table 22. City-Funded Uniformed Headcount Planned Reduction

($ in millions)

	Planned Layoffs	Planned Changes in FT/FTE	Projected June 30 Headcount FY 2004	Layoffs – May – June 20, 2003	June 2003 Rehires
Uniformed:					
Police	0	(3,500)	34,774	0	0
Fire	0	(219)	11,089	0	0
Corrections	(315)	(1,652)	8,771	(312)	0
Sanitation	(654)	(1,123)	7,065	(504)	191
Subtotal	(969)	(6,494)	61,699	(816)	191
Civilian:					
Police	(61)	223	8,832	0	0
Fire	(194)	(330)	4,275	(51)	0
Corrections	(87)	(336)	1,397	(131)	0
Sanitation	(121)	(86)	1,797	(19)	6
Subtotal	(463)	(529)	16,301	(201)	6
Total Uniformed	**(1,432)**	**(7,023)**	**78,000**	**(1,017)**	**197**
Total City	**(5,925)**	**(17,727)**	**217,423**	**(2,181)**	**197**
Uniformed as % of City	24.17%	39.62%	35.87%	46.63%	n/a

*Uniformed Police headcount through attrition replacement will be 37,210 by July 2003.

SOURCE: Office of Management and Budget, FY 2004 Executive Budget and Payroll Management System Monthly Reports.

Sanitation Department

Since January 2002 the Department of Sanitation (DOS) has incorporated into its FY 2004 expenditure estimates $111 million in spending reductions through a combination of accrual savings, operational efficiency and productivity initiatives, as well as service reductions. The service reductions result largely from the planned layoffs of 333 uniformed workers to realize savings of $33 million. This cutback in the workforce will result in a shift from weekly recycling pickup to alternate week pickup, the elimination of self-help bulk sites and the reduction in specialized cleaning.

DOS recently re-hired 191 uniformed sanitation workers that were laid off in May to accommodate the reversal of the City's decision in the Executive Budget to reduce the frequency of garbage collection. Since May, net of the rehiring, DOS has laid off 313 uniformed workers. The department has indicated that another 130 uniformed workers that were laid-off due to expected reduction in refuse pick up frequency would be re-hired.

Department of Correction

Planned FY 2003 headcount reductions of 1,652 uniformed officers and 336 civilians in the Department of Correction (DOC) is expected to result in savings of $89 million in FY 2004, a little more than half the total agency FY 2004 reduction initiatives of $174 million. To achieve the targeted reduction, the department anticipates laying off of 315 uniformed officers and 87 civilians. Of the 315 planned layoffs of uniformed officers, 162 are expected to be cut through the elimination of fixed posts and the remaining as a result of the closure of the Brooklyn Detention Center.

Except for the elimination of fixed posts, which may have operational implications, the remaining reduction in the number of uniformed officers is not expected to negatively impact operations. The City believes that the long-term decline in inmate population will allow the department to absorb the uniformed officer reductions. In contrast, cuts in civilian staffing are expected to have a greater operational impact than the uniformed officer reductions. These initiatives include the elimination of a substance abuse program due to the layoffs of substance abuse counselors and the consolidation of ten Rikers Island kitchens into four.

Fire Department

Although there are no planned layoffs of uniformed personnel in the Fire Department, the City nonetheless expects headcount reductions of 219 uniformed firefighters and 330 civilians to yield expenditure savings of $49 million. The headcount reductions are due mainly to higher than expected attrition in uniformed firefighters as well as an early retirement program and a 100 percent hiring freeze in administrative areas combined with planned layoffs of 194 civilians.

The City has made use of the reduced headcount to facilitate the closure of six firehouses. While the City has maintained that, except for one neighborhood, the response time in affected neighborhoods will not increase above the department's average response time, there are legitimate neighborhood safety concerns surrounding the firehouse closures.[21] In addition to firehouse closure, the uniformed headcount reductions have allowed the City to eliminate the fifth firefighter post in 23 engine companies.

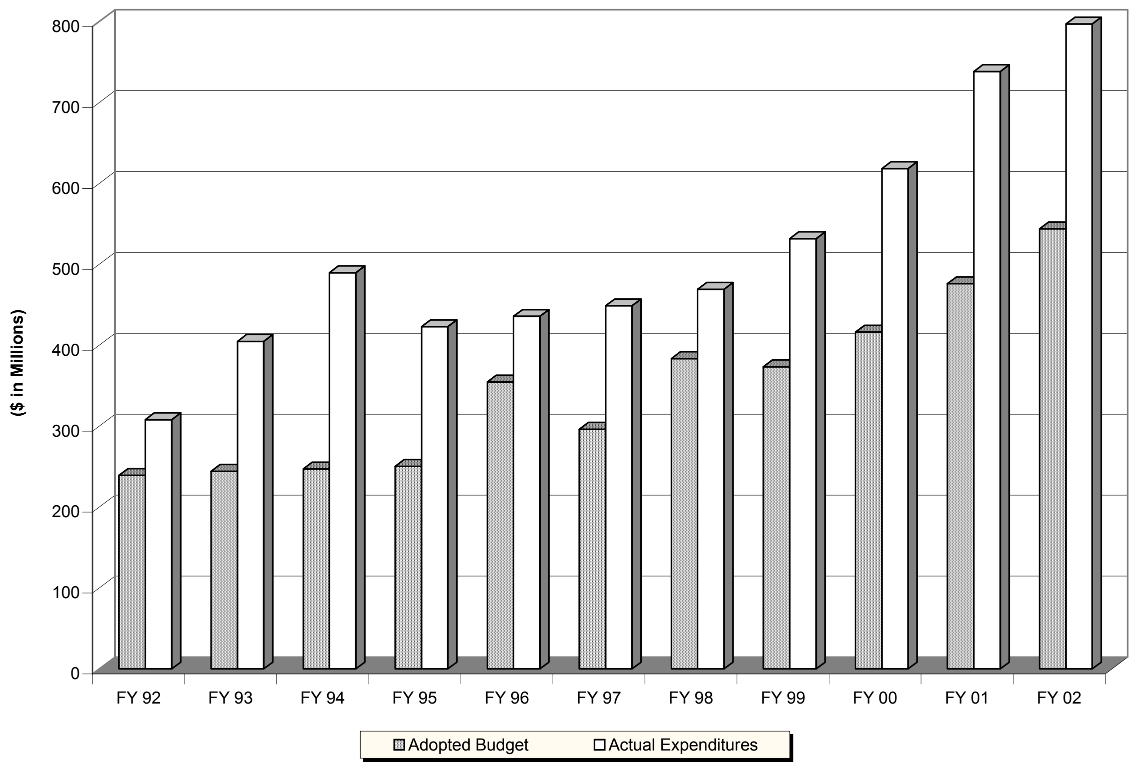
OVERTIME

The City anticipates spending $512 million in FY 2004 for overtime. This is about $200 million lower than the current forecast for FY 2003. Actual overtime (OT) expenditures have increased continuously at an average annual rate of 10 percent from $308 million in FY 1992 to $797 million in FY 2002, as shown in Chart 22. The unusually high overtime costs in FY 1994 led the City to issue the Mayoral Directive 94-3 in September 1994. This Directive required agencies, which spend significant amounts on overtime, to provide detailed monthly reports and analyses of overtime earnings to the Mayor's Office of Operations and the Office of Management and Budget. Several years later, in May of 1997, the Mayor's Office of Operations issued "Guidelines for Effective Management" to increase awareness among City managers about the use of OT and to recommend actions for managing OT earnings. Agencies were required to provide

[21] The Fire Department has indicated that the response time in the neighborhood of Long Island City where Engine 261 was closed will increase to 5 minutes 10 seconds, significantly above the department's average response time of 4 minutes, 46 seconds.

details of successful OT management practices and submit compliance plans with the previously issued Mayoral Directive 94-3.

Chart 22. Overtime Spending, Adopted Budget vs. Actual Expenditures, FY 1992-FY 2002



NOTE: FY 2002 ovetime excludes $367 million spent for overtime related costs associated with the WTC disaster.

As a share of wages and salaries, overtime expenditures have increased from about three percent in 1992 to about five percent in FY 2002. Uniformed employees incur approximately 70 percent of total City overtime costs. Between FY 1992 and 2002, uniformed overtime costs ranged from a low of 66 percent to a high of 75 percent of annual overtime expenditures. Civilian overtime costs, which account for about 30 percent of overtime expenditures, increased 279 percent to $234 million in FY 2002 from $84 million in FY 1992. As shown in Table 23, uniformed overtime costs were $563 million in FY 2002, 151 percent more than the $224 million spent in FY 1992.

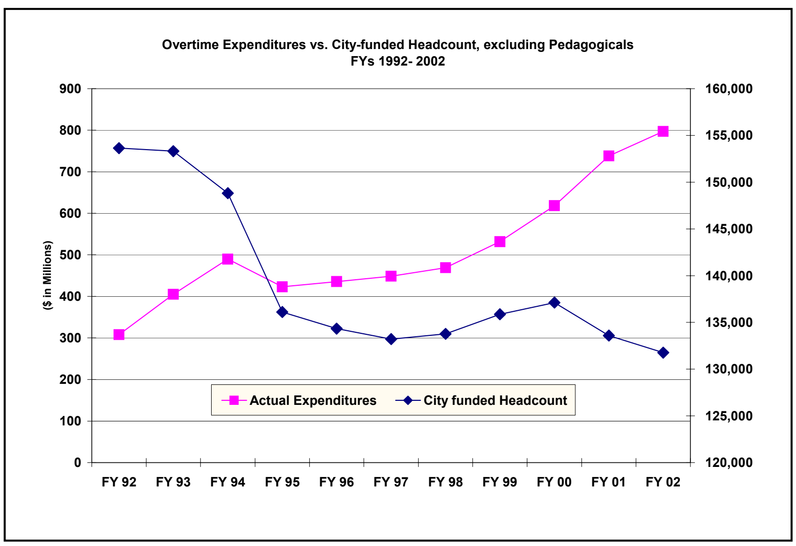
Table 23. Uniformed & Civilian Overtime Costs, FYs 1992-2004

($ in millions)

	Total Overtime	Uniformed Overtime	Uniformed as % of Total	Civilian Overtime	Civilian as % of Total
2004*	512	347	68%	165	32%
2003*	710	525	74%	185	26%
2002	797	563	71%	234	29%
2001	738	508	69%	230	31%
2000	618	414	67%	204	33%
1999	532	353	66%	179	34%
1998	469	309	66%	160	34%
1997	449	304	68%	145	32%
1996	436	321	74%	115	26%
1995	423	317	75%	106	25%
1994	490	360	74%	130	26%
1993	405	294	73%	111	27%
1992	308	224	73%	84	27%

*Projected

Between FY 1992 and FY 2002, actual overtime expenditures have averaged 48 percent more than the amount forecasted by the City at the beginning of each fiscal year. The City has consistently under-budgeted overtime projections in the beginning of the fiscal year in an effort to force agencies to curb their overtime expenditures. As shown in the figure to the right, overtime expenditures in recent years have continued to increase although the number of City-funded employees, excluding teachers, declined. On balance, there has been an inverse relationship between the number of employees and overtime costs. This resulted partly from overtime usage for major-unplanned events, negotiated wage increases, and anti-drug and quality-of-life initiatives. The differences between the projected overtime costs and actual costs were approximately 50 percent or higher in six fiscal years between FY 1992 and FY 2002. In addition to unplanned events, quality of life and anti crime initiatives, and negotiated wage increases, the OT costs were generated by such events as implementation of welfare reform initiatives at HRA and new staffing models for Administration for Children Services (ACS) residential centers in FY 2001; initiatives implemented in response to one-time events such as Y2K and Hurricane Floyd and the expansion and increased frequency of recycling in the Department of Sanitation in FY 2000; and overtime coverage for the Democratic



National Convention, the World Trade Center terrorist attacks, and the unrest in Crown Heights and Washington Heights in FY 1993.

Table 24. Projected Overtime Spending, FY 2004

($ in millions)

	Comptroller's Projection Overtime FY 2004	Planned Overtime FY 2004	FY 2004 Risk
Uniformed			
Police	$319.7	$173.8	$(145.9)
Fire	89.8	77.1	(12.7)
Corrections	46.2	42.2	(4.0)
Sanitation	55.1	53.8	(1.3)
Total Uniformed	$510.8	$346.9	$(163.9)
Others			
Police-Civilian	$31.1	$15.6	$(15.5)
Admin for Child Svcs	12.0	16.8	4.8
Environmental Protection	22.9	19.7	(3.2)
Transportation	31.1	25.2	(5.9)
All Other Agencies	102.5	87.2	(15.3)
Total Civilians	$199.6	$164.5	$(35.1)
Total City	**$710.4**	**$511.4**	**$(199.0)**

The Comptroller's Office projects that overtime expenditures for FY 2004 and beyond will continue to increase at the rates experienced historically. As such the under-budgeting of overtime in FY 2004 will add $200 million to the FY 2004 budget gap, as illustrated in Table 24. In addition, the reduction in City-funded headcount levels and special events such as the Republican National Convention scheduled for August 2004 will exert upward pressure on overtime spending for FY 2005 and beyond.

LABOR ISSUES

The City's forecast for wages and salaries in the FYs 2004 to 2007 Financial Plan is relatively flat at $16.3 billion annually. The City's projections contain no funding for wage increase beyond the last round of collective bargaining. Wages and salaries, which averaged $13.8 billion between FY 1993 and FY 2003, grew at an annual average rate of about five percent and ranged from about 73 percent to 77 percent of personal service expenditures during this period.

The average salary per employee, adjusted for inflation, increased almost 18 percent between FY 1993 and FY 2003. The average salary earned, in FY 2003 dollars, increased to about $69,354 in FY 2003 from $50,945 in FY 1993. During this period, City employees gained wage increases from the settlements of three rounds of labor agreements. In 1993, collective bargaining agreements resulted in wage increases by approximately 8.25 percent for most employees through FY 1995 and FY 1996. Since then, settlements covering the five-year period ending in FYs 2000 and 2001, resulted in a cumulative wage increase of 11 percent. Recent contracts, which ended in FYs 2002 and FY 2003, resulted in increases of between 9 percent and 11 percent.[22]

The majority of the last round of labor contracts expired towards the end of FY 2002 and in FY 2003. The City is seeking the cooperation of the labor unions to fund any wage increases with productivity initiatives. However, the City allocated $200 million to the FY 2003 labor reserve to offset a cash shortfall between productivity savings and any future negotiated wage increases. This funding will allow the City to support wage increases with a cash shortfall approximately equal to the cost of a one-percent wage increase. Alternatively, it could be used to fund a bonus in the first year of a new contract as was negotiated in the recent NYC Transit contract.

DEPARTMENT OF EDUCATION

The Adopted Budget provides about $12.48 billion in funding to the Department of Education (DOE), representing a decline of $19 million from the FY 2003 budget allocation. City funding for DOE, however, is estimated at $5.13 billion in FY 2004, an increase of about $30 million from FY 2003. This increase brings the City in compliance with the State's education maintenance-of-effort (MOE) requirement, which stipulates that City funding for DOE (excluding pension and debt service) in the current year, at budget adoption, may not fall below appropriations from the previous year.[23] Incidentally, City funding for the DOE will rise incrementally on a year-to-year basis over the course of the June Financial Plan.[24]

Compared to the Executive Budget, total funding for DOE has increased by $319 million in FY 2004. Among the highlights in the Adopted Budget, the City has fully funded teacher salaries for extended school days, thus eliminating the $275 million risk previously identified for this initiative. The City has contributed $163 million towards the required amount, while the remainder has been funded by $112 million in certain State aid increases, including $30 million in education aid advance and $62 million from

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[22] The increase in average salary was also driven by a shift in the composition of the City's workforce. As discussed in "Headcount" beginning on page 34, staffing levels in the Police Department and Department of Education increased after FY 1997 even as headcount in all other agencies were falling. Because the average salaries of pedagogical employees and police officers are higher than the Citywide average, this shift in the City's workforce composition contributed to the increase in the average salary.

[23] The State's MOE requirement was signed into law in June 2002, with FY 2003 designated as the first base year for comparison purposes. It replaces previous education funding requirement provisions under the Stavisky-Goodman Law. As a side note, the Adopted Budget projections for DOE would have also complied with the Stavisky-Goodman Law if it were still in place.

[24] In the lawsuit Campaign for Fiscal Equity vs. State of New York, the State Court of Appeals recently ruled that "every public school student is entitled to the opportunity for a meaningful high school education." Under this ruling, the State must reform its education funding formulas both to ensure that every school in the City is adequately provided for to perform this mission and to correct disparities in per pupil funding between the City and other counties in the State. The Court has ordered Governor Pataki and the State Legislature to implement the reform by July 30, 2004. Thus, it is unlikely that the judicial determination will have any impact on State funding to City schools in FY 2004.

additional Municipal Bond Bank borrowing. Approximately $197 million in Municipal Bond Bank borrowing has been earmarked for the funding of this initiative in FY 2003.

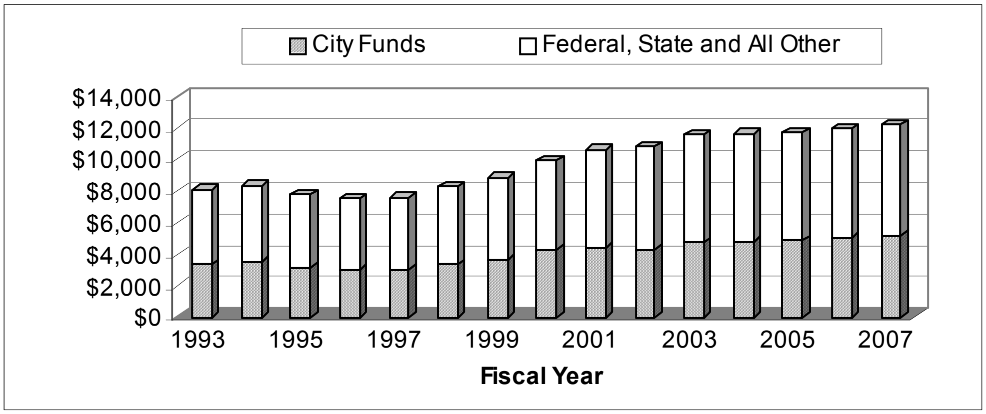
The Adopted Budget also reflects a net decrease of $149 million in school aid appropriations from the State. To this end, the City has provided about $75 million to partly offset this shortfall. In addition, the City has recognized an increase of $136 million in Federal funding, the bulk of which stems from greater Title I revenues.

Since January 2002, the DOE has absorbed a total reduction of $868 million in City funding for its FY 2004 budget. Despite the DOE's intent to spare significant budget cuts in core instructional services, a number of these actions will have an impact on services in the schools. The most prominent is a reduction of $346 million in department-wide allocations, including a decrease of $184 in per capita funding for school districts generating $190 million in savings. The DOE has also sustained a decline in summer school program funding of $54 million, thereby reducing remedial instructional services that were previously available to students who performed poorly on State math and reading exams. The Department currently anticipates an enrollment of 242,623 for this summer, representing a decline of about 58,777 students or close to 20 percent compared to the peak enrollment of about 301,400 in FY 2001. In addition, the discontinuation of the Summer Breakaway Camp program, serving about 8,000 students, is expected to take place by FY 2004. Another cut that will have a clear service impact is a $17 million reduction support for after-school programs.

Though cuts to teaching positions have been avoided, recent reductions to the Department will decrease staffing ratios in several areas. Among the staff reductions currently planned by DOE is the elimination of 864 paraprofessionals, which will negatively affect student supervision in the classroom. The DOE budget for FY 2004 also calls for the removal of 767 school aides on a full-time equivalent basis. School aides are part-time staffs that perform miscellaneous duties such as monitoring hallways and schoolyards. Other significant staff reductions include the elimination of 327 family paraprofessionals and 300 school lunch workers.

Spending for the DOE has grown from $7.2 billion to $12.5 billion over the ten-year span between FY 1993 and FY 2003. The expected spending for FY 2003 reflects an increase of 74 percent in DOE expenditures, driven by a 75 percent growth or a $3.2 billion increase in non-City funding. Meanwhile, City funding for the DOE has grown by 71 percent based on the estimate in the Adopted Budget. More importantly, per pupil spending has grown steadily since FY 1997, coinciding with the stabilization in pupil enrollment trends. As shown in Chart 23, per pupil spending at DOE fluctuated in the $7,500 to $8,300 range as enrollment grew by about 19.5 percent, from 890,735 in FY 1993 to 1,064,291 in FY 1997. Since FY 1997, however, the DOE enrollment has grown by only about 1.7 percent to the latest school register of 1,082,553 in FY 2003. This enrollment increase is primarily driven by the establishment of the Universal Pre-Kindergarten program. Without this program, DOE enrollment would have actually declined during this period. The stable enrollment trend, coupled with significant increases in education funding in recent years, has boosted per pupil expenditures to an estimate of $11,545 in FY 2003, reflecting a rise of 52 percent from the FY 1997 level.

Chart 23. Actual and Projected Per Pupil Spending, FY 1993-FY 2007



SOURCE: NYC Office of Management and Budget and Department of Education.

Compared with projections in the April modification, funding for the Department is projected to increase by about $277 million each year between FY 2005 and FY 2007. The City has provided the bulk of the funding increases to offset State budget reductions and to support extended school day funding. DOE spending in the June Financial Plan is expected to rise from $12.48 billion in FY 2004 to $12.82 billion in FY 2007. Meanwhile, the City projects that enrollment at the Department will erase the gains from previous years and fall to 1,053,712 by FY 2007, a decrease of about 2.7 percent from the FY 2003 school register. Given this projected decline, per pupil spending will gradually increase to $12,170 by FY 2007. However, much of the projected growth in the DOE budget, in the outyears of the current plan, is driven by the rising costs of health insurance benefits for DOE employees, and by modest increases in funding for instructional and support services.

PUBLIC ASSISTANCE

The City completed FY 2003 with a public assistance caseload of 421,546, based on data reported by the Department of Social Services (DSS). The June 2003 caseload reflects a decline of 3,810 recipients, or nearly one percent, from the June 2002 caseload of 425,356. This marginal decline is a departure from the caseload trend experienced in recent years. Between FY 1995 and FY 2002, the City's welfare caseload fell at a rate ranging from 10 percent to 16 percent annually, as shown in Chart 24.[25]

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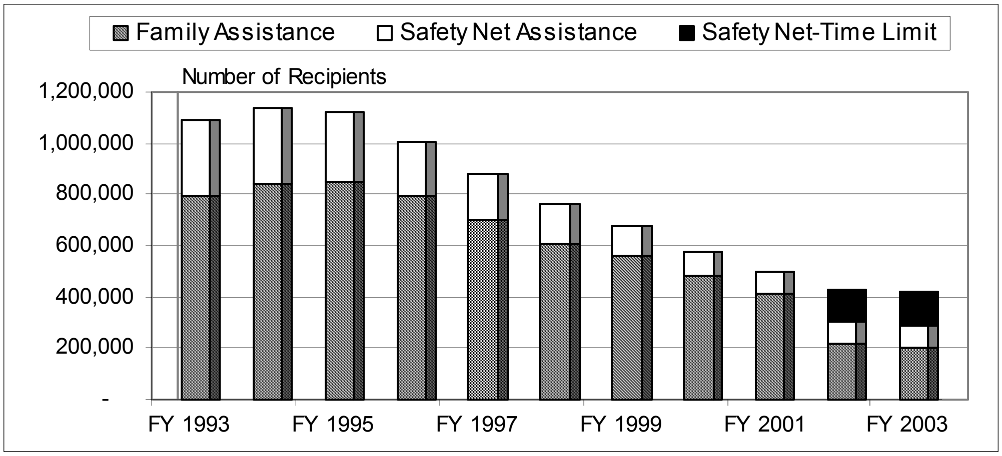
[25] Family Assistance (FA) is a Federally funded program that provides income support to eligible families and their children. The Safety Net Assistance (SNA) program is funded only by the State and the City and provides support primarily to single adults. The SNA program also includes a subgroup called SNA-Time Limit consisting of former FA recipients who have been transferred due to a provision in the FA program that limits life-time participation in the program to no more than five years. The transfer of these recipients has been ongoing since December 2001.

Chart 24. ***Public Assistance Caseload Trends, FY 1993-FY 2003***



SOURCE: NYC Department of Social Services.

In total, the City's welfare rolls have experienced a drop of about 62 percent from the FY 1995 year-end caseload of 1,119,448. Spending for the income maintenance portion of the public assistance budget has shrunk from a high of $2.7 billion in FY 1995 to an estimated $1.1 billion in FY 2003. Likewise, City-funded spending in this category has fallen by about 54 percent over the same span, from $840 million for FY 1995 to $386 million projected for FY 2003.[26] The reduction in this major mandated expenditure has provided the City with greater flexibility in its budget that otherwise would not have been available.

At the peak, almost 16 percent of the City's population was on the welfare rolls. The advent of welfare reform in 1995 has helped reduce this amount to about five percent currently. The composition of the public assistance recipient population has also changed significantly. The latest caseload data indicates that about 57 percent of public assistance recipients are children, compared with 51 percent in FY 1995. The higher proportion of children on the welfare rolls is an indication that the caseload decline has had a greater impact on single adults than on families. Meanwhile, on a per recipient basis, average grants have risen by about eight percent from $214 per month in FY 1995 to $231 per month in FY 2003.

The June Financial Plan projects public assistance caseload to remain flat at 420,764 recipients between FY 2004 and FY 2007. The June 2003 caseload of 421,546 is 782 recipients above this projection. More importantly, the City projects its share of baseline grants expenditures at $433 million for FY 2004. During FY 2003, the DSS reported monthly grant expenditures of between $95 million and $100 million. The

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[26] These figures represent net estimates of the income maintenance portion of the City's public assistance spending. The FY 2003 estimate is based on gross baseline grants of $441 million.

City's share of these expenditures was likewise ranged between $36 million and $38 million each month. Based on the trend in monthly grant expenditures, the City could face a risk of $23 million in its public assistance budget if monthly grant expenditures continue to hover at the upper bound of recent trends, as shown in Table 2 on page 2. In the outyears of the plan, these risks could grow to between $30 million and $35 million each year.

MEDICAID

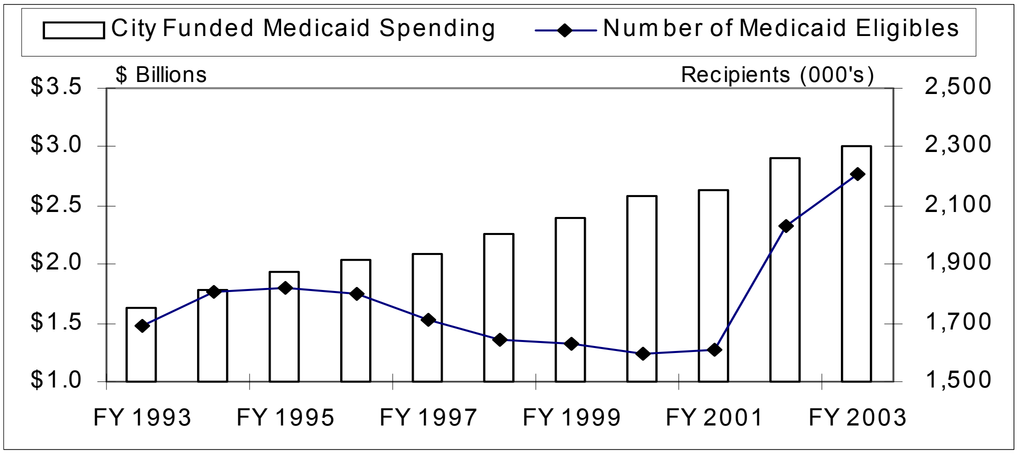
In the FY 2004 Adopted Budget, the City projects Medicaid spending of $3.12 billion, with City funded support estimated at $2.97 billion. The City has made two major adjustments to its Medicaid cost projections in the Adopted Budget. The City has recognized $232 million in Federal Medicaid cost relief to offset tax-levy funding by a corresponding amount. These savings reflect the City's estimate of a recently finalized relief package by the Federal government that provides assistance to states and localities through a temporary increase of 2.95 percent in the Federal Medicaid funding share.

In addition, the City has incorporated the impact of cost containment measures from the State budget that are expected to lower Medicaid spending by $134 million in the Adopted Budget. As a result, projected Medicaid expenditures in FY 2004 represent a decline of about $34 million from the FY 2003 level. However, as reflected in the Executive Budget, the City still maintains a baseline growth of nine percent in its FY 2004 Medicaid spending estimate, before recognizing the Federal and State adjustments in the Adopted Budget. Though it appears that the City has provided adequate funding for Medicaid in FY 2004, the assumed growth for Medicaid expenditures tapers off considerably in the outyears. Thus, the City's budget could face significant risks from Medicaid costs in the outyears of the June Financial Plan.

Over the past ten years, City-funded Medicaid expenditures have grown at an average rate of about seven percent annually. Although the growth has been uneven from year to year, spending for this major mandate has almost doubled during this span, rising from $1.6 billion in FY 1993 to a projected $3.1 billion in FY 2003, as shown in Chart 25 on page 48. The Medicaid recipient population, which actually experienced a decline between FYs 1995 and 2001, has spiked considerably in the past two years due to the enrollment of Disaster Relief Medicaid (DRM) recipients into the program in the aftermath of the World Trade Center attacks.

As a result of the recent rise in the Medicaid population, there are more people enrolled in the program than ever before. The number of Medicaid enrollees grew from 1,688,719 in FY 1993 to 1,822,092 in FY 1995, and then gradually drifted lower to 1,593,490 by FY 2000 before increasing up to 2,230,084 in May 2003. As a comparison, between FY 1993 and FY 1997, Medicaid recipients constituted about 23 to 25 percent of the population in New York City. This ratio dipped to about 20 percent in FY 2000 and has now risen to over 25 percent because of latest spike in Medicaid enrollment. About half of the Medicaid recipient population is now comprised of Medicaid-only recipients, compared with about 14 percent in FY 1993. These recipients do not qualify for other welfare benefits with the exception of Medicaid services. The dramatic increase in this segment of the Medicaid population has contributed greatly to the rise in enrollment levels and is largely attributable to expanded eligibility under initiatives such as the Family Health Plus program, and more notably, the recent influx of temporary DRM recipients into the program.

Chart 25. Medicaid Spending and Enrollment Trends, FY 1993-FY 2003



SOURCES: NYC Human Resources Administration and Office of the Comptroller.

Beyond FY 2004, however, the City expects growth in Medicaid to fall to four percent annually in FY 2005 and FY 2006 with virtually no additional growth in FY 2007. The City may have underfunded its Medicaid budget in the outyears because of these declining growth assumptions. Thus, the City could face risks of $70 million in FY 2005 and $120 million in FY 2006 for Medicaid funding, as shown in Table 2 on page 2. By FY 2007, the City may need to provide additional funding of $260 million to support the likely growth in this area.

HEALTH AND HOSPITALS CORPORATION

In the Adopted Budget, the City projects that the Health and Hospitals Corporation (HHC) will have a year-end cash balance of $229 million in FY 2004. This estimate represents an increase of $120 million from the Executive Budget projection. The expected improvement is due both to a larger cash balance to be carried forward from FY 2003 and a lower operating deficit projected for the current fiscal year. While these developments bode well for HHC in the near term, the rising deficits in the outyears will likely consume a significant portion of its cash balance beginning in FY 2005. Thus, as shown in the June Financial Plan projections, the Corporation will need to rely on much larger gap-closing actions in the outyears, in order to maintain a positive cash balance going forward.

Compared with the Executive Budget, the projected closing cash balance for FY 2003 has risen by about $81 million to $273 million, mainly attributable to lower expenditure assumptions and a retroactive reimbursement from bond proceeds. Also, the FY 2004 operating deficit has dropped by $80 million, to $214 million, in the Adopted Budget. This drop is due mostly to an OTPS freeze implemented by the Corporation.

Overall disbursements, as a result, are now projected at $116 million below the Executive Budget projection.

The combination of these major changes means that HHC will need to rely on a smaller gap-closing program in FY 2004 and, at the same time maintain a higher cash balance at the end of the year. Currently, HHC's gap closing program expects revenues and savings of $170 million, a decline of $42 million from previous assumptions. These actions include $20 million in Federal and State actions, an improvement of $18 million, partly because of restoration of the Governor's proposed cost containment actions. Other major actions include productivity savings of $40 million (including attrition savings from 1,000 positions), enhanced revenues of $50 million and internal actions of $45 million. The details to these actions are still sketchy at this point, though it appears that HHC will have an adequate cash balance to cover a shortfall in these projections.

HHC's outlook in the outyears has not improved since the April modification, and HHC will need to contend with operating deficits ranging from $521 million to $668 million each year. To maintain a positive cash balance, the Corporation will need to achieve sizeable gap-closing programs, including Federal and State actions of $450 million each year by FY 2006.

From an historical perspective, HHC's financial position has vastly improved in recent years. As shown in Table 25, in FY 2002 the Corporation showed an audited year-end cash position of $303 million, an increase of more than two-fold from the $135 million reported in FY 1993. More importantly, the Corporation has achieved this improvement without the benefit of additional subsidy from the City. In fact, the City subsidy to the HHC has declined substantially from $302 million to $117 million over this span. The City subsidy to HHC fell to a low of $55 million in FY 1998 before rising above the $100 million level.

Though HHC will likely complete FY 2003 with a fairly sizeable cash balance, the stagnant projection of Medicaid fee-for-service (FFS) revenues in the June Financial Plan is a concern. The June Financial Plan indicates that HHC's FY 2003 ending cash balance will have dipped to $273 million accompanied by an expected operating loss of $123 million. However, because Medicaid FFS revenues comprise about 45 percent of the Corporation's overall revenues, continued lackluster performance in this segment could seriously hamper its efforts to maintain a strong cash position in future years. The June Financial Plan anticipates a growth of about 1.6 percent annually for Medicaid FFS revenue between FY 2004 and FY 2007, compared with annual spending growth of about three percent in the same span.

Since January 2002, HHC has absorbed reductions totaling about $28 million as part of the City's gap-closing actions. These cuts will only have a marginal impact on services, as a majority of the savings are taken against City support for debt service spending. In general, the reductions with service implications are small, including a $1 million cut for the NYU-Bellevue surgical unit and cuts totaling less than $1 million for the Coney Island Community Health Center and acupuncture programs.

Table 25. HHC Financial Performance Indicators, FY 1993- FY 2003

($ in millions)

	Total Revenues	Year-End Cash Position	Net Income/(Loss)	City Subsidy
FY 1993	$3,468	$135	($289)	$302
FY 1994	$3,949	$109	($143)	$303
FY 1995	$4,134	$136	($147)	$188
FY 1996	$4,461	$222	$143	$76
FY 1997	$4,072	$189	$29	$61
FY 1998	$4,131	$197	$21	$55
FY 1999	$4,060	$325	$16	$71
FY 2000	$4,168	$429	$9	$64
FY 2001	$4,288	$304	($72)	$83
FY 2002	$4,285	$303	($259)	$117
FY 2003p	$4,116	$273	($123)	$112

p=projected

SOURCE: New York City Office of Management and Budget and Health and Hospitals Corporation.

JUDGMENTS AND CLAIMS

Judgments and Claims (J&C) expenditures projected in the FY 2004 Adopted Budget are anticipated to grow about five percent annually from $643 million in FY 2004 to $676 million in FY 2005, $713 million in FY 2006, and $752 million in FY 2007. In recent years, large awards from juries, the growth in the number of claims resolved annually and early settlement initiatives have increased J&C costs from $231 million in FY 1992 to a projected cost of $613 million in FY 2003. J&C expenditures are expected to account for about 1.47 percent of the City's total spending in FY 2004 and continue to rise to almost 1.6 percent of the projected FY 2007 expenditures as shown in Table 26. Furthermore, when compared to tax revenues, J&C costs are projected to utilize three percent of total tax revenues in FY 2007.

Table 26. Cost of Judgments and Claims Settlements

($ in millions)

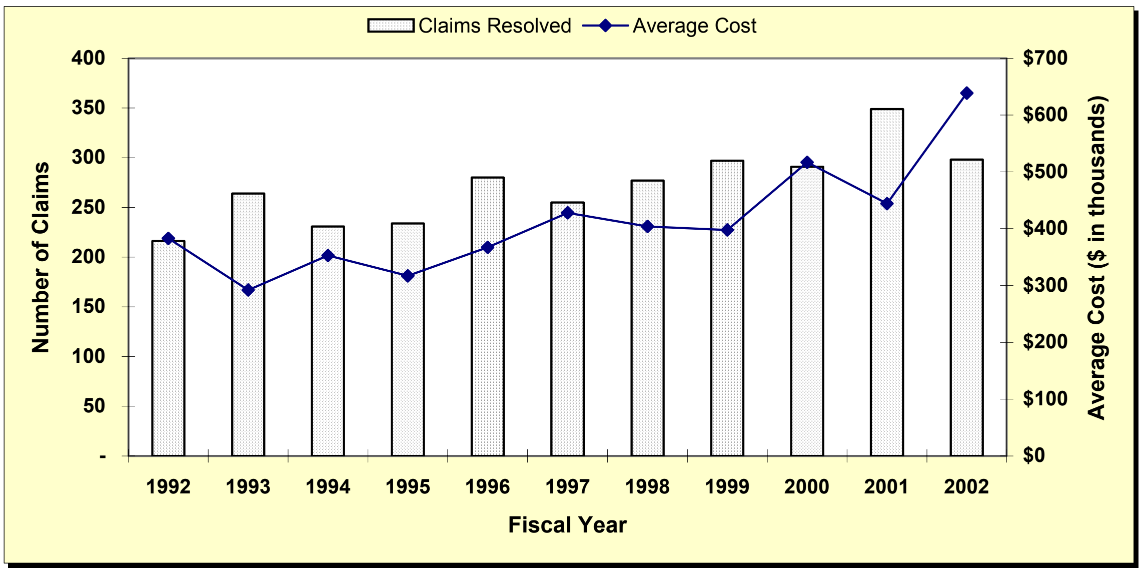
	J&C Expenditures	Percentage Of Total Expenditures	Percentage of Tax Revenues
FY 2007^{P}	$752	1.55%	2.70%
FY 2006^{P}	$713	1.50%	2.65%
FY 2005^{P}	$676	1.48%	2.61%
FY 2004^{P}	$643	1.47%	2.48%
FY 2003P	$613	1.37%	2.63%
FY 2002	$522	1.28%	2.41%
FY 2001	$595	1.48%	2.57%
FY 2000	$491	1.30%	2.21%
FY 1999	$424	1.18%	2.00%
FY 1998	$386	1.11%	1.89%
FY 1997	$326	0.97%	1.69%
FY 1996	$309	0.96%	1.70%
FY 1995	$251	0.80%	1.42%
FY 1994	$271	0.86%	1.50%
FY 1993	$231	0.77%	1.31%
FY 1992	$231	0.80%	1.36%

P = Projected. Revenues and Expenditures do not include NYCTFA debt service.

NOTE: The drop in J&C cost in FY 2002 stems mainly from the disruption to the court System and subsequent delays in settling claims because of the September 11th, 2001, terrorist attacks.

Currently, the costs of personal injury (PI) claims, which more than doubled from $198 million in FY 1992 to $475 million in FY 2002, account for more than 90 percent of J&C expenditures. Approximately 40 percent of annual J&C expenditures directly result from settlements of medical malpractice cases. These cases are primarily brought against the Health and Hospitals Corporation (HHC). Since FY 1992, the costs to resolve medical malpractice claims have increased at an annual average rate of 8.7 percent to $190 million in FY 2002. In comparison, the average cost of medical malpractice settlements has increased at an annual rate of 5.3 percent, from $382,718 in FY 1992 to $639,121 in FY 2002 as shown in Chart 26.

Chart 26. Average Cost of Medical Malpractice Cases



The City has been proposing limits to its tort liability for nearly twenty years. While discussions are continuing, the State Legislature has as yet not passed enabling legislation for the City's current proposals which include:

- Implementing a cap of $250,000 for non-economic loss.

- Offsetting tort awards for public employees, which were filed against public entities, by disability pensions and other similar benefits.

- Limiting the City's liability for economic losses to the same proportion as the City's responsibility for claimants' injuries.

- Barring recovery of economic damages by a claimant who is responsible for 50 percent or more of injuries suffered.

- The shifting of claims against the City to the State's Court of Claims where judges, not juries, make award decisions.

If enacted these measures would result in savings of at least $100 million annually.

The City Council and the City enacted, as part of the FY 2004 Adopted Budget, legislation making property owners of multi-dwelling properties liable for tort claims on sidewalks abutting their properties. The City projects that the legislation, when fully implemented, will save the City $40 million annually in J&C spending. The City has spent on average $58 million annually to resolve sidewalk claims between FYs 1998 and 2002.

In addition to relying on tort reform to curb the growth of J&C expenditures, the City must explore pro-active initiatives it can take to reduce tort liability including risk management and preventive actions. Among these initiatives are the identification of major causes of tort and the development and implementation of preventive measures as well assigning accountability to the individual agencies for tort liabilities. City actions have proven effective in the past, including early settlement initiatives and various investigative procedures implemented in recent fiscal years. Early settlement initiatives in resolving cases against the DOE between September 1997 and June 2000 lowered the average cost by 77 percent from $19,412 to $4,451. Furthermore, the Comptroller's risk management and fraud units have taken actions to significantly reduce the number of claims filed and the amount of money paid on fraudulent claims.

DEBT SERVICE

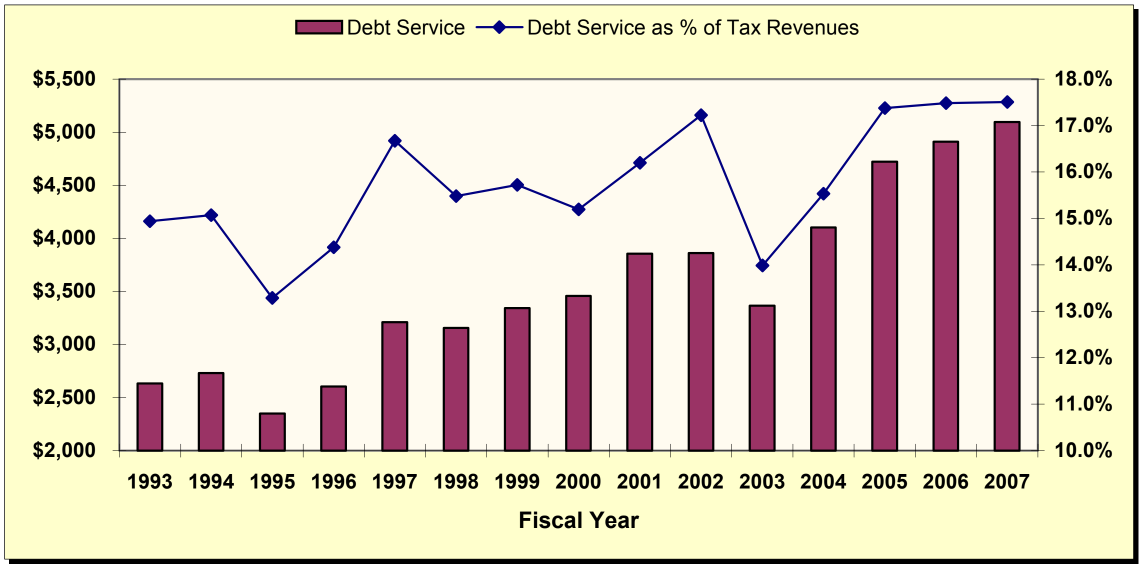
Debt service, which cost the City $2.63 billion in FY 1993, reached $3.86 billion by FY 2002, an increase of 46.7 percent.[27] Over the past ten years, debt service averaged $3.12 billion per year. In FYs 2003 through FY 2007, debt service is projected to average $4.44 billion, or 42 percent greater, on average, than average debt service costs in FYs 1993-2002. As shown in Chart 27, debt service consumed 14.9 percent of local tax revenues in FY 1993 and grew to 17.2 percent by FY 2002. After a drop to 14 percent in FY 2003, debt service is projected to increase to 15.5 percent of local tax revenues in FY 2004 and continue to increase to 17.5 percent by FY 2007.[28] Reductions in planned capital projects since the September Capital Plan have mitigated the growth in debt service over the financial plan period, FYs 2004-2007.

[27] Includes GO, TFA, TSASC, Interest on Notes, and Lease-Purchase Debt.

[28] Over FYs 2004-2007, debt service declines by an annual average of $502 million due to the repayment of MAC debt service by a newly created local development corporation funded by State revenues.

Chart 27. Total Debt Service as Percent of Tax Revenues, FYs 1993-2007

($ in millions)



SOURCE: *Comprehensive Annual Financial Reports FYs 1993-2002, NYC Office of Comptroller*, and the FY 2004 Adopted Budget and Financial Plan, June 2003, Office of Management and Budget.

Between FY 2004 and FY 2007, local tax revenues, including PIT for the NYCTFA and tobacco revenues, are projected to increase at an annual rate of 3.3 percent. Debt service is estimated to grow at a rate of 7.5 percent a year over the same period. This growth rate differential is what drives the two-percentage point increase from 15.5 percent of local tax revenues in FY 2004 to an estimated 17.5 percent in FY 2007.

Table 27. Debt Service Costs, FYs 2004-2007

($ in millions)

	FY 2004	FY 2007	Percent of Total in FY 2004	Percent of Total in FY 2007
City GO Bonds	$2,976	$3,603	72.5%	70.7%
NYCTFA	830	996	20.2%	19.6%
TSASC	110	199	2.7%	3.9%
DASNY and Other Conduit Issuers	185	297	4.6%	5.8%
Total Debt Service	**$4,101**	**$5,095**	**100.0%**	**100.0%**

SOURCE: FY 2004 Adopted Budget, Office of Management and Budget.

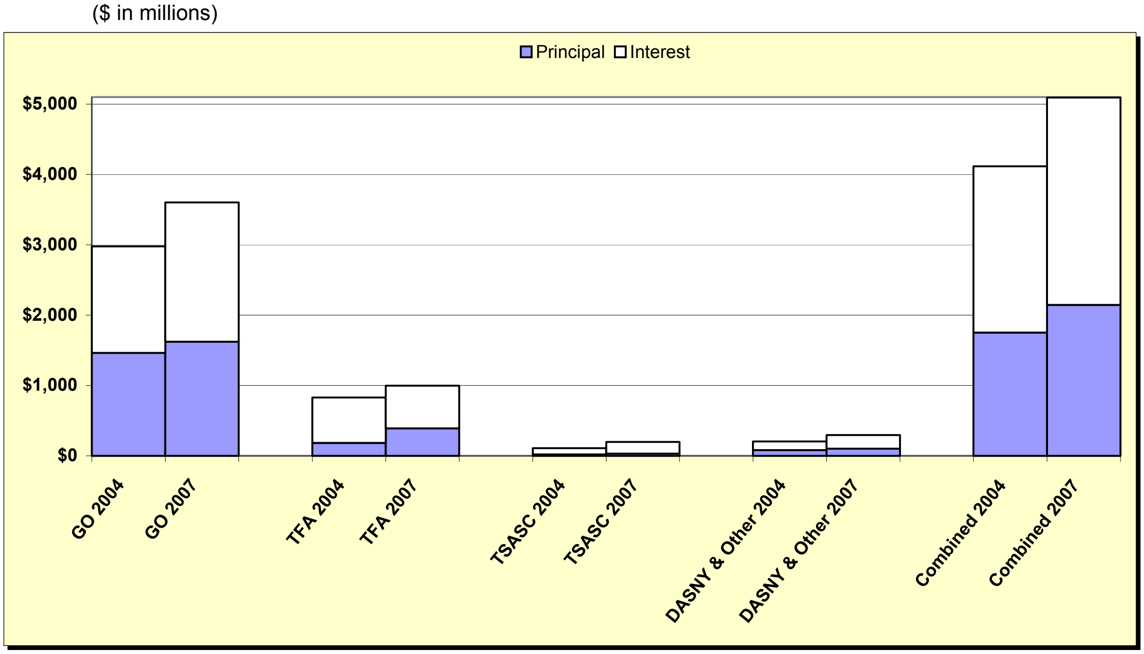
GO debt service, as shown in Table 27, is the largest component of total debt service at $2.98 billion, or 72.5 percent in FY 2004. By FY 2007, the GO share decreases slightly to 70.7 percent of total debt service, or $3.6 billion. In FY 2004, NYCTFA represents 20.2 percent of the City's debt service, DASNY and other conduit issuers 4.6 percent and TSASC 2.7 percent. By FY 2007, the NYCTFA decreases modestly to 19.6 percent, TSASC increases to 3.9 percent, and DASNY and other conduit issuers increase to 5.8 percent of total debt service.

Expected Principal Repayment

The principal repayment component of debt service constitutes $1.46 billion or 49 percent of GO debt service in FY 2004, and as depicted in Chart 28, approximately $1.62 billion, or 45 percent of estimated GO debt service in FY 2007.[29] Approximately $83 million or about 45 percent of DASNY and conduit issuers' debt service are comprised of principal in FY 2004. In contrast, only 22 percent or $185 million of NYCTFA and 19 percent, or $21 million of TSASC debt service is for principal in FY 2004.[30] By FY 2007, the share of principal repayment to total debt service for the NYCTFA increases to 39 percent, and TSASC declines slightly to 15 percent of its total debt service. Given the uncertainty of how future debt for DASNY and other conduit issuers will be structured, it is difficult to determine the principal share for these combined entities in FY 2007.[31] As depicted in Chart 28, about 43 percent of all debt service is comprised of principal repayment in FY 2004 and 42 percent in FY 2007.

Chart 28. Bond Principal and Interest, FYs 2004 and 2007

($ in millions)



SOURCE: FY 2004 Adopted Budget, Office of Management and Budget, June 2003

Consistent with prudent debt management, approximately 44 percent of total outstanding debt is scheduled to be amortized over the next ten years, and, in particular,

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[29] For the City of New York, principal refers to the amount of money due for repayment of money borrowed from a multitude of bonds issued in past years.

[30] This reflects the fact that NYCTFA and TSASC are relatively new issuing authorities.

[31] For purposes of Chart 28, an estimate of principal was used from debt already issued for the various conduit entities.

50 percent of currently outstanding GO debt is scheduled to be amortized over the next decade as well.

Municipal Assistance Corporation

The Municipal Assistance Corporation (MAC) is an instrumentality of the State of New York established in 1975. The City is in the process of creating a local development corporation (LDC) that will defease substantially all of the outstanding MAC debt, which totals just below $2.2 billion in debt outstanding with total debt service costs, through July 1, 2008, of $2.5 billion. The State's Local Government Assistance Corporation (LGAC) will provide $170 million per year, subject to State appropriation, to the newly created LDC for the estimated cost of the new LDC's debt service. This transaction will provide the City with annual savings of $530 million in FY 2004 and just below $500 million per year through FY 2008. The net effect of the transaction, however, will extend debt-service related to previous MAC borrowing from FY 2008 to about FY 2034, but will no longer utilize City tax revenues. As a result, the FY 2004 Adopted Budget and Financial Plan eliminates all MAC funding requirements in FYs 2004 through 2007.

It will be important for the new LDC to have adequate revenues to pay for its debt service. The $170 million in pledged revenues from LGAC is the sole source of this payment. While the structure of the financing has not yet been finalized, it is anticipated that coverage ratios (available revenue/debt service) will be low. It is imperative that the final structure provides sufficient cash flow to cover all expenses of the LDC including debt service. We will continue to monitor this transaction.

New York City Transitional Finance Authority

The NYC Transitional Finance Authority (NYCTFA) was created by the State of New York in 1997. NYCTFA has a current statutory cap of $11.5 billion for issuance of bonds and notes for capital purposes. Further, the NYCTFA has covenanted with its senior lien bondholders that it will not issue senior lien bonds in excess of $12 billion. The NYCTFA currently has only $145 million of senior lien issuance authority remaining. The City has proposed legislation that would eliminate the statutory cap and allow additional borrowing on a subordinated or junior lien basis. Junior lien bonds could enjoy similarly high ratings as senior NYCTFA debt if sufficiently high coverage ratios are maintained. Coverage ratios are critical to any further NYCTFA borrowing to protect Junior Lien bondholders.

In September 2001, the State Legislature granted the NYCTFA an additional $2.5 billion in issuance authority to help pay for recovery costs associated with the September 11, 2001 World Trade Center Attack. There are currently $2 billion in junior lien bonds outstanding for this purpose. The Junior Lien Bonds carry the same ratings as the Senior Lien Bonds due to the extremely high coverage ratios.

At the end of FY 2003, the City transferred $624 million to the NYCTFA's grant account. This reduces the amount of PIT revenues required for the payment of NYCTFA debt service in FY 2004 to $206 million from $830 million.

Tobacco Settlement Asset Securitization Corporation

TSASC, a local development corporation created in November 1999, issues bonds secured by tobacco settlement revenues. To date, the TSASC has issued $1.36 billion in debt since its inception: $709 million of bonds in November of 1999, a $150 million loan agreement with the US Department of Transportation (USDOT) in December 2001, and $500 million in bonds in August of 2002. With no scheduled borrowings in FY 2004, the planned debt service for TSASC is overstated by about $14 million this fiscal year, which should result in higher residual revenues to the City of an equivalent amount.

There are several major legal actions pending against the tobacco manufacturers. The City has already retained sufficient funds for debt service payments on TSASC debt for 2004 and 2005 and there is no repayment risk to bondholders.

Lease-Appropriation Debt Service

The FY 2004 Adopted Budget and Financial Plan includes a FY 2003 prepayment of FY 2004 lease-purchase debt service in the amount of $72.7 million for three lease-purchase entities. Specifically, a $38.2 million payment was made to the Housing Finance Agency, and $34.5 million was paid to DASNY for related HHC and Courts' lease-purchase debt.

Over the years the City has diversified its financing sources by using conduit issuers such as the New York State Housing Finance Agency, the New York State Urban Development Corporation, and the Dormitory Authority of the State of New York (DASNY) for courts and hospital purposes. In FY 2004, the City plans to issue $143 million of bonds through DASNY for hospital related projects, $194 million of bonds for the Jay Street Development Corp. to fund the on-going construction of the 330 Jay Street Courthouse, and $228 million of bonds for the City's Courts' capital program through DASNY.

CAPITAL PLAN

Total commitments, including and excluding the Department of Environmental Protection (DEP), averaged $4.06 billion and $3.18 billion, respectively, between FYs 1993 and 2000. In FY 2001, however, total commitments soared to $6.77 billion including DEP and $5.34 billion without DEP as shown in Chart 29. In FY 2002, capital commitments still remained relatively high compared with historical patterns at $6.21 billion with DEP and $4.34 billion without DEP.[32] The spike in commitments in FYs 2001 and FY 2002 was largely the result of two program areas: education and DEP, which combined, accounted for 54 percent of all capital commitments in FYs 2001 and 2002, or $7 billion of the $13 billion of total capital commitments in that two-year period.

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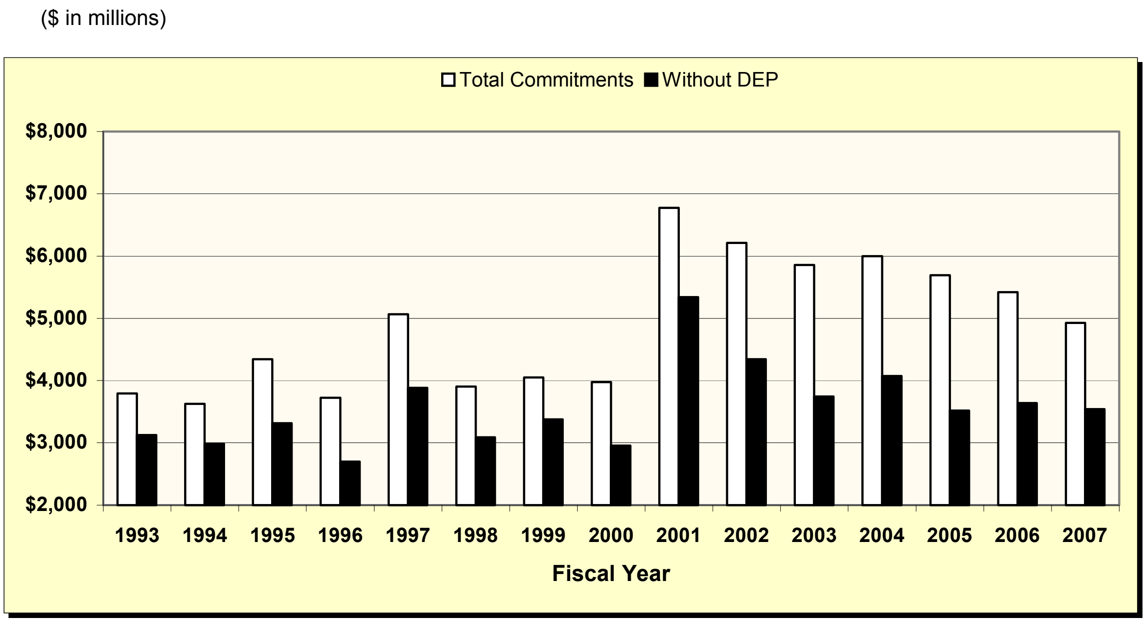
[32] A commitment is defined as a contract registration. It does not reflect actual spending on capital projects.

Chart 29. Total Capital Commitments, FYs 1993-2007



SOURCE: OMB, Message of the Mayor, FYs 1998, 2001, and 2004.

In FYs 2003-2007, total annual capital commitments are expected to average $5.58 billion including DEP and $3.7 billion without DEP. This forecast average is a reduction from the levels reached in FY 2001 and FY 2002, but is still 37 percent and 16 percent higher, on average, than the period FY 1993 through FY 2000.

Impact of Capital Reductions from September 2002

In the Capital Plan for FYs 2003-2006 published in September 2002, funding for all project types in total funds summed to $29.47 billion over FY 2006. By January 2003, the Capital Plan was reduced by $4.7 billion, and by April 2003, by a net cumulative reduction of $3.8 billion over FYs 2003-2006 was still in effect. The $900 million increase in the Four-Year Capital Plan from January to April is due primarily to projected increases in DEP capital commitments.

Education sustained the largest reduction in planned commitments over FYs 2003-2006 at $892 million, followed by the category of highway bridges (DOT) at $675 million, various courts projects at $529 million, various economic development projects at $451 million, Housing Preservation and Development projects (HPD) at $319 million, and highway and roadway projects at $281 million.

Most notably, the reductions sustained from the September Plan over FYs 2003-2004 to the Department of Education's capital plan will result in the deferral of three new high schools. Two of these high schools were planned for the borough of Queens, and one for the Bronx. This represents a loss of 1,600 new seats in Queens and 611 new seats in the Bronx. In total, this represents an approximate $186 million reduction from the September Plan. In addition, funding for construction costs for several leased facilities was eliminated from the plan producing a plan savings of about $74 million. Three facilities in the Bronx, one in Brooklyn, and various sites in Manhattan will be affected by this reduction.

The reductions to courts projects reflect more realistic timing estimates. Such projects as the reconstruction of 101 Centre Street in Manhattan ($114 million), the 360 Adams Street rehabilitation in Brooklyn ($90 million), the Bronx Civil Court rehabilitation ($89 million), the Queens Criminal Court addition ($60 million), and the new Staten Island Criminal Court ($40 million) are deferred to FY 2007 and beyond.

Total capital commitments at the DOT were reduced primarily in two key program areas over FYs 2003-2006 since September 2002: by a net of $675 million related to highway bridge projects, and by $281 million for highway and street-resurfacing projects. Reductions to highway bridges were implemented through a need-based evaluation. Virtually all of the commitment reductions were to highway bridges rated "fair" or "good" and were based on an extensive in-house engineering assessment. The reductions to highway and street-resurfacing projects will result in fewer projects over the financial plan period. In practical terms, street reconstruction projects will be reduced to 73 lane miles per year from about 100 lane miles a year, and street-resurfacing projects will be reduced to 694 lane miles per year from 794 lane miles, and return to the historical street-resurfacing averages prior to FY 2003.

Total capital commitments for HPD were reduced by a net of $319 million over FYs 2003-2006 since September 2002. Over 95 percent of these reductions come in two key program areas: anti-abandonment and disposition programs. The cuts to anti-abandonment initiatives include a variety of loan programs such as the Participation Loan Program, Articles 7A and & 8A, the Small Homes Private Loan program, and the Senior Citizens Homeowner's Assistance Program.[33] Reductions to the disposition program category include across the board cuts to the Neighborhood Entrepreneur's program, the Neighborhood Redevelopment program, the Tenant Interim Lease Apartment Purchase Program, and the Neighborhood Homes program. The objective of all disposition programs is to encourage not-for-profit organizations, entrepreneurs, tenant associations, and/or private firms to rehabilitate and take over City *in-rem* properties.

Total capital commitments for economic development were reduced by $451 million over FYs 2003-2006 since the plan of September 2002. Of this amount, the $240 million reduction in non-City funds related to the termination of the New York Stock Exchange (NYSE) project accounts for just over 50 percent of this reduction in capital commitments.

Ten-Year Capital Strategy

The April 2003 Ten-Year Capital Strategy (TYCS) for FYs 2004-2013 sums to $49.3 billion, an increase of $9 billion from the Preliminary Ten-Year Capital Strategy

[33] Article 7A appoints administrators to operate privately owned buildings that have been abandoned by their owners, resulting in conditions that jeopardize the health and safety of their occupants. Article 8A provides loans to owners of multiple dwellings to upgrade building systems.

(PTYCS) released in January. Three agencies continue to garner over two-thirds of the entire TYCS, with DEP at 33 percent, the Department of Education at 20 percent, and Bridges and Highways projects through New York City's DOT at 17 percent.

Over $8.5 billion of the increase is related to DEP, with increases of $3.3 billion for water supply projects, $3 billion for water pollution control projects, and $1.8 billion for water main projects, which includes the $1.4 billion Croton Filtration Plant project. The majority of the TYCS increases for DEP come from re-estimates of costs in FYs 2008-2013. Over $7.9 billion, or 93 percent of the changes to DEP occur in FYs 2008-2013. As indicated in the January modification transmittal letter, DEP was asked to undertake a major review and reconfiguration of its capital budget priorities and at that time had not yet completed the evaluation of its outyear needs. The April TYCS, however, reflects the incorporation of that extensive review.

Risks and Offsets

Since the release of the Executive Budget, actions taken by the City have allowed the Comptroller to reduce his risk assessment for FY 2004 to $484 million from $618 million, a reduction of $134 million as shown in Table 28. The reduction in risks stems largely from the elimination of the proposed regional transportation initiative as well as a proposed sale of tax benefits that were expected to provide $200 million and $100 million in budgetary relief, respectively, in FY 2004. While the elimination of these initiatives results in a reduction of $300 million in risk assessment compared with the Comptroller's last assessment, a significant portion of this drop is negated by revisions in the Comptroller's assessment of the City's baseline assumptions.

Table 28. Risks and Offsets to the FY 2004 Adopted Budget Compared with the FY 2004 Executive Budget

($ in millions)

	FY 2004 Adopted Budget	FY 2004 Executive Budget	Difference
Revenue Assumptions			
Property Tax	$0	$16	($16)
Non-Property Tax	53	(139)	192
Airport Rent	(190)	(200)	10
Sale of Tax Benefits	0	(100)	100
Subtotal Revenues	($137)	($423)	$286
Expenditure Projections			
Overtime	($199)	($172)	($27)
Disaster Relief Medicaid	(50)	(50)	0
Public Assistance	(23)	(20)	(3)
Surplus Roll	0	24	(24)
Private Bus Subsidy	(75)	0	(75)
Subtotal Expenditure	($347)	($218)	($129)
State Actions			
Regional Transportation Initiative	$0	($200)	$200
State Legislative Budget	0	223	(223)
Subtotal State Actions	$0	$23	(23)
Total (Risks)/Offsets	**($484)**	**($618)**	**$134**

The Comptroller projects a shortfall of $137 million in the City's revenue estimates for FY 2004. The City assumes that airport rent payments will increase from $3.5 million in FY 2003 to $200 million in FY 2004 as a result of an expected increase in base rent payment to $90 million and $110 million in back rent payments.[34] However, there is as yet no indication of an agreement with the Port Authority of New York and New Jersey regarding the rent increase and back rent payment. As such, except for $10

[34] The City expects to receive a total of $600 million in back rent payments with the first installment of $110 million to be paid in FY 2004 and the remaining $490 million to be paid in FY 2005.

million in base rent revenue, the Comptroller believes the remaining $190 million in anticipated airport rent revenue represents a risk to the FY 2004 budget.

In contrast, the Comptroller expects revenues from PIT, business tax and sales tax to be above the City's estimates. As discussed in "Tax Revenues" beginning on page 12, the Comptroller's higher forecast of PIT revenue stems mainly from the expectation of a greater positive impact from tax rate increases than that projected by the City. At the same time, the Comptroller's estimate of the loss in sales tax revenue from the two-week sales tax exemption, for clothing and footwear costing $110 or less, in September and January as well as the expiration of this tax on June 1 rather than June 30 is $37 million lower than the City's. When the impact of tax policies are folded in with the Comptroller's economic forecast, the resultant tax revenue projections is $53 million above the City's forecast thereby providing an offset against the risks to the budget.

In addition to the risk in the City's total revenue assumptions, the FY 2004 Adopted Budget contains risks of $347 million in its expenditure estimates. More than half of this stems from the under-budgeting of overtime expenses. The City estimates that overtime spending will decline from $710 million in FY 2003 to $511 million in FY 2004, a drop of 28 percent. However, over the period between FYs 1992 and 2002 overtime spending grew from $308 million to $797 million, an average annual growth rate of ten percent. At a minimum, overtime is expected to remain unchanged at the FY 2003 level of $710 million for FY 2004, $199 million higher than the City's estimate.

Included in the City's expenditure budget is the assumption that it will be able to save $75 million in private bus subsidies in FY 2003 through the takeover by the MTA of the operation of some of the private bus companies. However, until there is a strong indication that the MTA will agree to the takeover, the Comptroller is holding the savings assumptions at risk. Risks of $23 million in PA spending, $50 million in Disaster Medicaid Relief as discussed in "Public Assistance" beginning on page 47 and "Medicaid" beginning on page 48 round out the remaining risk to the FY 2004 spending estimates.

Appendix— Revenue and Expenditure Details

Table A1. FY 2004 Adopted Budget Revenue Detail

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007		Change FYs 2004-07 Percent	Change FYs 2004-07 Dollar
Taxes:							
Real Property	$11,447	$11,751	$12,176	$12,621		10.3%	$1,174
Personal Income Tax	$5,711	$5,929	$6,023	$6,121		7.2%	$410
General Corporation Tax	$1,265	$1,423	$1,541	$1,604		26.8%	$339
Banking Corporation Tax	$211	$342	$399	$432		104.7%	$221
Unincorporated Business Tax	$827	$902	$951	$1,006		21.6%	$179
Sale and Use	$3,871	$3,858	$3,952	$4,159		7.4%	$288
Commercial Rent	$407	$417	$427	$442		8.6%	$35
Real Property Transfer	$394	$424	$452	$491		24.6%	$97
Mortgage Recording Tax	$379	$381	$403	$436		15.0%	$57
Utility	$274	$278	$278	$284		3.6%	$10
All Other	$862	$735	$756	$766		(11.1%)	($96)
Tax Audit Revenue	$525	$505	$505	$505		(3.8%)	($20)
Tax Initiatives Program	$0	$0	0	$0		0.0%	$0
Total Taxes	$26,173	$26,945	$27,863	$28,867		10.3%	$2,694
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	$352	$355	$349	$348		(1.1%)	($4)
Interest Income	$36	$53	$74	$76		111.1%	$40
Charges for Services	$468	$471	$469	$465		(0.6%)	($3)
Water and Sewer Charges	$912	$916	$934	$947		3.8%	$35
Rental Income	$287	$662	$175	$178		(38.0%)	($109)
Fines and Forfeitures	$682	$697	$697	$697		2.2%	$15
Miscellaneous	$456	$371	$318	$258		(43.4%)	($198)
Intra-City Revenue	$1,094	$1,080	$1,079	$1,079		(1.4%)	($15)
Total Miscellaneous	$4,287	$4,605	$4,095	$4,048		(5.6%)	($239)
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	$327	$327	$327	$327		0.0%	$0
Other Federal and State Aid	$228	$228	$228	$228		0.0%	$0
Total Unrestricted Intergovernmental Aid	$555	$555	$555	$555		0.0%	$0
Other Categorical Grants	$842	$764	$785	$800		(5.0%)	($42)
Inter Fund Agreements	$321	$313	$312	$312		(2.8%)	($9)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)		0.0%	$0
Less: Intra-City Revenue	($1,094)	($1,080)	($1,079)	($1,079)		(1.4%)	$15
TOTAL CITY FUNDS	**$31,069**	**$32,087**	**$32,516**	**$33,488**	**#REF!**	**7.8%**	**$2,419**

Table A1 (Con't). *FY 2004 Adopted Budget Revenue Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Federal Categorical Grants:						
Community Development	$264	$258	$241	$241	(8.7%)	($23)
Welfare	$2,253	$2,167	$2,169	$2,177	(3.4%)	($76)
Education	$1,566	$1,526	$1,526	$1,526	(2.6%)	($40)
Other	$539	$516	$516	$518	(3.9%)	($21)
Total Federal Grants	$4,622	$4,467	$4,452	$4,462	(3.5%)	($160)
State Categorical Grants						
Welfare	$1,519	$1,523	$1,524	$1,522	0.2%	$3
Education	$5,752	$5,759	$5,764	$5,828	1.3%	$76
Higher Education	$164	$164	$164	$164	0.0%	$0
Department of Health and Mental Hygiene	$465	$466	$471	$480	3.2%	$15
Other	$273	$267	$236	$238	(12.8%)	($35)
Total State Grants	$8,173	$8,179	$8,159	$8,232	0.7%	$59
TOTAL REVENUE	$43,864	$44,733	$45,127	$46,182	5.3%	$2,318

Table A2. FY 2004 Adopted Budget Expenditure Detail

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Mayoralty	$69,153	$68,653	$68,653	$68,653	(0.7%)	($500)
Board of Elections	$76,912	$67,966	$68,101	$68,101	(11.5%)	($8,811)
Campaign Finance Board	$28,577	$17,731	$17,731	$17,731	(38.0%)	($10,846)
Office of the Actuary	$3,713	$3,614	$3,614	$3,614	(2.7%)	($99)
President, Borough of Manhattan	$3,618	$3,011	$3,003	$3,003	(17.0%)	($615)
President, Borough of the Bronx	$5,315	$4,353	$4,289	$4,289	(19.3%)	($1,026)
President, Borough of Brooklyn	$4,783	$3,983	$3,930	$3,930	(17.8%)	($853)
President, Borough of Queens	$4,514	$3,811	$3,631	$3,631	(19.6%)	($883)
President, Borough of S.I.	$3,586	$3,035	$3,035	$3,035	(15.4%)	($551)
Office of the Comptroller	$52,634	$52,142	$52,142	$52,142	(0.9%)	($492)
Dept. of Emergency Management	$3,752	$3,602	$3,602	$3,602	(4.0%)	($150)
Tax Commission	$1,885	$1,885	$1,885	$1,885	0.0%	$0
Law Department	$102,074	$99,627	$99,542	$99,541	(2.5%)	($2,533)
Department of City Planning	$17,214	$17,042	$17,042	$17,042	(1.0%)	($172)
Department of Investigation	$16,103	$15,863	$15,863	$15,863	(1.5%)	($240)
NY Public Library-Research	$8,986	$15,391	$15,391	$15,391	71.3%	$6,405
New York Public Library	$46,571	$81,517	$81,517	$81,517	75.0%	$34,946
Brooklyn Public Library	$34,379	$60,104	$60,104	$60,104	74.8%	$25,725
Queens Borough Public Library	$32,775	$57,204	$57,204	$57,204	74.5%	$24,429
Department of Education	$12,472,296	$12,514,578	$12,673,185	$12,817,124	2.8%	$344,828
City University	$466,837	$455,375	$454,024	$453,156	(2.9%)	($13,681)
Civilian Complaint Review BD.	$10,567	$9,122	$9,122	$9,122	(13.7%)	($1,445)
Police Department	$3,235,475	$3,262,528	$3,259,988	$3,259,988	0.8%	$24,513
Fire Department	$1,116,040	$1,103,127	$1,101,476	$1,100,731	(1.4%)	($15,309)
Admin. for Children Services	$2,135,354	$2,056,109	$2,051,470	$2,051,470	(3.9%)	($83,884)
Department of Social Services	$5,715,449	$6,204,113	$6,342,957	$6,359,050	11.3%	$643,601
Dept. of Homeless Services	$614,331	$605,326	$605,133	$605,632	(1.4%)	($8,699)
Department of Correction	$829,700	$837,722	$831,017	$829,084	(0.1%)	($616)
Board of Correction	$869	$791	$791	$791	(9.0%)	($78)
Department of Employment	$1,000	$0	$0	$0	(100.0%)	($1,000)
Citywide Pension Contributions	$2,494,509	$3,119,074	$3,930,583	$4,337,957	73.9%	$1,843,448
Miscellaneous	$4,210,221	$4,450,190	$4,723,375	$4,991,746	18.6%	$781,525
Debt Service	$2,795,745	$3,563,435	$3,718,660	$3,899,980	39.5%	$1,104,235
M.A.C. Debt Service	$0	$0	$0	$0	0.0%	$0
NYCTFA Debt Service	$205,628	$996,026	$992,639	$995,627	384.2%	$789,999
Public Advocate	$2,471	$1,560	$1,560	$1,560	(36.9%)	($911)
City Council	$46,031	$45,831	$45,831	$45,831	(0.4%)	($200)
City Clerk	$2,976	$2,856	$2,856	$2,856	(4.0%)	($120)
Department for the Aging	$211,797	$198,789	$198,789	$198,789	(6.1%)	($13,008)
Department of Cultural Affairs	$118,623	$93,888	$93,888	$93,888	(20.9%)	($24,735)
Financial Info. Serv. Agency	$36,032	$36,122	$36,012	$36,012	(0.1%)	($20)
Department of Juvenile Justice	$99,448	$97,714	$101,989	$101,989	2.6%	$2,541
Office of Payroll Admin.	$9,921	$10,007	$9,901	$9,854	(0.7%)	($67)
Independent Budget Office	$2,731	$2,731	$2,731	$2,731	0.0%	$0

Table A2 (Con't). *FY 2004 Adopted Budget Expenditure Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Equal Employment Practices Com	$503	$503	$503	$503	0.0%	$0
Civil Service Commission	$540	$540	$540	$540	0.0%	$0
Landmarks Preservation Comm.	$3,221	$3,191	$3,191	$3,191	(0.9%)	($30)
Districting Commission	$0	$0	$0	$0	0.0%!	$0
Taxi & Limousine Commission	$24,057	$23,379	$23,379	$23,061	(4.1%)	($996)
Commission on Human Rights	$6,873	$6,858	$6,858	$6,858	(0.2%)	($15)
Youth & Community Development	$242,901	$185,494	$185,494	$185,494	(23.6%)	($57,407)
Conflicts of Interest Board	$1,499	$1,357	$1,357	$1,357	(9.5%)	($142)
Office of Collective Barg.	$1,553	$1,553	$1,553	$1,553	0.0%	$0
Community Boards (All)	$12,039	$12,039	$12,039	$12,039	0.0%	$0
Department of Probation	$71,387	$70,883	$67,999	$67,999	(4.7%)	($3,388)
Dept. of Small Business Services	$96,005	$85,125	$85,500	$81,892	(14.7%)	($14,113)
Housing Preservation & Dev.	$394,693	$389,441	$394,754	$392,242	(0.6%)	($2,451)
Department of Buildings	$53,882	$50,882	$50,882	$50,487	(6.3%)	($3,395)
Department of Public Health & Mental Hygiene	$1,307,061	$1,331,166	$1,359,400	$1,388,079	6.2%	$81,018
Health and Hospitals Corp.	$846,306	$860,893	$879,171	$879,171	3.9%	$32,865
Dept. of Environmental Prot.	$726,479	$704,977	$702,387	$702,387	(3.3%)	($24,092)
Department of Sanitation	$969,222	$1,001,640	$1,003,399	$1,005,158	3.7%	$35,936
Business Integrity Commission	$5,227	$5,227	$5,227	$5,227	0.0%	$0
Department of Finance	$189,113	$186,001	$186,001	$186,001	(1.6%)	($3,112)
Department of Transportation	$424,356	$419,751	$418,909	$418,979	(1.3%)	($5,377)
Dept. of Parks and Recreation	$186,379	$169,057	$169,057	$169,057	(9.3%)	($17,322)
Dept. of Design & Construction	$86,098	$86,098	$86,098	$86,098	0.0%	$0
Dept. of Citywide Admin. Services	$236,127	$239,207	$238,307	$238,307	0.9%	$2,180
D.O.I.T.T.	$89,121	$85,836	$88,685	$88,138	(1.1%)	($983)
Dept. of Records & Info. Serv.	$3,435	$3,436	$3,436	$3,436	0.0%	$1
Department of Consumer Affairs	$12,672	$12,598	$12,572	$12,685	0.1%	$13
District Attorney - N.Y.	$63,868	$63,297	$62,902	$62,902	(1.5%)	($966)
District Attorney – Bronx	$37,932	$37,596	$37,220	$37,220	(1.9%)	($712)
District Attorney – Kings	$64,755	$64,289	$63,954	$63,954	(1.2%)	($801)
District Attorney – Queens	$33,647	$33,367	$33,056	$33,056	(1.8%)	($591)
District Attorney – Richmond	$5,693	$5,642	$5,380	$5,380	(5.5%)	($313)
Off. Of Prosec. & Spec. Narc.	$14,228	$13,430	$13,430	$13,430	(5.6%)	($798)
Public Administrator - N.Y.	$988	$988	$988	$988	0.0%	$0
Public Administrator – Bronx	$329	$329	$329	$329	0.0%	$0
Public Administrator – Brooklyn	$454	$454	$454	$454	0.0%	$0
Public Administrator – Queens	$353	$353	$353	$353	0.0%	$0
Public Administrator – Richmond	$252	$252	$252	$252	0.0%	$0
State and Federal Actions	$0	$0	$0	$0	0.0%	$0
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Energy Adjustment	$0	($14,251)	($17,762)	($10,610)	0.0%	($10,610)
Lease Adjustment	$0	$20,303	$36,324	$52,760	0.0%	$52,760
OTPS Inflation Adjustment	$0	$35,948	$72,938	$110,970	0.0%	$110,970
City-Wide Totals	**$46,863,843**	**$46,746,677**	**$48,364,772**	**$49,466,623**	**12.8%**	**$5,602,780**

Table A3. Major Service Impact from Gap-Closing Initiatives

($ in thousands)

	Projected Savings
Fire Department	
Close 6 Firehouse	($13,445)
Eliminate fifth firefighter post in 23 Engine Companies	(10,622)
Reduction of daily municipal ambulance tour tours from 583 to 545	(5,493)
Department of Corrections	
Elimination of Substance Abuse Program	(6,108)
Elimination of Fixed Post	(5,623)
Consolidation of 10 Rikers Island kitchens into four	(1,807)
Department of Sanitation	
Alternate week recycling	(13,289)
Reduction in miscellaneous cleaning	(3,984)
Elimination of special collection related to composting	(1,800)
Administration for Children Services	
Reduction in contract foster care agency rates and parent stipends by 5 percent	(11,900)
Reduce 600 Contract Congregate Care Beds	(3,406)
Reduce Direct Congregate Care Beds	(1,561)
Elimination of Substance Abuse Program for foster care youth in congregate settings	(7,600)
Elimination of Life Skills Training for Non-Foster Children	(500)
Increase in co-payment for subsidized child care	(5,800)
Reduction in funding for employee scholarships from $2 million to $1.4 million	192
Additional Charge for parent with more than one child receiving subsidized child care	(6,261)
Reduction in crisis services, manage foster care placements and administration of other agency programs	(7,638)
Department of Homeless Services	
Reduction in contracted adult services	(562)
Reduction in contracted family services	(270)
1.5% reduction in funds for over 100 family and adult shelters, 8 drop-in centers, 18 street outreach teams and 74 SROs providing permanent housing for singles	(3,652)
Reduction in cleaning from layoff of one-third cleaning staff in City operated shelters	(2,200)
53% reduction in funds for aftercare services that prevent families in permanent housing from returning to shelter	(1,725)
Department of Health and Mental Hygiene	
Reduction in the hours or operation in animal shelters and the introduction of new or higher fee for services	(1,646)
Elimination of the anti-smoking education, outreach and treatment program	(12,000)
Reduction in subsidies for five privately-run school-based clinics	(268)
Reduction of mental health and substance abuse programs	(4,588)
Department of Aging	
Eliminate take-home weekend meals	(6,000)
Department of Education	
Elimination of Summer Breakaway Camp	(16,800)
Reduction in Summer School Program	(20,000)
Change in Service for Encouraged Student Summer Program	(21,000)
Reduction in School Lunch Worker to Student Ratio	(11,000)
Elimination of Encouraged Students Summer Program	(13,000)
Reduction in Substance Abuse Prevention and Intervention Services	(6,300)
Reduction in Educational Paraprofessionals	(30,500)
Reduction in Family Paraprofessionals	(12,000)
Reduction in School Aides	(23,200)
Total	**($291,305)**

Table A4. City-Funded Headcount By Agency, FYs 1997-2007

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004*	FY 2005*	FY 2006*	FY 2007*
Headcount	216,287	217,728	217,539	204,499	200,796	200,664	207,988	212,445	215,133	211,727	209,292	205,366	217,423	217,334	217,555	217,524
Education:																
DOE - Ped	62,649	64,410	68,722	68,400	66,461	67,453	74,214	76,580	78,023	78,145	77,530	77,937	91,435	91,374	91,429	91,412
Non-Ped	5,770	6,011	5,757	4,470	4,523	4,636	5,034	5,577	6,018	6,285	6,359	6,186	6,582	6,576	6,576	6,576
Total	68,419	70,421	74,479	72,870	70,984	72,089	79,248	82,157	84,041	84,430	83,889	84,123	98,017	97,950	98,005	97,988
CUNY	3,488	3,660	4,050	3,575	3,581	3,647	3,700	3,761	3,735	3,742	3,794	3,684	3,687	3,684	3,684	3,684
Total Education	71,907	74,081	78,529	76,445	74,565	75,736	82,948	85,918	87,776	88,172	87,683	87,807	101,704	101,634	101,689	101,672
Public Safety:																
Police, TA HA																
Uniform	34,295	34,733	38,033	36,426	36,725	38,198	38,144	39,035	40,285	38,630	36,790	36,878	34,774	34,774	34,774	34,774
Civilian	7,418	7,893	7,596	6,611	5,741	6,806	6,957	8,253	8,371	8,761	8,600	8,562	8,832	8,832	8,832	8,832
Total	41,713	42,626	45,629	43,037	42,466	45,004	45,101	47,288	48,656	47,391	45,390	45,440	43,606	43,606	43,606	43,606
Fire																
Uniform	11,373	11,351	11,338	11,181	11,342	11,263	11,219	11,508	11,514	11,328	11,314	11,327	11,089	10,842	10,842	10,842
Civilian	1,191	1,180	1,139	1,123	4,355	4,425	4,483	4,414	4,463	4,301	4,400	4,319	4,275	4,261	4,244	4,244
Total	12,564	12,531	12,477	12,304	15,697	15,688	15,702	15,922	15,977	15,629	15,714	15,646	15,364	15,103	15,086	15,086
Correction																
Uniform	11,820	11,378	10,857	10,536	10,006	10,253	10,202	10,366	10,143	9,873	9,893	8,836	8,771	8,726	8,726	8,726
Civilian	2,034	2,160	1,851	1,533	1,438	1,494	1,513	1,457	1,410	1,445	1,454	1,381	1,397	1,532	1,532	1,532
Total	13,854	13,538	12,708	12,069	11,444	11,747	11,715	11,823	11,553	11,318	11,347	10,217	10,168	10,258	10,258	10,258
Probation	1,561	1,540	1,324	828	930	1,014	959	948	956	882	904	1,025	946	964	964	964
Total Public Safety	69,692	70,235	72,138	68,238	70,537	73,453	73,477	75,981	77,142	75,220	73,355	72,328	70,084	69,931	69,914	69,914
Community Services:																
Sanitation																
Uniform	7,451	7,522	7,443	6,841	7,008	6,768	6,953	7,082	7,644	7,810	7,680	6,872	7,065	6,787	6,787	6,787
Civilian	3,096	2,966	2,550	2,285	2,105	2,005	2,033	2,044	2,040	2,064	2,003	1,777	1,797	1,778	1,778	1,778
Dept. of Parks Recreation	3,159	2,952	2,619	2,202	2,132	1,987	1,904	1,827	1,768	1,704	1,722	1,509	1,496	1,496	1,496	1,496
Total Community Services	13,706	13,440	12,612	11,328	11,245	10,760	10,890	10,953	11,452	11,578	11,405	10,158	10,358	10,061	10,061	10,061
Health and Welfare:																
Health	3,092	3,075	2,910	2,240	2,207	2,108	2,102	2,051	2,019	2,010	2,098	1,965	2,364	2,744	2,855	2,489
Mental Hygiene	268	256	209	168	167	136	144	141	138	127	126	0	0	0	0	0
Dept. Aging	182	220	174	169	167	153	156	139	138	139	139	94	52	36	36	36
DOSS	27,276	26,979	21,246	18,785	18,863	11,934	11,178	10,642	10,492	8,873	8,557	7,636	8,496	8,509	8,522	8,522
Homeless	0	0	3,021	2,660	2,291	2,081	2,063	1,841	1,682	1,555	1,505	1,544	1,437	1,437	1,437	1,437
ACS	0	0	0	0	0	6,560	7,083	7,140	7,035	7,030	7,470	6,871	5,895	5,895	5,895	5,895
Total Health and Welfare	30,818	30,530	27,560	24,022	23,695	22,972	22,726	21,954	21,504	19,734	19,895	18,110	18,244	18,621	18,745	18,379
Other																
Environmental Protection	4,677	4,809	4,645	4,567	4,665	304	296	272	275	264	264	290	290	290	290	290
DOT	5,879	5,470	4,866	3,765	3,897	1,993	2,178	2,037	1,874	1,872	2,025	1,897	1,919	1,984	2,043	2,043
Cultural Affairs	45	43	45	35	35	35	35	35	30	30	28	32	32	32	32	32
All Other	19,563	19,120	17,144	16,099	12,157	15,411	15,438	15,295	15,080	14,857	14,637	14,744	14,792	14,781	14,781	15,133
Total All Others	30,164	29,442	26,700	24,466	20,754	17,743	17,947	17,639	17,259	17,023	16,954	16,963	17,033	17,087	17,146	17,498

Note: As of June 1995, 4,248 uniformed and 293 civilian employees of the TAPD are reflected in NYPD statistics. As of June 1995, 2,759 uniformed and 183 civilian employees of the HAPD are reflected in NYPD statistics. As of June 1996, 3,249 civilian employees of the EMS are reflected in Fire Department. As of June 1997, DEP has been adjusted to reflect the reclassification of Water and Sewer positions. In July 2002, Dept. of Health has been adjusted to reflect the merger of the Department of Mental Hygiene.

Glossary of Acronyms

ACS	Administration for Children Services
AIRA	Actuarial Investment Return Assumption
COBA	Corrections Officers' Benevolent Association
COPS	Community Oriented Policing Services
CPI	Consumer Price Index
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DEP	Department of Environmental Protection
DRM	Disaster Relief Medicaid
DOE	Department of Education
DOC	Department of Correction
DOT	Department of Transportation
DOS	Department of Sanitation
DSS	Department of Social Services
E-911	Emergency 911

FA	Family Assistance
FEMA	Federal Emergency Management Agency
FFS	Fee-for-Service
FTE	Full-Time Equivalents
FY	Fiscal Year
GCP	Gross City Product
GDP	Gross Domestic Product
G.O. Debt	General Obligation Debt
HPD	Department of Housing Preservation and Development
HRA	Human Resources Administration
HHC	Health and Hospitals Corporation
HIP	Health Insurance Plan
ISM	Institute for Supply Management
JFK	John F. Kennedy Airport
J&C	Judgments and Claims
LDC	Local Development Corporation
LGAC	Local Government Assistance Corporation

M&A	Merger and Acquisition
MAC	Municipal Assistance Corporation
MPI	Medical Price Index
MOE	Maintenance-of-Effort
MTA	Metropolitan Transportation Authority
NAPM	National of Association Purchasing Managers
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
OT	Overtime
OTPS	Other Than Personal Services
PA	Port Authority of New York and New Jersey
PI	Personal Injury
PILOT	Payment-in lieu of Taxes
PIT	Personal Income Tax
PS	Personal Services
SIA	Securities Industry Association

SNA	Safety Net Assistance
S & P	Standard & Poor’s
STAR	School Tax Relief Program
TSASC	Tobacco Settlement Asset Securitization Corporation
TYCS	Ten Year Capital Strategy
UHP	Universal Hiring Program
U.S.	United States
USDOT	United States Department of Transportation
WTC	World Trade Center