Review of the Five-Year Financial Plan for the City of New York

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I. Executive Summary

New York City has overcome the most serious fiscal challenge it has faced since the 1970s, a challenge that was precipitated by the recession, stock market decline, and the terrorist attack on the World Trade Center. The January 2004 Financial Plan projects a surplus of nearly $1.4 billion for FY 2004, a balanced budget for FY 2005, and manageable, although substantial, out-year budget gaps (see Table 1).

More than half of the FY 2004 surplus comes from unanticipated tax revenues from increased Wall Street activity and real estate–related transactions. Although the securities industry is not a large employer, it accounts for a disproportionate share of the wages paid in the City. The January Plan assumes that Wall Street profits will total $15 billion in calendar year 2003, which is less than the $18.8 billion forecast in the November Plan but still more than twice the level projected in June 2003. In addition, year-end bonuses increased after two years of decline and have provided a significant lift to local income and tax revenues. Business tax collections rose by 28 percent compared to the same period last year, and real estate–related tax revenue rose by nearly 10 percent during the first half of FY 2004.

A combination of City, State, and federal actions, plus an improvement in the local economy, helped the City close a $6.4 billion budget gap for FY 2004 and make substantial progress toward recurring budget balance. The City, however, still projects out-year budget gaps that range from $2 billion to $2.9 billion because the personal income tax surcharge and the increase in the sales tax that were approved by the State last year are scheduled to be phased out, and nondiscretionary spending, which includes pension contributions and Medicaid, is growing far faster than revenues. The gaps, however, could be much larger because the January Plan assumes that future wage increases will be funded entirely with productivity improvements. Wage increases at the projected inflation rate without offsetting productivity improvements would widen the gaps by $1.4 billion in FY 2005 and by as much as $2.8 billion by FY 2008.

Pension contributions are projected to increase from $1.5 billion in FY 2003 to $3 billion in FY 2005 and then to $4.2 billion by FY 2007, which reflects pension fund investment shortfalls of the past three years. Although the pension funds have earned 15 percent on their investments through the first seven months of the fiscal year—nearly double the expected annual rate of return—the budgetary benefit would be phased in over a five-year period if the gains are maintained through the end of the fiscal year.

The Mayor and county leaders have been urging the State to reduce the Medicaid burden, and the Governor’s proposed budget includes Medicaid cost-containment initiatives and a ten-year State takeover of the local share of Medicaid long-term care costs. Some of the cost-containment proposals, however, are controversial and may encounter resistance. Overall, the Governor's budget would provide the City with $362 million in budget-balancing assistance in FY 2005, slightly less than the Mayor's request. This estimate, however, includes the Governor's recommendation to permanently eliminate the sales tax exemption on clothing and footwear except for four one-week "holidays" each year. The recommendation would generate $152 million for the City in FY 2005, but the Mayor is opposed to this tax increase.

Another controversial proposal is the Governor's plan to fund an increase in education aid to high-need school districts with proceeds from eight new video lottery terminal sites, including five in New York City. The Court of Appeals ruled last year that the State formula for allocating education aid was unconstitutional, and the Court gave the State until July 2004 to come up with a solution. The Governor's interim solution would allocate $100 million to the City in FY 2005, but could require the City to match the contribution by reallocating resources from existing educational programs.

The Governor has also proposed legislation that would allow the Municipal Assistance Corporation (MAC) to refinance its own debt as an alternative to the refinancing initiative currently in litigation. The Governor's proposal would reduce the cost to the State by $2 billion and would fund the debt service costs on the new bonds with State sales tax and other resources, rather than with proceeds from the Local Government Assistance Corporation, which is at the center of the litigation between the State and City. The Mayor has not stated publicly whether the City will accept the Governor's proposal, which also requires the approval of the State Legislature.

Our review has identified net budget risks valued at $482 million in FY 2004, $1.5 billion in FY 2005, and about $1.4 billion in each of fiscal years 2006 through 2008 (see Table 2). Most of the risk relates to actions that are outside the Mayor's direct control, such as the MAC refinancing initiative and the receipt of additional federal and State gap-closing aid. Although the City will probably receive an increase in State assistance, the amount and form is not yet known. Our analysis takes into account the likelihood that tax revenues could be higher than projected by the City, and that future pension contributions could be lower than budgeted due to strong investment gains in FY 2004. The net impact of these risks would be reduced by about $250 million annually, beginning in FY 2005, if the Mayor's proposal to provide home, co-op, and condominium owners with a $400 rebate is not approved by the City Council or the State.

Despite these budget risks, the City will end FY 2004 with a significant surplus and should have little difficulty balancing the FY 2005 budget because it can draw upon the budget stabilization account and other resources if needed. However, continued progress toward recurring budget balance will depend on sustained economic improvement, an affordable labor agreement, and a reduction in the projected growth in nondiscretionary spending.

Table 1
Five-Year Financial Plan

(in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
REVENUES					
Taxes					
General Property Tax	$11,335	$ 11,809	$ 12,278	$ 12,798	$ 13,350
Other Taxes	14,873	14,162	14,595	15,153	16,017
Tax Audit Revenue	524	505	504	505	505
Miscellaneous Revenue	4,272	5,040	4,217	4,186	4,228
Unrestricted Governmental Aid	953	585	585	585	585
Less: Intra-City Revenues	(1,187)	(1,097)	(1,095)	(1,095)	(1,095)
Grant Disallowances	(15)	(15)	(15)	(15)	(15)
Subtotal: City Funds	$ 30,755	$ 30,989	$ 31,069	$ 32,117	$ 33,575
Other Categorical Grants	902	794	821	836	836
Inter-Fund Revenues	343	327	320	316	316
Total City & Inter-Fund Revenues	$ 32,000	$ 32,110	$ 32,210	$ 33,269	$ 34,727
Federal Categorical Grants	5,415	4,780	4,742	4,729	4,720
State Categorical Grants	8,370	8,276	8,258	8,331	8,392
Total Revenues	$ 45,785	$ 45,166	$ 45,210	$ 46,329	$ 47,839
EXPENDITURES					
Personal Service					
Salaries and Wages	$ 16,894	$ 16,742	$ 16,704	$ 16,706	$ 16,714
Pensions	2,555	3,165	3,958	4,335	4,351
Fringe Benefits	4,803	5,088	5,380	5,678	5,936
Subtotal - Personal Service	$ 24,252	$ 24,995	$ 26,042	$ 26,719	$ 27,001
Other Than Personal Service					
Medical Assistance	$ 4,123	$ 4,541	$ 4,747	$ 4,944	$ 5,151
Public Assistance	2,437	2,247	2,254	2,255	2,255
Pay-As-You-Go Capital	100	- - -	- - -	- - -	- - -
All Other	12,243	12,179	12,392	12,588	12,778
Subtotal - Other Than Personal Service	$ 18,903	$ 18,967	$ 19,393	$ 19,787	$ 20,184
Debt Service	2,554	3,470	3,719	3,924	4,112
Budget Stabilization & Prepayments	1,390	(695)	(695)	- - -	- - -
General Reserve	100	100	300	300	300
Subtotal - Expenditures	$ 47,199	$ 46,837	$ 48,759	$ 50,730	$ 51,597
Less: Intra-City Expenses	(1,187)	(1,097)	(1,095)	(1,095)	(1,095)
Total Expenditures	$ 46,012	$ 45,740	$ 47,664	$ 49,635	$ 50,502
Gap To Be Closed	**$ (227)**	**$ (574)**	**$ (2,454)**	**$ (3,306)**	**$ (2,663)**
Gap-Closing Program					
Gap-Closing Actions	327	1,024	895	894	890
Property Tax Rebate	- - -	(250)	(259)	(263)	(267)
Pay-As-You-Go Capital	(100)	(200)	(200)	(200)	(200)
Remaining Gap To Be Closed	**$ - - -**	**$ - - -**	**$ (2,018)**	**$ (2,875)**	**$ (2,240)**

Source: NYC Office of Management and Budget

Table 2
OSDC Risk Assessment of NYC Financial Plan
(in millions)

	Better/(Worse)				
	FY 2004	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**
Gaps per January 2004 Plan	**$ - - -**	**$ - - -**	**$(2,018)**	**$ (2,875)**	**$ (2,240)**
OSDC Risk Assessment:					
Outside the Mayor's Direct Control					
MAC Refinancing Initiative	(506)	(496)	(497)	(493)	(494)
TSASC Trapping Event	(51)	(56)	(59)	(65)	(64)
State Actions	- - -	(400)	(400)	(400)	(400)
Federal Actions	- - -	(300)	(300)	(300)	(300)
Private Bus Subsidy	- - -	(147)	(150)	(154)	(154)
Education Matching Grant	- - -	(100)	(100)	(100)	(100)
Teacher Sabbaticals	- - -	(34)	(34)	(34)	(34)
Subtotal	**(557)**	**(1,533)**	**(1,540)**	**(1,546)**	**(1,546)**
Estimation					
Tax Revenue	100	125	200	215	225
Uniformed Agency Overtime	(25)	(150)	(150)	(150)	(150)
Pension Contributions	- - -	30	70	120	190
Subtotal	**75**	**5**	**120**	**185**	**265**
OSDC Risk Assessment	**(482)**	**(1,528)**	**(1,420)**	**(1,361)**	**(1,281)**
Remaining Gaps to be Closed	**$ (482)**	**$ (1,528)**	**$ (3,438)**	**$ (4,236)**	**$ (3,521)**
Other Risks and Offsets					
Budget Stabilization Account	- - -	695	(695)	- - -	- - -
Pay-As-You-Go Capital Financing	200	200	200	200	200
General Reserve	100	100	300	300	300
Real Property Tax Rebate	- - -	250	259	263	267
Wage Increases at the Projected Inflation Rate[1]	(840)	(1,400)	(1,800)	(2,400)	(2,800)

[1] The Mayor maintains that future wage increases will be funded entirely with productivity savings. Wage increases without any offsetting productivity improvements would increase the projected gaps by the amounts shown in the table.

II. Economic Overview

Continued favorable economic news has allowed the City to upgrade its economic forecasts since the November Plan. The Gross Domestic Product (GDP) grew at a rate of 8.2 percent in the third quarter of 2003 as business spending increased sharply after a prolonged investment slump, and preliminary data from the fourth quarter show that GDP grew by 4.0 percent for an annual increase of 3.1 percent in 2003. The job market may also have stabilized, with modest job gains reported in the last few months of 2003. Finally, the stock market has rebounded strongly after the significant losses during the 2000 to 2002 period. These developments set the stage for a better national and local economic outlook.

The City now forecasts that the national economy will grow 4.7 percent in 2004, with business spending expected to grow at a double-digit rate even as consumer spending continues to show strength. The pace of GDP growth will then slow gradually, to 3.8 percent in 2005 and to 2.8 percent by 2008. According to the City's forecast, national employment gains will remain modest in early 2004 but then accelerate over the rest of the year, averaging 1.6 percent in 2004 and 2.4 percent in 2005, then slowing to 1 percent by 2008. Compared to the November Plan, the City is expecting stronger GDP growth through 2005 but then somewhat weaker growth in the subsequent years of the Plan period. Similarly, compared to the prior forecast the current outlook for national employment is somewhat better in the near term and somewhat weaker in the long term.

As the national economy recovers, the economic outlook for the City is also improving. Although the City expects that recovery in the local employment market will not lag behind the national recovery as much as it did after the last recession, overall job growth is projected to be modest. Total employment growth is projected to resume at 1.1 percent in 2004 and peak at 1.4 percent in 2005, then return to an average rate of about 1 percent from 2006 to 2008. Job growth is resuming in export-oriented sectors (those that serve markets beyond the City), such as securities, information, and business and professional services, and recent gains in health and educational services continue. With a resumption of employment growth, wages are expected to grow modestly again after two years of decline. Inflation is forecast to remain subdued, with local prices rising at an average annual rate of 2.2 percent between calendar years 2003 and 2008, but local inflation will remain somewhat higher than the national average (by about 0.4 percentage points annually).

Improving conditions on Wall Street are another major factor in the recovery of the City's economy. Although the securities industry is not a large employer (representing only about 5 percent of jobs in the City), it generates significant income for the local economy—the industry accounted for over 42 percent of the total increase in real (i.e., inflation-adjusted) wages paid in the City during the 1992 through 2000 expansion. With the Standard & Poor's index rising by 26 percent in 2003 and industry profits rebounding, year-end bonuses for 2003 increased after two years of decline, providing a significant lift to local income and tax revenues. The City projects that securities industry profits for 2003 will reach $15 billion (more than double the $7 billion that was earned in 2002), but will then decline to $12.3 billion in 2004. By comparison, the Securities Industry Association forecasts that profits will continue to rise in 2004, reaching almost $17 billion. The City expects Wall Street profits to resume growth in 2005 with a gain of about $500 million, and then increase by about $1 billion annually thereafter. The recent announcement of JP Morgan Chase's acquisition of Bank One and the potential sale of AT&T Wireless, coupled with the increased willingness of businesses to invest in expansions, may be signs that Wall Street's highly profitable mergers and acquisition business is reviving.

The City's forecasts for the national economy are virtually consistent with the January 2004 forecasts from Global Insight and the Blue Chip Economic Consensus. In the near term (2004 and 2005), the City expects GDP growth that is marginally higher than the growth Blue Chip expects. In 2005, Blue Chip anticipates slightly higher inflation (by up to 0.5 percentage points). Although Blue Chip and Global Insight expect the Federal Reserve to begin raising short-term interest rates in the first half of 2004 in contrast to the City's expectation that the increase will occur in the second half of the year, both also have slightly lower ten-year treasury note interest rate forecasts for 2005. Beyond 2005, forecasts from Global Insight show somewhat higher job growth but lower inflation and unemployment than the City's forecasts.

In assessing the risks to its economic forecast, the City considers but then dismisses the possible effects of the rising federal budget deficit on interest rates and future economic growth, preferring instead to raise the possibility of a shock arising out of geopolitical uncertainties. While current data support the improving prospects for the national and local economies, the rising federal budget deficit is a major challenge to growth, as higher long-term interest rates could not only divert resources necessary for investment and economic growth, but also could strike at the profitability of Wall Street, a major factor in the City's fiscal and economic health.

III. Fiscal Year 2004

The January Plan assumes that FY 2004 will end with a surplus of nearly $1.4 billion, and that half of these resources will be used to balance the FY 2005 budget and the other half will be used to narrow the gap projected for FY 2006 (see Table 3). The projected surplus is expected to result from $1 billion in additional revenues, owing largely to higher-than-projected revenues from increased Wall Street activity, real property transactions, unneeded reserves, and agency actions.

Table 3
Financial Plan Reconciliation
Cumulative Changes since the June 2003 Plan

(in millions)

	Better/(Worse)			
	FY 2004	**FY 2005**	**FY 2006**	**FY 2007**
Surplus/(Gaps) per June 2003 Plan	**$ - - -**	**$ (2,014)**	**$ (3,238)**	**$ (3,285)**
Revenues				
Tax Revenues	765	526	507	585
MBBA Proceeds for Education	197	- - -	- - -	- - -
Reimbursement for Stock Exchange Costs	71	- - -	- - -	- - -
Delay in Airport Lease Payment	(200)	200	- - -	- - -
Other Non-Tax Revenue	222	249	136	152
Subtotal	**1,055**	**975**	**643**	**737**
Expenditures				
Medicaid	(248)	(163)	(225)	(418)
Public Assistance	(59)	(69)	(69)	(69)
Other Health and Social Services	(47)	(47)	(46)	(47)
Employee and Retiree Health Insurance	25	(34)	(33)	(33)
Uniformed Agency Overtime	(118)	(23)	(23)	(23)
Private Bus Subsidy	(75)	- - -	- - -	- - -
Additional FY 2003 Surplus Roll	110	- - -	- - -	- - -
Debt Service	135	127	40	17
Pension Contributions	75	90	110	139
Prior Year's Expenses	300	- - -	- - -	- - -
General Reserve	200	200	- - -	- - -
Other Agency Expenses	(190)	(311)	(308)	(324)
Subtotal	**108**	**(230)**	**(554)**	**(758)**
Agency Actions	**327**	**- - -**	**- - -**	**- - -**
Net Change During FY 2004	**1,490**	**745**	**89**	**(21)**
Pay-As-You-Go Capital Financing	(100)	- - -	- - -	- - -
Budget Stabilization Account	(1,390)	695	695	- - -
Surplus/(Gaps) per January Plan	**$ - - -**	**$ (574)**	**$ (2,454)**	**$ (3,306)**

Sources: NYC Office of Management and Budget; OSDC analysis

A. Revenues

The improvement in the national and local economies—and the turnaround on Wall Street—are contributing to the upward revisions to the City's revenue forecasts. Tax collections during the first half of the fiscal year are stronger than expected, and the City has raised its forecast of FY 2004 tax revenues by $765 million compared to the forecast in the June Plan. Business tax collections in the first half of FY 2004 have risen 28.2 percent compared to the same period last year as Wall Street profits have rebounded and business conditions in the City improved. As a result, the forecast for these taxes has been raised by over $300 million since June. The surge in mortgage refinancing and the continued strength in residential and commercial property sales have fueled a nearly 10 percent increase in collections of the real estate–related taxes during the first half of FY 2004, and the forecast for these taxes has been raised by $281 million since June.

Although the City has raised its tax forecasts for the out-years by an average of $539 million annually since June, the introduction of the tentative property tax roll for FY 2005 accounts for an average annual increase of almost $243 million, or about 45 percent of the forecast change. Thus, the City continues to anticipate that little of the additional nonproperty tax revenues will recur in subsequent years because Wall Street profits are projected to drop back after the strong rebound in calendar year 2003, and real estate activity—most notably mortgage refinancing—is expected to slow in the face of rising interest rates.

Other revenue changes since June have contributed to a net increase of $290 million in the revenue forecast. The City, with the Governor's assistance, settled its claims for retroactive airport lease payments from the Port Authority of New York and New Jersey. The June Plan anticipated receipt of $200 million in FY 2004 and $583 million in FY 2005, but now receipt of the full amount is anticipated in FY 2005.

The City received $424 million in bond proceeds from the Municipal Bond Bank Agency in FY 2004. The proceeds represent a lump sum payment in lieu of State education aid owed to the City from prior school years. About half of the proceeds were used to remove a receivable from the City's books, and the remaining $197 million was used to fund the City's operating budget. The State provided the City with $62 million for prior year payments in the current fiscal year, and the City assumes that the State will appropriate a similar amount to pay debt service on the bonds over the next 20 years. In another transaction, the Industrial Development Agency issued bonds to reimburse the City for $71 million in costs associated with the initial development of the proposed expansion site of the New York Stock Exchange. The project was cancelled in the wake of the World Trade Center attack.

The largest remaining non-tax revenue change reflects a $122 million Federal Emergency Management Agency (FEMA) grant related to the World Trade Center attack to cover previously incurred expenses such as enhanced security and disability pension costs. The funds were received last summer and the City is recognizing them now in the operating budget.

B. Expenditures

The January Plan assumes that expenditures will be less than estimated in the June Plan by a net total of $108 million in FY 2004, which reflects the drawdown of $500 million in reserves; an increase in the size of the FY 2003 surplus, which was transferred to FY 2004 by prepaying debt service; and lower-than-expected debt service and pension costs, which were offset by higher social service costs, particularly Medicaid, and unplanned agency spending (see Table 3). In subsequent years, new spending needs outpace savings, resulting in a net increase in spending of $230 million in FY 2005, $554 million in FY 2006, and $758 million in FY 2007.

The most significant change was large increases in projected Medicaid spending—$248 million in FY 2004, $163 million in FY 2005, $225 million in FY 2006, and $418 million in FY 2007—due to higher-than-anticipated utilization and higher medical costs, with prescription drugs and managed care expenditures growing most rapidly. Public assistance costs are also expected to be higher because of an increase in caseload, which had declined by 63 percent between fiscal years 1995 and 2003, and because of a State-approved increase in the housing portion of the monthly welfare grant.

In addition, overtime costs in the uniformed agencies are projected to be higher by $118 million in FY 2004, and all other agency costs are projected to exceed the June Plan estimates by $190 million in FY 2004 and by more than $300 million in subsequent years. While the June Plan assumed that the Metropolitan Transportation Authority would take on the financial and operating responsibilities of the seven private bus companies currently subsidized by the City, the City and the MTA have yet to reach any agreement and the January Plan rescinds all of the savings anticipated for FY 2004. However, the Plan still anticipates annual savings of about $150 million beginning in FY 2005, but in the absence of an agreement with the MTA those savings are at risk.

These increases have been partially offset by lower debt service costs, which reflect lower interest rate and seasonal borrowing needs, and an increase in the FY 2003 surplus transfer. In addition, the City has drawn down the general reserve by $200 million in each of fiscal years 2004 and 2005, and anticipates savings of $300 million in FY 2004 from overestimating prior years' expenses. Although the size of the FY 2005 general reserve just meets the statutory minimum requirement, the City could draw upon $695 million deposited in the FY 2006 budget stabilization account if needed.

C. Municipal Assistance Corporation Bond Refinancing

The January Plan assumes annual savings of about $500 million during fiscal years 2004 through 2008 from refinancing Municipal Assistance Corporation (MAC) bonds that date back to the 1970s. In May 2003 the State Legislature passed legislation over the Governor's veto that would provide an annual $170 million payment to New York City through the Local Government Assistance Corporation (LGAC), with the understanding that these resources would be assigned by the City to a local development corporation that would refinance outstanding MAC bonds. While this transaction would benefit the City budget by $2.5 billion over the five-year period, the cost to the State would total $5.1 billion if the bonds were to be amortized over 30 years as contemplated.

On August 13, 2003, the LGAC[2] filed a lawsuit challenging the constitutionality of the legislation and seeking to prevent the refinancing. The State Supreme Court granted the City's motion for summary judgment, but the plaintiffs appealed to the State Appellate Division, which had previously issued a preliminary injunction preventing the new local development corporation from issuing bonds pending appeal. Oral argument on the appeal took place on November 18, 2003, and a decision is pending. However, the losing party might appeal to the Court of Appeals, and even a favorable decision for the City could come too late to complete the transaction in the current fiscal year as planned.

In an effort to resolve this dispute amicably, the Governor has proposed that MAC refinance its own outstanding debt over a 13-year period and issue bonds to reimburse the City for any sales tax withheld during fiscal years 2004 and 2005. (While MAC would be extended for ten years to 2018, the Financial Control Board would still terminate on July 1, 2008.) While the shorter amortization period would increase the annual cost of the refinancing by $80 million, to a total of $250 million, the overall cost to the State would be reduced by $2 billion. In addition, the Governor would replace the proceeds from the Local Government Assistance Corporation, which is at the center of the litigation between the State and City, with an equal amount of existing State sales tax on parking, catering, restaurant services, and hotel occupancy. To fund the additional cost to the City of the Governor's alternative refinancing proposal, the Governor has proposed an increase in the number of "red-light cameras" in the City from 50 to 150, which would generate an estimated $35 million annually, and two initiatives that would reduce the City's borrowing costs. The State Division of the Budget values these two initiatives at $45 million but the City believes they would generate only $18 million annually. While the Governor's proposal is an improvement over the current refinancing initiative, both initiatives are fiscally imprudent because they are costly, entail borrowing for operating budget purposes, and stretch out fiscal crisis debt that is due in less than five years.

[2] The State Comptroller is a director of the Local Government Assistance Corporation.

IV. Balancing the FY 2005 Budget

The projected surplus of $1.4 billion for FY 2004 will be used to narrow the gaps in FY 2005 and FY 2006. To close the remaining gap in FY 2005, the City is relying on a combination of City, State, and federal actions. The size of the City's gap-closing program is sufficient to balance the FY 2005 budget, fund a property tax rebate, and pay a portion of the Department of Education's capital projects on a pay-as-you-go basis (Table 4). The gap-closing program, however, relies heavily on federal and State actions that may not materialize in the amount or form anticipated by the City.

Table 4
FY 2005 Gap-Closing Program
(in millions)

	Better/(Worse)		
	FY 2005	**FY 2006**	**FY 2007**
Budget Gaps per January Plan	**$ (574)**	**$ (2,454)**	**$ (3,306)**
Agency Actions	324	195	194
State Actions	400	400	400
Federal Actions	300	300	300
Property Tax Rebate	(250)	(259)	(263)
Pay-As-You-Go for Education	(200)	(200)	(200)
Total	**574**	**436**	**431**
Remaining Gaps to be Closed	**$ - - -**	**$ (2,018)**	**$ (2,875)**

Sources: NYC Office of Management and Budget; OSDC analysis

A. Agency Actions

The January Plan includes agency actions valued at $324 million in FY 2005, but the value of these actions declines in fiscal years 2006 and 2007 to less than $200 million. About half of the savings anticipated from expense reductions would come from spending reestimates and from actions that would shift costs to other levels of government. The Department of Education is expected to contribute $55 million, including $34 million annually from reducing the number of teachers taking sabbaticals. The union representing the teachers, however, has filed a grievance against this proposal. The Police Department expects savings of $70 million from higher-than-planned attrition of police officers and from reductions in the number of civilian positions and overtime. The Administration for Children's Services anticipates savings of $24 million in FY 2005, mostly as a result of fewer children in foster care.

In June 2003 the City Council restored $200 million in budget cuts that had been proposed by the Mayor for FY 2004. The January Plan, however, does not include funding to continue these programs in FY 2005. Among the programs that would be cut are libraries ($12 million), homeless services ($8 million), services to the elderly ($11 million), day care slots ($9 million), and the Prospect Park and Queens zoos ($5 million). Since these cuts were restored last year by the City Council, funding is likely to be restored again for FY 2005.

B. State Actions

The January Plan assumes that New York State will provide the City with $400 million of annual assistance to help balance the FY 2005 budget and to narrow the out-year budget gaps. The Mayor has presented the State with a menu of actions to choose from that, in total, would benefit the City's budget by $937 million. The largest of these items include Medicaid cost-containment ($200 million), a State takeover of the local share of Family Health Plus ($179 million), removal of the State caps on reimbursement for social service administrative costs ($152 million), and a State takeover of the local share of Medicaid long-term care costs ($116 million). In the aggregate, the Governor's proposed executive budget for State fiscal year 2004-2005 would provide the City with $362 million in budget relief—slightly less than anticipated in the Mayor's budget for FY 2005—and another $56 million in additional education aid (see Table 5).

Table 5
Impact of the Governor's Proposed Budget on FY 2005

(in millions)

	Better/(Worse)
Sales Tax Exemption	$ 152
Medicaid Cost-Containment	141
State Takeover of Medicaid Long-term Care Costs	33
Early Intervention Cost-Containment	34
Child Welfare and Public Assistance	(49)
Other	51
Subtotal Gap-Closing Aid	**362**
Education Aid [3]	56
Total	**$ 418**

Sources: NYS Division of the Budget; OSDC analysis

[3] The Governor also proposes to eliminate $62 million in education aid that was intended to pay off claims for prior years' State education aid or to fund debt service on bonds that were issued by the Municipal Bond Bank to reimburse the City for past education aid claims. Since there is no debt service on these bonds until FY 2006 and there are no outstanding claims, the Governor maintains that this cut would have no adverse impact. The City maintains that this represents an additional cut because it was permitted by the State to use these resources during fiscal years 2003 and 2004 to fund on-going educational services.

The Governor’s proposed budget includes the following items that would affect the City’s budget.

- **Sales Tax Exemption:** The Governor proposes that the State Legislature permanently repeal the sales tax exemption on individual clothing and footwear items that cost less than $110. The exemption, which originally became effective on March 1, 2000, was temporarily repealed for a one-year period beginning on June 1, 2003 to help both the State and the City close large projected budget gaps. Although the January Plan assumes that the exemption will be reinstated as scheduled, the Governor has proposed that the State permanently repeal the sales tax exemption, although he would designate four one-week “holidays” during the year when individual clothing items that cost less than $500 would not be subject to sales tax.

- **Medicaid Cost-Containment:** The Governor’s Medicaid cost-containment initiatives are estimated to save the City a net of $141 million in FY 2005. The Governor proposes to reduce prescription drug costs by $90 million by prohibiting certain drugs when lower cost alternatives are available, lowering pharmacy reimbursement rates, and by increasing co-payments. An additional $34 million in savings would come from changes in Family Health Plus and Medicaid Managed Care such as imposing asset tests, waiting periods, and new and increased co-payments, and eliminating dental and vision benefits.

  In addition, the Governor proposes to eliminate services for adults in the fee-for-service Medicaid that are not mandated by the federal government. These services include care provided in non-hospital settings by private duty nurses, audiologists, dentists, podiatrists, and psychologists. Savings to the City from this initiative would be $25 million. The Governor also would seek Medicare Part A reimbursement instead of Medicaid reimbursement for hospital-based services provided to seniors who are eligible for both Medicare and Medicaid, which would save the City $19 million. To achieve savings in long-term care, the Governor proposes to make it more difficult for seniors with assets to “spend down” or transfer their assets to qualify for Medicaid long-term care services and to require spouses to contribute toward the cost of such services, which would save the City $7 million.

  Some of the Governor’s other proposals would increase the City’s costs. For example, while the Governor’s proposal to increase the reimbursement rate for graduate medical education would benefit hospitals, it would increase the City’s costs by $25 million. The Governor also plans to reduce State assistance to the home care program by $11 million, which would shift the financial burden to the City. In addition, City officials have estimated that the Governor’s proposal to reinstate assessments on hospital revenues would increase costs at the Health and Hospitals Corporation by $30 million annually, which would further exacerbate the Corporation's already difficult financial situation. (See report 11-2004, "Review of the Four-Year Financial Plan for the City of New York," for a discussion of HHC.)

- **State Takeover of Medicaid Long-Term Care Costs:** The Governor has proposed that the State assume the local share of long-term care Medicaid costs over a ten-year period, saving the City $33 million in FY 2005 and $1.2 billion by the tenth year. The takeover, however, is contingent on the State Legislature's approval of the Governor's Medicaid cost-containment proposals.
- **Early Intervention Cost-Containment:** Early Intervention is a State program that serves developmentally delayed or disabled infants and toddlers and is funded through Medicaid, private insurance, and other sources. The Governor proposes giving local governments the ability to review services for children who require intensive care (defined as more than five services per week) and to negotiate lower provider reimbursement rates. Also, the Governor would charge co-payments to families who earn more than 250 percent of the federal poverty level; charge a provider registration fee; cap reimbursement for certain services; and implement changes to increase funding of these services by private insurance plans. In total, these changes could save New York City $34 million.
- **Child Welfare and Public Assistance:** In recent years as the public assistance caseload declined, the State used federal welfare block grant funding to provide ancillary services such as child care, training, foster care, services for youth in the juvenile court system, and other services. Use of federal welfare funds for these services, many of which are mandated, provided budget relief to local governments. The Governor now proposes to cut federal welfare funding for youth services, foster care, and summer employment for youth, which would increase costs to the City by $62 million. The Governor has also proposed changes in welfare eligibility rules and benefit levels, which could save the City nearly $14 million in the short term but could increase costs in other social services. For example, the Governor would reduce by 10 percent the non-shelter component of the Safety Net Assistance grant for families who are on welfare for longer than five years, and for single adults and childless couples on welfare longer than one year; and withhold a family's entire cash grant if the head of household does not meet work requirements. In total, proposed changes in child welfare and public assistance would cost the City $49 million.
- **Education Aid:** The Court of Appeals ruled last year that the State formula for allocating education aid was unconstitutional and gave the State until

July 30, 2004, to determine the cost of providing a sound basic education in New York City and to implement appropriate reforms and a system of accountability. The Governor appointed a commission to recommend reforms by March 1, 2004, and the Campaign for Fiscal Equity (CFE), the plaintiffs in the lawsuit, will present a reform proposal and cost estimates to the State Legislature in April 2004. A preliminary CFE report released this month estimates that the State would have to increase education aid by $7 billion in the 2004-2005 school year, including $4 billion for New York City, to fulfill its constitutional mandate. CFE attorneys have indicated that a three-year implementation schedule might be acceptable. The Governor's budget, however, would increase education aid to New York City by a net of only $56 million, including a $100 million matching grant that represents a down payment toward a sound, basic education.

The State grant is intended to target schools with the highest concentrations of low-performing students, and the City would be required to match the State's $100 million contribution in FY 2005. Although City funding (excluding pensions and debt service) to the Department of Education is projected to increase by $104 million next year, the City may be required to reallocate resources from existing educational programs to provide additional services to high-need schools since the January Plan did not anticipate the Governor's proposal. The City also would be required to submit a detailed plan to the State Education Department for its approval on the use of these resources.

The Governor proposes to fund an increase in education aid to high-need school districts with the State's share of the proceeds from existing or planned video terminal sites[4] and eight new video lottery terminal sites. While new video lottery terminal sites would be prohibited in Putnam, Westchester, and Rockland Counties, up to five new video lottery terminal sites could be licensed in New York City but their location would be limited to Brooklyn, Staten Island, and south of 59th Street in Manhattan. The Governor estimates that his proposal would generate $325 million next year and about $2 billion annually by 2009.

- **Other:** Savings from tort reform, the repeal of the Wicks law, changes to binding arbitration laws, reduced funding for substance abuse and mental health services, and other changes would provide net savings of $51 million.

[4] Video lottery terminals opened at Saratoga Raceway in January 2004 and are planned for the Finger Lakes, the Buffalo Raceway in Hamburg, Yonkers Raceway, Batavia Downs, Monticello Raceway, and Aqueduct Raceway.

C. Federal Actions

The January Plan assumes that the federal government will provide the City with an additional $300 million in annual gap-closing assistance beginning in FY 2005. The City has offered the federal government a menu of actions from which it could choose to provide the additional assistance. For example, the City has suggested that the federal government make permanent last year's increase in the federal Medicaid matching percentage, which rose from 50 percent to 53 percent. This initiative reduced the City's costs by $232 million in FY 2004, and if continued would save the City $242 million in FY 2005. The City also suggested that the federal government increase funding for the State Criminal Alien Assistance (SCAAP) program ($87 million) and restore federal Medicaid funding for legal immigrants ($34 million). The President's budget, which was released on February 2, 2004, does not make permanent or extend the increase in the federal Medicaid matching percentage; does not restore Medicaid funding for legal immigrants; and would eliminate funding to the SCAAP program, which would cost the City up to $15 million in FY 2005. While it is still early in the federal budget process, the prospects for additional federal gap-closing assistance are weak given the President's proposed budget and the size of the projected federal budget deficits.

The City has also identified two other federal initiatives, which together would provide the City with $800 million. These resources would be used not to help balance the budget but to increase existing services. The first initiative would allocate an additional $400 million in homeland security grants to New York City. The City estimates that it will receive only $95 million in homeland security funding in federal FY 2004, which is less than the City would have received on a strictly per capita basis. The Mayor believes, and the State Comptroller agrees, that the allocation of these resources should be based on the level of threat faced by the locality and the collateral damage that an attack would cause. While the President has proposed that homeland security funding for high-risk cities be doubled, the amount of additional resources that the City would receive under this proposal is not yet known because the allocation formula has not been made public. The City has also requested that the federal government increase education aid by $400 million so that it can better meet the requirements under the No Child Left Behind Act, but it appears unlikely that these resources will be made available.

In previous federal budgets, the President proposed to fund low-income housing subsidies with a block grant and to exclude credit for caseload decline in the welfare work participation rate formula. The President's current budget proposal would require welfare recipients to work 40 hours per week, instead of 30 hours, but would not fund the additional need for child care. Given the decline in federal welfare funds for support services, the President's proposal could result in fewer child care openings or reductions in other support services that families rely on to help them find and retain employment.

D. Real Property Tax Rebate

The Mayor has proposed an annual $400 rebate of real property taxes to qualified home, cooperative, and condominium owners beginning in FY 2005, at a cost to the City of $250 million in the first year and rising to $267 million by FY 2008. To qualify, the property must be the owner's primary residence, so renters, absentee landlords, and commercial properties would not receive a rebate. The rebate is a fixed amount equivalent to the annualized average tax increase for one-, two-, and three-family homes in FY 2004. Because the rebate does not vary by location, size, or type of home, it provides a proportionally greater benefit to homes of lower value, which are generally in the outer boroughs. Taxpayers would automatically receive a rebate if they are currently enrolled in the New York State School Tax Relief (STAR) program. If not, they would have to apply for the rebate. The City's cost estimate assumes that less than 60 percent of eligible owners will apply for a rebate, which is only slightly higher than the STAR participation rate. The Mayor's proposal will need the approval of the Governor, State Legislature, and the City Council. The City Council has the authority to set local property tax rates, but all other changes to the property tax law—such as the creation of a rebate—require State approval. The City Council is currently considering alternatives to the Mayor's program, including a general reduction in the property tax rate. We note that the benefit of the $400 rebate would be reduced because real property taxes are projected to increase next year by about $120 for the average single family home as a result of rising property values.

E. Pay-As-You-Go Capital Financing for Education

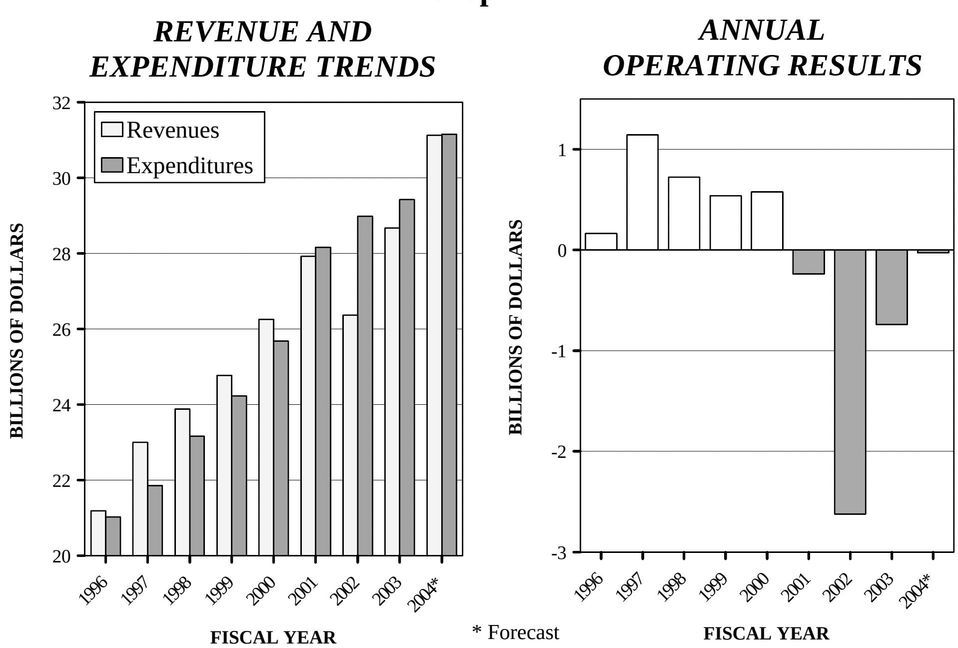
In November 2003, the Department of Education proposed a five-year $13.1 billion capital plan for fiscal years 2005 through 2009, which would be funded equally between the State and the City. The Governor's proposed budget, however, did not include these resources. The City plans to meet its funding obligation by issuing $5.5 billion in bonds and using $1 billion in pay-as-you-go financing. It may be more beneficial, however, to utilize pay-as-you-go funding for other capital needs that do not qualify for tax-exempt financing, because the interest costs on tax-exempt bonds are lower than the interest costs on taxable bonds.

The Department of Education's capital program is divided into three major components. The department allocates $4.6 billion to fund its School Improvement and Restructuring Allocation program, which targets 671 struggling schools and calls for the creation of 50 new charter schools. The plan allocates $4 billion for the creation of new classrooms, including the construction of 90 new school buildings. Finally, the plan includes $4.5 billion for renovations of existing structures to help provide a safe learning environment.

V. Revenue and Expenditure Trends

Between fiscal years 1996 and 2000, City-funded spending grew by 22 percent, an annual average growth rate of 5.1 percent—more than twice the local inflation rate.[5] Under normal circumstances, the City would have been unable to support such a rapid rate of growth, but revenues fueled by the Wall Street boom grew even faster (see Graph 1). While expenditures continued their rapid rate of growth in FY 2001—increasing by 9.7 percent—revenues grew more slowly, by only 6.4 percent. Consequently, expenditures exceeded revenues by more than $200 million in FY 2001—a clear sign of fiscal stress, which was masked by the City's practice of transferring the prior year's surplus to the following year.

Graph 1



Sources: NYC Office of Management and Budget; NYC Comptroller's Office; OSDC analysis

Ignoring this warning, the City called for spending to increase by 5.7 percent in the adopted budget for FY 2002. The budgetary impacts of the economic slowdown and the attack on the World Trade Center, however, resulted in a decline in revenues—the first such reduction since FY 1995 and the largest in more than 20 years. The City balanced the FY 2002 budget, but only after taking into account surplus transfers from prior years and $361 million in bond proceeds from the Transitional Finance Authority.

[5] City-funded expenditures have been adjusted for the City's practice, which can distort expenditure patterns, of transferring the surplus from one year to the next by prepaying a portion of the following year's expenses.

In the absence of these resources, the City would have incurred a deficit of $2.6 billion from current-year operations (see Graph 1).[6]

The City was on course in November 2002 to incur an operating deficit of $3.5 billion in FY 2003 as a result of lower revenue forecasts, rising pension costs, and other factors. At that time the City enacted a mid-year property tax increase and took other actions to generate recurring benefits. These actions reduced the FY 2003 operating deficit to $759 million, which was more than offset by $1.5 billion in bond proceeds (i.e., deficit financing) from the Transitional Finance Authority to cover revenue losses related to the attack on the World Trade Center. During FY 2004 the City made additional progress toward recurring budget balance, and the current-year operating deficit is projected to decline to $27 million. The improvement reflects the combination of City and State actions taken last year, which raised taxes and reduced planned spending, as well as assistance from the federal government, mostly in the form of Medicaid relief in FY 2004. In addition, the gradual improvement in the City's economy is beginning to be reflected in tax revenue collections. Job losses have diminished, the housing market has remained strong, and Wall Street is showing significant improvement.

Although the City made considerable progress toward recurring budget balance during FY 2004,[7] it also projects out-year budget gaps that range from $2 billion to $2.9 billion. The out-year gap estimates reflect the scheduled phaseout of the tax increases authorized by the State last year and the rapid growth in nondiscretionary spending. Pension contributions are projected to grow at an average annual rate of 15.1 percent during the Plan period, which reflects pension fund investment shortfall of the past three years. Debt service costs, despite deep cuts to the capital program, are projected to grow at an annual rate of 7 percent, and health insurance costs for both municipal employees and the indigent (i.e., Medicaid) are projected to grow at an annual rate of 7.4 percent.

A. Revenue Forecasts

The growth rate in City fund revenues,[8] after implementation of the City's gap-closing program, is projected to slow to 2.3 percent in FY 2005 compared with an expected gain of 3.3 percent in FY 2004 (see Graph 2). Much of the growth in FY 2004 can be attributed to actions taken by the City, particularly tax rate increases, to provide

[6] Current-year operations measure revenues and expenditures that were generated in the current fiscal year, and exclude the benefits of prior years' surpluses and deficit financing.

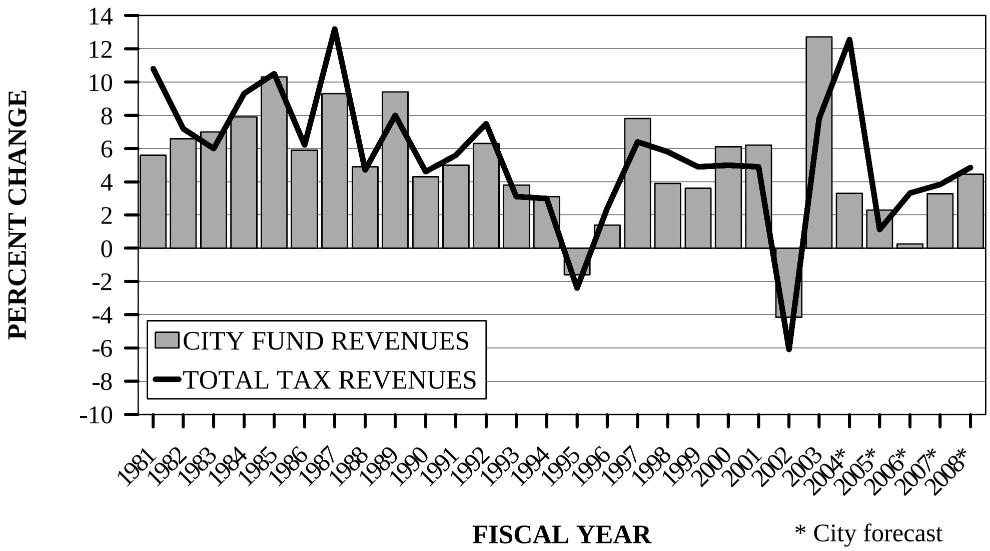
[7] While the FY 2004 budget includes about $1.5 billion in nonrecurring resources, this represents a significant reduction from the $3.9 billion included in FY 2002 and the $3.3 billion included in FY 2003.

[8] Our estimates of City fund revenues include the portion of personal income tax revenues dedicated to pay debt service on bonds issued by the Transitional Finance Authority, and tobacco settlement revenues dedicated to pay debt service on tobacco bonds.

revenues to offset the loss of large one-time resources used in FY 2003. Increases in the real property tax rates alone provided the City with $1.8 billion of revenues in FY 2004, and revenues from increases in the personal income and sales taxes added another $1 billion to City funds. More importantly, however, an improving economy both nationally and in the City is lifting growth in tax revenues, which are now forecast to be about $765 million higher in FY 2004 and more than $500 million higher in FY 2005 compared with forecasts made in June 2003. With revenues growing, the Mayor has proposed scaling back the real property tax increase, at an annual cost of about $250 million, beginning in FY 2005.

Graph 2

ANNUAL CHANGE IN CITY FUND REVENUES



Note: Assumes implementation of the City's gap-closing program.
Sources: NYC Comptroller's Office; NYC Office of Management and Budget; OSDC analysis

During the later years of the Plan period, City fund revenues are expected to increase by 0.3 percent in FY 2006, 3.3 percent in FY 2007, and 4.5 percent in FY 2008. Revenue growth in the out-years is held down by the phaseout of the personal income and sales tax increases and the loss of the lump sum airport rent settlement to be received in FY 2005. Nonproperty taxes are forecast to increase during the Plan period at an average annual rate of 3 percent and would reach $17.5 billion by FY 2008 (see Table 6).

1. Tax Revenues

Real property tax revenues are expected to increase by 14 percent in FY 2004 largely as a result of the increase in the tax rate, as assessed values grew by only 5.5 percent. The tentative tax roll for FY 2005 shows growth in assessed values of

4.9 percent, which would yield an increase in real property tax revenues of 4.2 percent. The tax roll showed strong growth in assessed values for most City properties, with increases of 4.1 percent for one-, two-, and three-family homes, 6.6 percent for all other residential properties, and 6.2 percent for commercial properties. Most of the growth in assessed values among the other residential properties can be traced to rental buildings (7.2 percent) and condominiums (10.3 percent), whereas cooperative apartments increased by only 3.8 percent. Assessments for office properties increased 5.9 percent, the fourth consecutive year with growth at or near 6 percent after declining for much of the 1990s. Assessed values for stores—which, among commercial properties, are second only to assessed values for offices—have continued the strong growth seen in recent years, increasing by 6.9 percent.

Beyond FY 2005, anticipated growth in assessed values is expected to lead to increases in real property tax revenues of 4 percent in FY 2006, 4.2 percent in FY 2007, and 4.3 percent in FY 2008. The City's baseline property tax forecast assumes the Citywide average tax rate will remain at the FY 2004 level. If the Mayor's proposed property tax rebate program is approved (see discussion in Chapter IV, "Balancing the FY 2005 Budget"), then growth in real property tax revenues would fall to 2 percent in FY 2005. The January Plan also assumes that the tax on absentee landlords, originally enacted in June 2003 and valued at $44 million in FY 2004 and slightly higher amounts in subsequent years, will not be collected due to administrative difficulties.

Table 6
City Fund Tax Revenues

(in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Four-Year Growth Rate
Property Tax	$ 11,335	$ 11,809	$ 12,278	$ 12,798	$ 13,350	4.2%
Nonproperty Taxes						
Personal Income Tax	5,293	5,385	5,440	5,492	5,864	2.6%
Sales Tax	3,932	3,907	3,996	4,194	4,416	2.9%
Business Taxes	3,023	3,210	3,433	3,622	3,779	5.7%
Real Estate–Related Taxes	1,500	1,356	1,410	1,493	1,566	1.1%
Other Taxes	1,815	1,786	1,805	1,844	1,890	1.0%
Subtotal	15,563	15,643	16,084	16,645	17,514	3.0%
Total Taxes	**26,898**	**27,452**	**28,363**	**29,443**	**30,864**	**3.5%**
Property Tax Rebate	- - -	(250)	(259)	(263)	(267)	- - -
Total Taxes After Rebate	**$ 26,898**	**$ 27,202**	**$ 28,104**	**$ 29,180**	**$ 30,597**	**3.3%**

Note: Property tax excludes rebate while personal income tax includes portion of such revenues used to pay debt service on bonds issued by the Transitional Finance Authority. Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

Personal income tax revenues are forecast to be $5.3 billion in FY 2004, an increase of 17.9 percent from FY 2003, reflecting the effects of the temporary rate increase and the early signs of an improving economy. This includes improving conditions on Wall Street, where the City projects that profits for calendar year 2003 will reach $15 billion, compared to $7 billion in 2002. The State Comptroller has estimated that the higher profits will produce the first increase in year-end securities industry bonuses in three years—a gain of 25 percent, reaching a total of approximately $11 billion.

Because the FY 2005 forecast includes the first year phaseout of the increase in the personal income tax rate, growth in revenues is expected to slow to 1.7 percent. Also contributing to the slower growth is the small projected decline in Wall Street profits. As the tax rate increase continues to be phased out, personal income tax revenues are expected to increase by 1 percent annually in fiscal years 2006 and 2007, followed by a gain of 6.8 percent in FY 2008 when the phaseout is complete.

In addition to the financial sector, other businesses in the City have experienced rising profits. Collections for the City's business taxes—general corporation tax, unincorporated business tax, and bank corporation tax—are forecast to reach $3 billion in FY 2004, 10.1 percent more than in FY 2003. The rate of growth in these taxes is expected to subside but still remain strong in the later years of the Plan period as the economy continues to expand, rising by 6.2 percent in FY 2005, 7 percent in FY 2006, 5.5 percent in FY 2007, and 4.3 percent in FY 2008.

Real estate–related taxes—commercial rent tax, mortgage recording tax, and real property transfer—have continued to exceed the City's adopted budget expectations. In particular, the effects of mortgage refinancing on the mortgage-recording tax have caused the City to increase its forecast by $193 million and to increase all of the real estate–related taxes by $284 million. Although the market is expected to remain healthy during the later years of the Plan period, mortgage activity is expected to abate as interest rates rise (reducing the opportunities for refinancing) and homes become less affordable because of higher interest rates and prices. This projected slowing activity has caused the City to forecast a decline in these revenues of 9.6 percent in FY 2005. Revenue growth is expected to increase during the remaining years, with gains of 4 percent in FY 2006, 5.9 percent in FY 2007, and 4.9 percent in FY 2008.

Based upon our review, we expect higher tax revenue collections than the Plan currently projects. For FY 2004, tax collections could be higher by $100 million, primarily from the business and real estate–related taxes. While we do not see recurring benefits from the real estate–related taxes after FY 2004, business taxes and personal income taxes may be understated relative to the City's economic assumptions for the recovery in wages and profits. Thus, there is potential for additional revenues of $125 million annually in the later years of the Plan period. Based upon the results of the tentative property tax roll for FY 2005, we believe assessed value growth in the out-years may be understated, which would yield an additional $75 million in property tax revenues in FY 2006, growing to $100 million by FY 2008.

2. Miscellaneous Revenues

Miscellaneous revenues are non-tax revenues less state and federal grants, and include user fees, rental income, fines, City asset sales, and interest income. These revenues are not economically sensitive, as annual changes are dependent upon discreet actions such as changes in fine or fee levels. In FY 2004, miscellaneous revenues are forecast to be almost $3.3 billion—an increase of $123 million from FY 2003—largely as a result of higher fines for parking violations. In FY 2005, miscellaneous revenues are projected to increase by $779 million, primarily reflecting the $783 million lump sum settlement in the new lease agreement between the City and the Port Authority of New York and New Jersey covering rents for the City's two airports. Since much of the FY 2005 increase in airport rental income is nonrecurring (airport rental revenues fall to $96 million in FY 2006), miscellaneous revenues are forecast to decline by $820 million in FY 2006. During the last two years of the Plan period, little change is expected in miscellaneous revenues, with a decrease of $33 million in FY 2007 and an increase of $49 million in FY 2008.

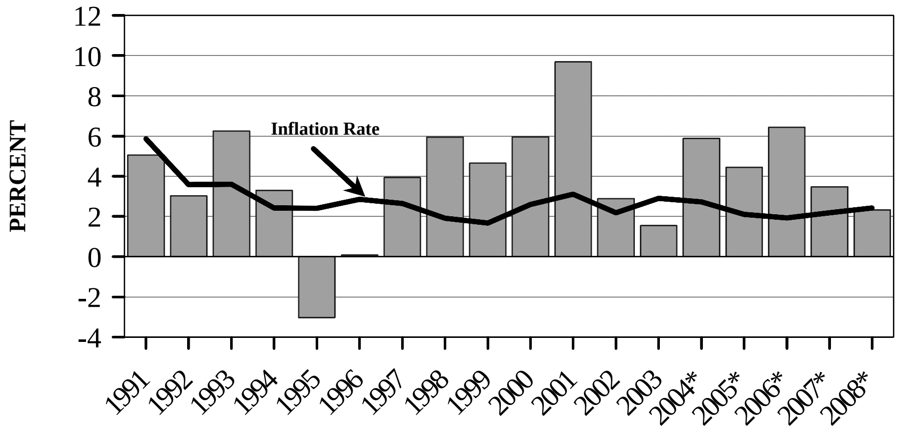
B. Expenditure Forecasts

After increasing far more quickly than the local inflation rate during fiscal years 1997 through 2001, growth in City-funded expenditures during fiscal years 2002 and 2003[9] averaged 2.2 percent, which is slightly lower than the average inflation rate for those years (see Graph 3). City-funded spending, however, is projected to increase by 5.9 percent in FY 2004—more than twice the projected inflation rate—and then by 4.5 percent in FY 2005, 6.4 percent in FY 2006, 3.5 percent in FY 2007, and 2.3 percent in FY 2008. Overall, City-funded expenditures are projected to grow at an annual average rate of 3.7 percent during fiscal years 2004 through 2008, assuming future wage increases are funded with productivity improvements and that anticipated federal and State assistance reduces costs by $700 million annually. For example, the Governor's proposed budget would provide the City with about $400 million in assistance, but more than one third of the assistance would come in the form of additional revenues—not in the form of reduced spending, as assumed in the January Plan.

[9] City-funded expenditures have been adjusted for surplus transfers and include debt service on bonds issued by TSASC and the Transitional Finance Authority.

Graph 3

CHANGE IN CITY-FUNDED EXPENDITURES



* OSDC forecast

Assumes inplementation of the City's gap-closing program.

Sources: NYC Office of Management and Budget; OSDC analysis

The growth in City-funded spending is driven largely by nondiscretionary spending (see Table 7). While salary and wage costs are projected to grow by only $93 million during the Plan period, pension costs are projected to grow by almost $1.8 billion during the period—an average annual growth rate of 15.1 percent—because the City will have to make up for pension fund investment shortfalls during fiscal years 2001 through 2003. Debt service costs[10] are projected to increase by $1.2 billion, an average annual growth rate of 7 percent during the Plan period, despite cuts to the capital budget. Medicaid costs are projected to increase by a total of almost $1.1 billion during the Plan period, which is an average annual growth rate of 6.1 percent. These costs would be reduced if the State enacts Medicaid cost-containment initiatives as proposed by the Governor. In addition, health insurance costs for municipal employees are projected to increase at an average annual rate of 9.7 percent during the Plan period.

[10] Debt service estimates include City general obligation bonds, revenue bonds of the TFA, MAC, and TSASC, and lease payments. The January Plan assumes that MAC bonds will be retired, which will generate annual savings of $500 million beginning in FY 2004.

Table 7
City-Funded Expenditures
(Adjusted for Surplus Transfers)

(in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Four-Year Growth Rate
Salaries and Wages	$ 9,687	$ 9,655	$ 9,802	$ 9,801	$ 9,780	0.2 %
Medicaid	3,940	4,391	4,598	4,795	5,002	6.1 %
Debt Service	3,821	4,341	4,596	4,803	5,005	7.0 %
Pensions	2,384	2,993	3,784	4,161	4,177	15.1 %
Health Insurance	2,130	2,398	2,634	2,872	3,080	9.7 %
Public Assistance	481	538	542	542	542	3.0 %
Pay-As-You-Go Capital	200	200	200	200	200	0.0 %
Other	8,515	8,028	8,483	8,672	8,891	1.1 %
Subtotal	**31,158**	**32,544**	**34,639**	**35,845**	**36,677**	**4.2 %**
Federal and State Savings	- - -	(700)	(700)	(700)	(700)	N/A
Total	**$ 31,158**	**$ 31,844**	**$ 33,939**	**$ 35,145**	**$ 35,977**	**3.7 %**

Note: Totals may not add due to rounding.
Sources: NYC Office of Management and Budget; OSDC analysis

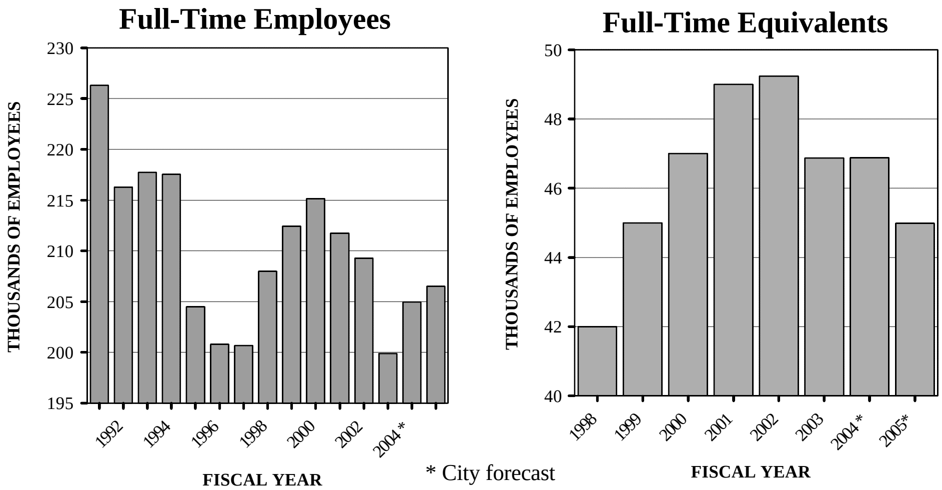
1. Personal Service Costs

City-funded personal service costs—which include wages, salaries, fringe benefits, and pensions—are projected to increase by more than $3 billion during fiscal years 2004 through 2008, which is an average annual increase of 4.5 percent, about twice the projected inflation rate. Although salary and wage costs are projected to increase only slightly during the Plan period, this is based on the assumption that future wage increases will be funded with productivity improvements. Fringe benefits, such as pensions and health insurance, are projected to grow rapidly.

The City-funded workforce declined by 15,000 full-time employees from June 2000 to June 2003, but is now projected to rise by 5,057 employees during FY 2004 and by 1,547 employees during FY 2005[11] (see Graph 4). The projected increase in the number of full-time employees in FY 2004 is due to a number of factors, such as staff increases in the Department of Education and the Department of Social Services. The number of part-time employees declined by 2,363 employees during FY 2003 and basically remained at that level during FY 2004. The January Plan assumes that the number of part-time employees will decline by another 1,902 employees during FY 2005. (See the Appendix for a more detailed discussion of staffing trends.)

[11] During fiscal years 2004 and 2005 approximately 2,000 employees, who have been working under contracts (mostly through temporary agencies) and were not reflected in the City's headcount, will be hired as full-time City employees.

Graph 4
CITY-FUNDED WORKFORCE



Sources: NYC Office of Management and Budget; OSDC analysis

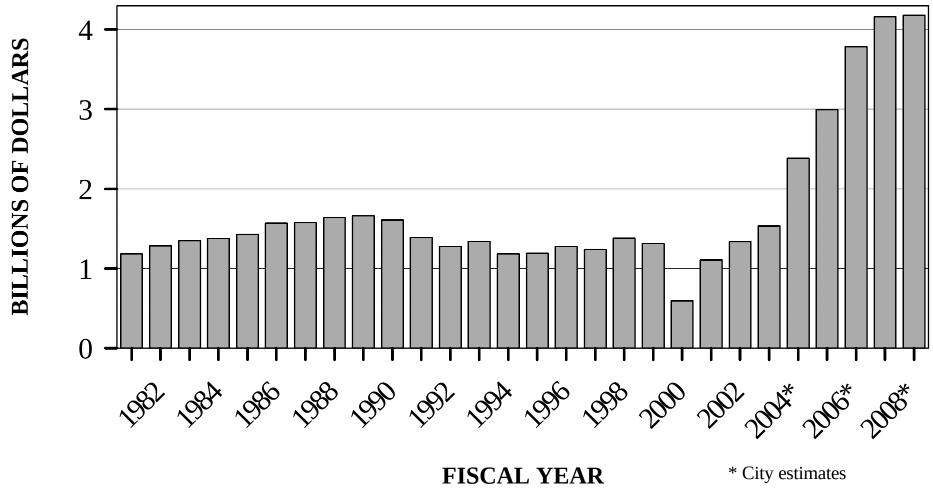
Pension Fund Contributions

Rapidly rising pension contributions present a significant obstacle to long-term budget balance. The City's contribution to the pension funds averaged $1.4 billion during fiscal years 1981 through 1999, but contributions are projected to rise to nearly $2.4 billion in FY 2004 and to reach nearly $4.2 billion by FY 2008, an increase of 75 percent (see Graph 5). The January Plan assumes that pension contributions will increase at an average annual rate of 15.1 percent during the Plan period, which is six times faster than other City-funded expenditures.

Almost 90 percent of the projected increase in pension contributions is attributable to poor investment performance, including the impact of corporate scandals, during fiscal years 2001 through 2003. The pension funds lost more than 8 percent on their investments in each of fiscal years 2001 and 2002, and gained only 3.8 percent in FY 2003 compared with the actuarial assumption of an 8 percent gain. The pension funds, however, are on track to exceed their investment earnings targets in the current fiscal year. We estimate that as of January 30, 2004, the pension funds earned 15.3 percent on their investments—nearly twice the assumed rate of return. If no further gains or losses occur during the balance of the fiscal year, pension contributions could be lower than shown in the January Plan by $30 million in FY 2005, $70 million in FY 2006, $120 million in FY 2007, and $190 million in FY 2008.

Graph 5

CITY-FUNDED PENSION CONTRIBUTIONS



Sources: NYC Office of Management and Budget; OSDC analysis

An actuarial consultant hired by the City has completed a biennial review of the methodologies and assumptions used to calculate pension contributions, as required by law. The consultant did not propose changes in the investment earnings and wage assumptions, but did propose changes in a number of other assumptions, such as overtime, which could increase City pension contributions by approximately $250 million annually. The actuary has not indicated whether he will implement the consultants' recommendations or make other changes in the actuarial assumptions or methods of estimation that would affect pension contributions.

To slow down the growth in pension contributions, the Mayor has proposed that the State create a new pension plan (Tier V) for new City employees, whose benefits would be less generous than existing plans. Under this proposal, new employees would be required to contribute to the pension system throughout active service[12] and to work until a later age before retiring. In addition, new employees would be vested in the pension system after ten years rather than five years and would not be eligible for retiree cost-of-living adjustments. The budgetary savings would steadily increase from about $50 million in FY 2006 to $962 million by FY 2025, for cumulative savings of about $10 billion. The Mayor's proposal requires the approval of the State Legislature and the Governor.

[12] Tier III and Tier IV members are required to contribute 3 percent of their salaries during the first ten years of service.

Collective Bargaining

The Mayor has stated repeatedly that the City will not agree to new labor agreements unless future wage increases are funded entirely with productivity savings. The City has established a collective bargaining reserve of $200 million for FY 2003, recognizing that even labor agreements that provide for productivity improvements may have a net cost in the first year. Without productivity savings, wage increases at the projected inflation rate would increase costs by $840 million in FY 2004, $1.4 billion in FY 2005, $1.8 billion in FY 2006, $2.4 billion in FY 2007, and $2.8 billion in FY 2008.

An encouraging development is the recent agreement between the City and the Municipal Labor Committee (MLC), which represents the City's employees, regarding health insurance benefits. Three years ago, the City and MLC agreed that the assets in the Health Insurance Stabilization Fund would be used to expand drug coverage to include psychotropic, injectable, chemotherapy, and asthma drugs (i.e., the PICA program), but the cost has been higher than expected and threatened to deplete the assets in the health stabilization fund in the near future.[13] In December 2003, the City and the MLC reached an agreement that will reduce the fund's costs by $100 million annually by requiring employees and retirees to pay higher co-payments and deductibles, and by imposing an administrative fee for participation in the City's health benefits program. Under the agreement, the savings will be used to increase contributions to the union-administered welfare funds and to stabilize the PICA program. The agreement is budget-neutral and is consistent with the Mayor's position that the unions self-fund new labor costs.

Reaching a new labor agreement with the United Federation of Teachers (UFT), which represents about 90,000 teachers in the Department of Education (DOE), is complicated further because the department is seeking to eliminate many work rules and has proposed an eight-page contract to replace the current agreement, which is longer than 200 pages. The union leadership, which has also proposed changes in some work rules, has reportedly stated that the department's proposals are in violation of the State's labor law.

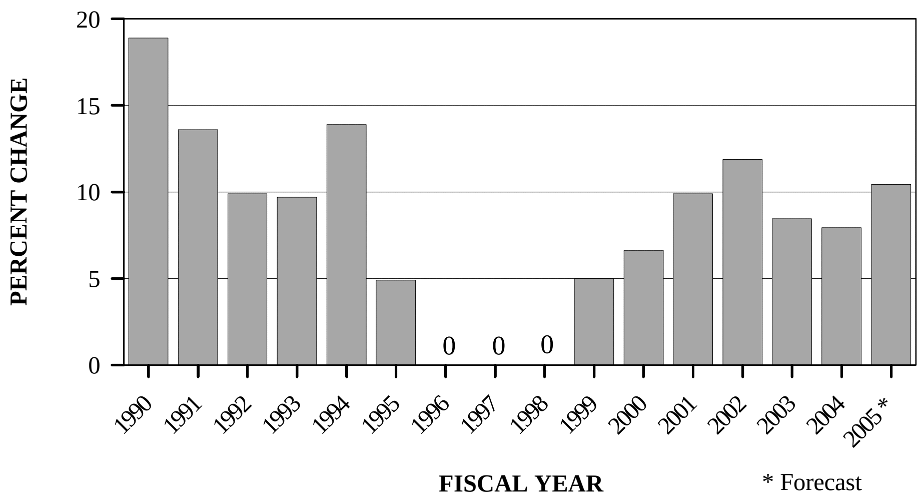
[13] The January 2001 agreement between the City and the Municipal Labor Committee also called for negotiations on restructuring the funding sources for municipal health insurance, with the goal of reducing the City's contribution by $100 million in each of fiscal years 2003 and 2004. The agreement guarantees the savings and states that if the parties are unable to restructure benefits, the committee will provide these savings through another source. Since the parties were unable to restructure benefits, the City drew down $150 million from the Health Insurance Stabilization Fund, leaving the fund with assets of $280 million on December 8, 2003. The City expects that the remaining $50 million it is owed will be drawn down from the fund by the end of the fiscal year.

Health Insurance

City-funded health insurance costs are projected to grow from $2.1 billion in FY 2004 to $2.4 billion in FY 2005, and to nearly $3.1 billion by FY 2008, reflecting rapidly rising health insurance premiums. Premiums grew at a double-digit pace during the early 1990s, but the City then negotiated a three-year freeze in rates for fiscal years 1996 through 1998 as part of a package to help the City balance its budget during a period of fiscal stress. Since then, health insurance premiums have resumed growth at a rapid rate, reflecting national cost trends for medical and hospital care (see Graph 6). The Health Insurance Plan of Greater New York (HIP) increased premiums by 9.9 percent in FY 2001, 11.9 percent in FY 2002, 8.5 percent in FY 2003, and 7.9 percent in FY 2004.[14]

Graph 6

ANNUAL CHANGE IN HEALTH INSURANCE PREMIUMS



Sources: NYC Office of Management and Budget; HIP

The January Plan reflects HIP's intention to increase premiums for active employees and retirees under the age of 65 by 10.4 percent in FY 2005, and assumes that premiums for these employees will increase by 8 percent annually thereafter. Health insurance premiums for Medicare-eligible retirees are projected to increase by 6 percent in FY 2004 and by 14 percent annually thereafter. In addition, Medicare Part B premiums, which the City pays for its retirees and their families, are scheduled to increase by 13.5 percent in 2004.

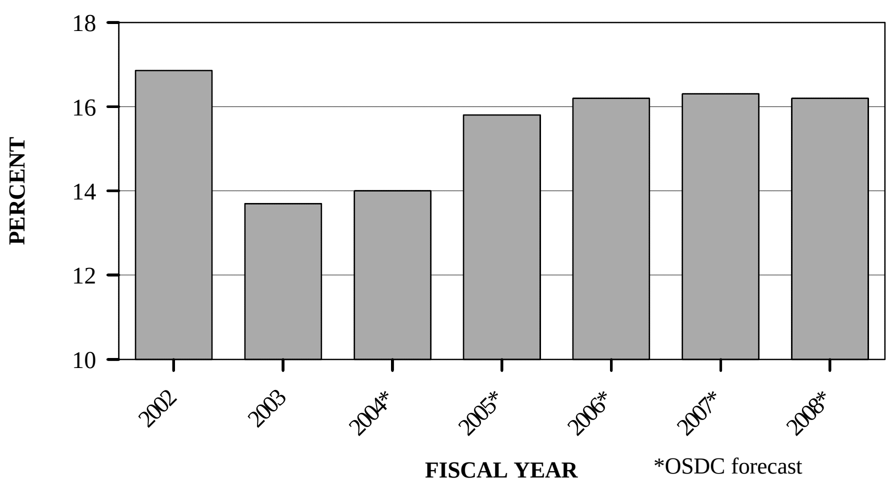
[14] Under agreements between the City and its unions, premiums paid to HIP determine the City's cost for all municipal insurance providers.

2. Debt Service

Debt service costs are projected to reach $3.8 billion in FY 2004, an increase of $511 million, or 15.4 percent, over the FY 2003 level. Debt service costs are projected to reach $5 billion by FY 2008, which is an annual average increase of 7 percent, or more than three times the projected inflation rate. The debt service burden (debt service as a percent of tax revenues and offsetting revenues, including amounts to support TFA and TSASC debt service) declined from 16.8 percent in FY 2002 to about 14 percent during fiscal years 2003 and 2004, but is projected to rise again to about 16.2 percent during the FY 2006 through 2008 period (see Graph 7). The City's future debt service burden would have approached 20 percent by FY 2005 if not for bond refundings, cuts to the capital program, an increase in property and personal income taxes, additional tax revenues due to an improving economy, and the anticipated early retirement of MAC bonds.

Graph 7

NEW YORK CITY DEBT SERVICE BURDEN



Sources: NYC Office of Management and Budget; OSDC analysis

The Transitional Finance Authority (TFA) was created in 1997 as the City was reaching its constitutional debt limit for general obligation bonds. To help the City meet its ongoing capital needs, the State authorized the TFA to issue debt backed by the City's personal income tax. TFA bonds have had the added benefit of coverage that is nearly six times the covenanted maximum annual debt service.[15] Because of this high coverage, TFA bonds sold for as much as 50 basis points lower than GO debt, thereby providing the

[15] Convenanted maximum annual debt service is $1.32 billion annually based on an assumption of $12 billion of Senior Bonds outstanding at a maximum interest rate of 9 percent.

City with borrowing cost savings. In addition, TFA bonds have provided a source of diversification as a financing vehicle, which relieves pressure on GO bonds and also lowers borrowing costs. Current law limits TFA bonding issues to $11.5 billion. As of September 2003, the TFA had reached its legal issuing limit.

Both the Mayor and the Governor have made proposals that would allow the TFA to once again issue debt to fund the City's capital program. The proposals would allow an increase over the existing TFA statutory limit, as long as the amount issued and outstanding above its existing cap, when combined with outstanding GO debt, does not exceed the City's constitutional debt limit.

Bonds issued by TSASC are backed by revenues from the national settlement with tobacco companies. Moody's Investor Service downgraded a major original participating manufacturer, R.J. Reynolds, to below investment grade, which triggered a "trapping event" in TSASC bonds. This event requires TSASC to reserve a portion of the revenues until the total amount trapped equals 25 percent of the outstanding principal, which is expected to total $295 million by FY 2008. Unless the City takes actions to release the trapped funds, it is estimated that tobacco settlement revenues that would otherwise accrue to the City's budget would be reduced by $51 million in FY 2004, $56 million in FY 2005, $59 million in FY 2006, $65 million in FY 2007, and $64 million in FY 2008. The City has stated that it is considering options that would release the trapped funds, including the refunding of TSASC's outstanding bonds. Since recent events have made TSASC bonds more costly, the City no longer intends to fund a portion of its capital program with TSASC bond proceeds.

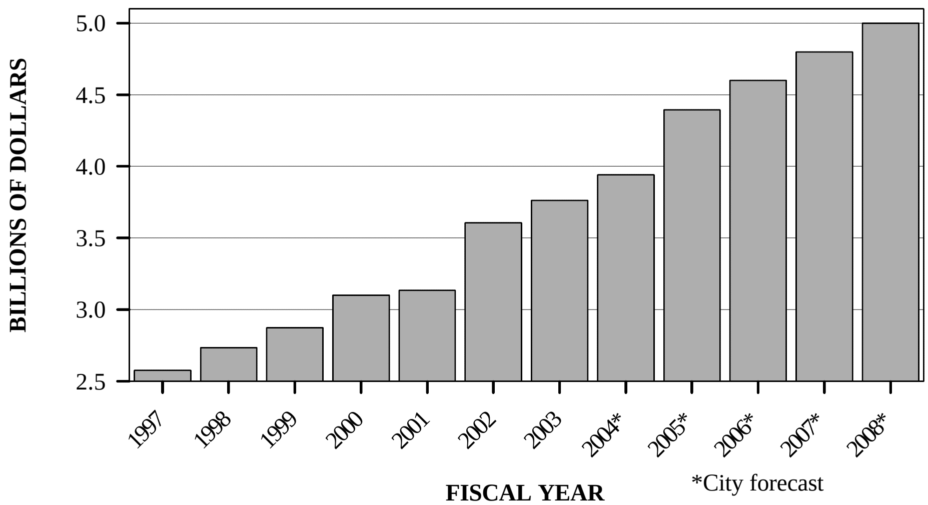
As part of the federal assistance package to New York City after the terrorist attack on the World Trade Center, the federal government authorized the City and the State to refinance for a second time up to $9 billion of outstanding tax-exempt bonds. While the State has used most of its share, the City has $2 billion remaining and is seeking an extension from December 2004 to December 2009. The City estimates that the extension would generate savings of about $20 million in FY 2005.

3. Medical Assistance

In November 2003, financial plan estimates of City-funded Medicaid expenditures were increased, by $248 million in FY 2004, $163 million in FY 2005, $225 million in FY 2006, $418 million in FY 2007, and $625 million in FY 2008. As of the January Plan, City-funded Medicaid expenditures are projected to total $3.9 billion in FY 2004, $4.4 billion in FY 2005, $4.6 billion in FY 2006, $4.8 billion in FY 2007, and $5 billion in FY 2008 (see Graph 8). City-funded Medicaid expenditures are projected to increase by an annual average of 6.1 percent between fiscal years 2005 and 2008. The City's Medicaid expenditures continue to grow faster than City fund revenues, and are projected to consume, on average, 14.7 percent of City fund revenues between fiscal years 2005 and 2008, compared to 12.5 percent between fiscal years 1999 and 2003.

Graph 8

CITY-FUNDED MEDICAID EXPENDITURES



Sources: NYC Office of Management and Budget; OSDC analysis

Hospital inpatient and long-term care are the largest distinct Medicaid service categories tracked by the City, representing about 37 percent of Medicaid costs in FY 2004. Expenditures for prescription drugs, which are not separately categorized, account for 15 percent of Medicaid costs in FY 2004 ($600 million). Expenditures for hospital inpatient care and long-term care are projected to grow slowly, largely as a result of the impact of managed care, but prescription drug costs are projected to increase at an average annual rate of 15 percent during the Plan period (see Table 8).

Table 8
City-Funded Medicaid Costs
(in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Four-Year Growth Rate
Hospital Inpatient	$ 856	$ 865	$ 881	$ 898	$ 907	1.5 %
Long-Term Care	590	605	617	628	641	2.1 %
Hospital Outpatient and Clinics	407	412	418	425	433	1.6 %
Health and Hospitals	747	764	783	783	783	1.2 %
Other	1,340	1,745	1,899	2,061	2,238	13.7 %
Total	**$ 3,940**	**$ 4,391**	**$ 4,598**	**$ 4,795**	**$ 5,002**	**6.1 %**

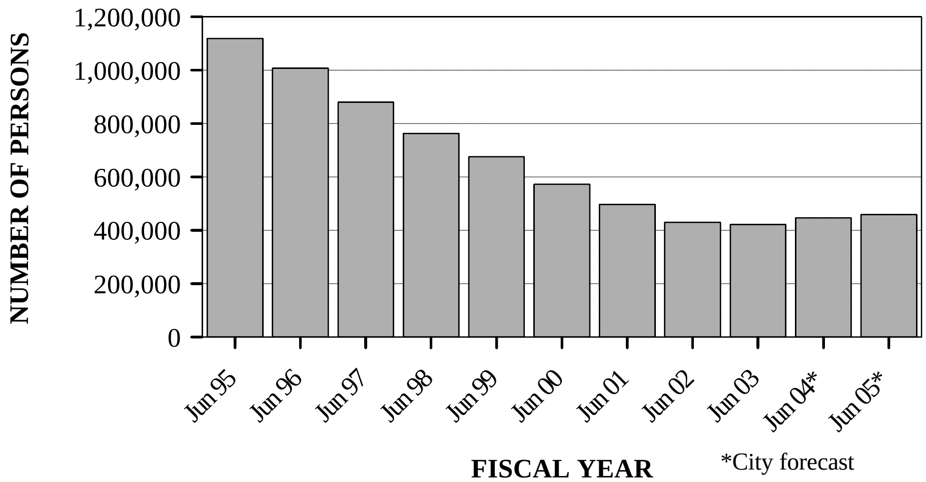
Note: “Other” includes prescription drugs, managed care, dental care, and other services.
Sources: NYC Office of Management and Budget; OSDC analysis

4. Public Assistance

Public assistance is essentially comprised of three programs. The largest is the Family Assistance program, which is administered by the State and assists families for a maximum of five years with federal funds from an annual block grant. The two other programs are components of the State's Safety Net Assistance program. One program primarily serves single adults and the other serves families who exhaust their federal benefits. Benefit levels for all three programs are the same, but the average grant per person can vary based on the needs of recipients. The State and City generally share equally in the cost of the two Safety Net Assistance programs.

Graph 9

PUBLIC ASSISTANCE RECIPIENTS



Sources: NYC Human Resources Administration;
NYC Office of Management and Budget; OSDC analysis

As of December 2003, 431,052 persons were receiving public assistance in New York City. The January Plan assumes that the caseload will increase by 4 percent during FY 2004 and by 3 percent during FY 2005, to 458,902 (see Graph 9). City-funded expenditures on cash assistance are projected to total $481 million in FY 2004, $538 million in FY 2005, and $542 million in each of fiscal years 2006 and 2007. Of the amount budgeted for FY 2004, about $143 million provides monthly benefits to Family Assistance recipients; $198 million is budgeted for adults on Safety Net; and $134 million goes to Safety Net families that have exhausted their federal welfare benefits. The projected increases in caseload and expenditure reflect the impacts of the local economic recession, the federal welfare time limit, higher needs among cases currently receiving public assistance, and the State increase in the housing portion of the monthly cash assistance benefit for families with children. Changes in State and federal welfare policies could also drive up City-funded cash assistance expenditures, but the federal government has not yet enacted any additional reforms.

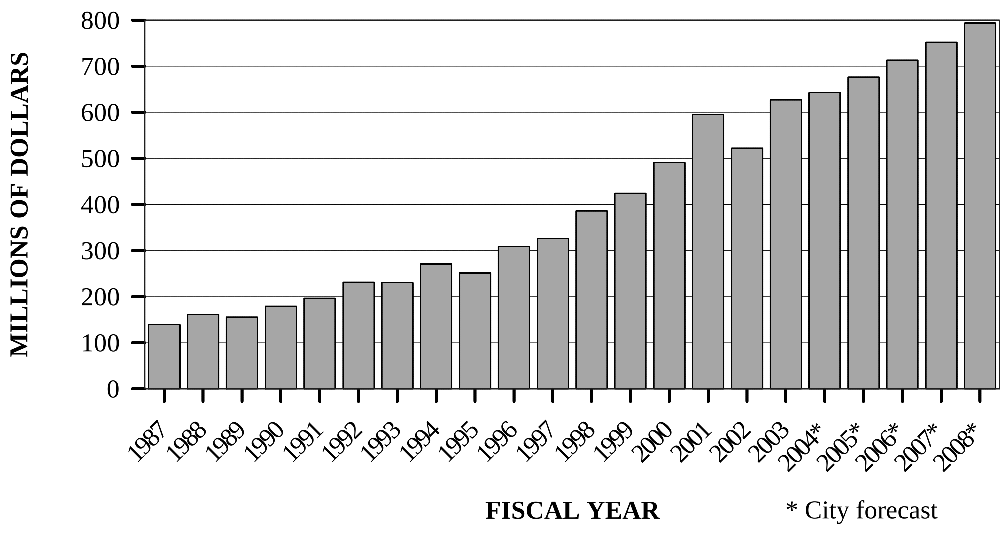
In November 2003, the State increased the shelter allowance portion of the monthly welfare benefit for families who have children and are receiving Family Assistance or Safety Net Assistance. The City added funding to cover the costs of increased welfare benefits, except for 24,000 families whose actual rents are below the maximum level allowed by the State for public assistance recipients. City officials are evaluating the housing status of these families to determine whether they would need the increased benefit. We estimate that annual City-funded public assistance expenditures could rise by as much as $10 million annually if the 24,000 families were to receive an increase in their shelter allowance.

5. Judgments and Claims

The January Plan projects that expenditures for judgments and claims will increase from $643 million in FY 2004 to $794 million by FY 2008 (see Graph 10). The City's estimates, however, do not reflect any potential liability arising from the Staten Island Ferry accident of October 15, 2003, or from the World Trade Center attack on September 11, 2001.

Graph 10

JUDGMENTS AND CLAIMS EXPENDITURES



Sources: NYC Comptroller's Office; NYC Office of Management and Budget

To date, the City has received 190 claims seeking an estimated $3.4 billion for wrongful death, personal injury, and emotional distress in the Staten Island Ferry accident. In December 2003, the City filed a petition in federal court asking that all claims be consolidated, and that its exposure be limited to $14.4 million (the value of the ferry) under the Federal Maritime Act of 1851. A federal judge has imposed a deadline of March 10, 2004, for claimants to file claims before commencing the case.

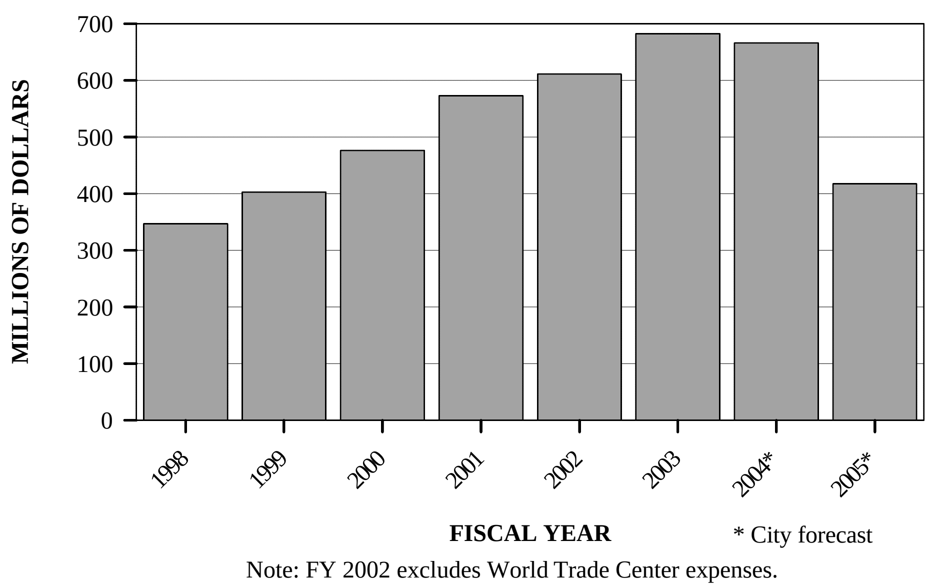
The World Trade Center disaster generated more than 2,000 lawsuits and notices of claim against the City, with an aggregate value of $13 billion. However, about 95 percent of these claimants opted not to sue the City but instead to file with the federal Victim Compensation Fund before the deadline of December 22, 2003. This lowers the City's potential liability to about $2 billion for the remaining 120 claims.

6. Uniformed Agency Overtime

For the past six years, overtime costs (excluding overtime associated with the attack on the World Trade Center) in the uniformed agencies has nearly doubled, from $347 million in FY 1998 to $670 million in FY 2004 (see Graph 11). The rapid and steady rise in costs is due largely to increased security; a reduction in the size of the police force, which has been partly compensated through overtime; and the loss of 343 firefighters during the destruction of the World Trade Center and the retirement of hundreds of firefighters in the aftermath.

Graph 11

UNIFORMED AGENCY OVERTIME



Note: FY 2002 excludes World Trade Center expenses.

Sources: NYC Office of Management and Budget; NYC Financial Information Services Agency

In FY 2003, the Police Department spent a record $376 million on overtime, and the department expects to spend $364 million in FY 2004, an amount that could still be underfunded by $25 million. Although the department is continuing to spend at levels consistent with the last several fiscal years, the January Plan assumes that overtime will decline to an average of $198 million annually beginning in FY 2005, an amount far less than recent experience would indicate. Our analysis indicates that overtime costs could exceed the Plan estimates by $150 million annually beginning in FY 2005.

The Fire Department spent a record $178 million on overtime in FY 2003 to maintain adequate staffing with simultaneous high rates of retirement, sick leave, and line-of-duty injuries related to the World Trade Center tragedy. The January Plan assumes that overtime costs in the Fire Department will total $167 million in FY 2004, but also assumes that overtime will decline to $90 million in FY 2005, well below recent trends in actual overtime spending. While this represents an ambitious reduction in overtime costs, our analysis indicates that it may be achievable if the department can increase its number of firefighters, as planned.

Appendix
City-Funded Staffing Levels

The City-funded workforce, including both full-time and part-time employees, contracted by 11,756 employees during FY 2003, but the January Plan assumes that the workforce will expand by 5,065 during FY 2004. In FY 2005, the City expects the workforce to decrease by a net of 355 employees—1,547 more full-time employees offset by 1,902 fewer full-time equivalents (see Table 9).[16] The most significant changes in staffing levels are described below.

- The Department of Education plans to add 1,327 pedagogues and 1,352 non-pedagogical employees in FY 2004, which would offset reductions made in FY 2003. In FY 2005, the workforce is projected to remain stable.
- The police force is projected to total 34,774 in June 2004—1,346 fewer officers than June 2003—and remain at that level in June 2005.
- The Department of Parks and Recreation plans to reduce its workforce by 345 employees during FY 2004. Although the January Plan assumes a decrease of 2,038 employees in FY 2005, the actual reduction will be much less because the City has yet to reflect funding from the federal and State governments for about 2,000 full-time-equivalent park cleaners.
- The Administration for Children's Services plans to add 597 employees in FY 2004, after adjusting for the transfer of employees to the Department of Social Services. While the January Plan assumes an increase of 129 positions in FY 2005, most of the increase is due to the addition of contract workers to the full-time payroll, a shift that would have no budgetary impact.
- The Department of Social Services expects to increase its workforce by 1,523 in FY 2004, 42 percent of which is attributable to the transfer of employees from the Administration of Children's Services (558 employees). In FY 2005, the workforce is expected to increase by a net of 817 workers that reflects the addition, with no budgetary impact, of 1,000 contract workers to the full-time payroll.

[16] Approximately 2,000 employees (mostly temporary employees) under contract to the City, who were not previously reflected in the City's staffing reports, will be transferred to full-time budget lines during fiscal years 2004 and 2005. While there will be no net increase in costs because these employees were funded in the other-than-personal-service budget, the transfer will offset the planned reduction of 2,355 full-time employees in FY 2005.

Table 9
City-Funded Staffing Levels
(Full-Time and Full-Time Equivalents)

Increase/(Decrease)

		Fiscal Year			Annual Change		Two-Year Change
		FY 2003	FY 2004	FY 2005	FY 2004	FY 2005	
Public Safety		**80,022**	**79,373**	**79,455**	**(649)**	**82**	**(567)**
Police Dept.	Uniformed	36,120	34,774	34,774	(1,346)	- - -	(1,346)
	Civilians	14,054	14,268	14,433	214	165	379
Fire Dept.	Uniformed	10,879	11,104	11,154	225	50	275
	Civilians	4,297	4,327	4,316	30	(11)	19
Correction	Uniformed	8,786	8,772	8,726	(14)	(46)	(60)
	Civilians	1,323	1,414	1,403	91	(11)	80
District Attys. & Prosecutors		3,412	3,376	3,322	(36)	(54)	(90)
Probation Department		763	924	929	161	5	166
Other		388	414	398	26	(16)	10
Health and Welfare		**21,837**	**23,814**	**25,497**	**1,977**	**1,683**	**3,660**
Social Services		9,062	10,585	11,402	1,523	817	2,340
Children's Services		6,380	6,419	6,548	39	129	168
Health and Mental Hygiene		4,006	4,461	5,041	455	580	1,035
Homeless Services		2,109	2,104	2,296	(5)	192	187
Other		280	245	210	(35)	(35)	(70)
Environment & Infrastructure		**16,563**	**16,460**	**14,459**	**(103)**	**(2,001)**	**(2,104)**
Sanitation	Uniformed	7,006	7,148	7,117	142	(31)	111
	Civilians	1,751	1,797	1,817	46	20	66
Dept. of Transportation		2,035	2,074	2,122	39	48	87
Parks & Recreation		5,373	5,028	2,990	(345)	(2,038)	(2,383)
Other		398	413	413	15	- - -	15
General Government		**8,041**	**8,728**	**8,772**	**687**	**44**	**731**
Finance		2,166	2,435	2,435	269	- - -	269
Law Department		1,285	1,277	1,277	(8)	- - -	(8)
Citywide Admin. Services		1,346	1,475	1,577	129	102	231
Taxi & Limo. Commission		447	481	481	34	- - -	34
Investigations		269	270	266	1	(4)	(3)
Board of Elections		373	328	328	(45)	- - -	(45)
Info. Technology & Telecomm.		552	749	709	197	(40)	157
Other		1,603	1,713	1,699	110	(14)	96
Housing		**1,399**	**1,547**	**1,548**	**148**	**1**	**149**
Buildings		893	964	964	71	- - -	71
Housing Preservation		506	583	584	77	1	78
Department of Education		**110,435**	**113,114**	**113,047**	**2,679**	**(67)**	**2,612**
	Pedagogues	90,049	91,376	91,315	1,327	(61)	1,266
	Non-Pedagogues	20,386	21,738	21,732	1,352	(6)	1,346
City University of New York		**6,033**	**6,185**	**6,147**	**152**	**(38)**	**114**
	Pedagogues	3,674	3,912	3,912	238	- - -	238
	Non-Pedagogues	2,359	2,273	2,235	(86)	(38)	(124)
Elected Officials		**2,446**	**2,620**	**2,561**	**174**	**(59)**	**115**
Total		**246,776**	**251,841**	**251,486**	**5,065**	**(355)**	**4,710**

Sources: NYC Office of Management and Budget; OSDC analysis

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