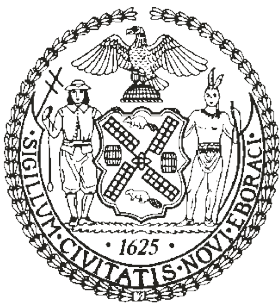


The Comptroller's Comments on The Preliminary Budget for Fiscal Year 2008 and the Financial Plan for FYs 2007–2011



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

March 2007

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I. Executive Summary

The City of New York's Preliminary FY 2008 Budget and Five-Year Financial Plan, released on January 25, 2007, shows that the City expects to end FY 2007 with enough resources to prepay FY 2008 and FY 2009 expenses totaling \$3.94 billion. This amount is the result of a string of operating surpluses that the City has accumulated over several years.

Better-than-expected economic growth has generated tax revenues in excess of the City's expectations at the time of the Adopted Budget. Wall Street profits and bonuses, tourism, and other sectors turned in a solid performance in 2006, and New York City has so far escaped the correction gripping many of the nation's housing markets.

The City has raised its FY 2007 tax revenue forecast \$1.2 billion in the January Plan, marking a cumulative \$3.47 billion upward adjustment in the current year's expected tax collections since the budget was adopted in June. In FY 2008, tax revenues would be \$659 million more than projected in November, while upward adjustments in the outyears total \$439 million in FY 2009 and \$742 million in FY 2010.

After adding \$1.991 billion to prepayments of FY 2008 expenses since November, the Mayor proposes to use incremental resources in FY 2008 to make a deposit into the Retiree Health Benefit Trust Fund (RHBTf), reduce taxes, and prepay certain FY 2009 expenses. The RHBTf was created last year to offset liabilities associated with post-retirement health and related benefits earned by City employees. The tax program would include a 5.0 percent overall property tax rate reduction, the elimination of sales tax on all clothing and footwear, and reductions in certain business taxes. If the City's current revenue and expenditures assumptions are borne out, the City will have \$1.376 billion to prepay FY 2009 expenses and will have reduced the FY 2009 gap from \$4.068 billion projected in November to \$2.617 billion.

The Comptroller's Office finds that the City's revenue projections are relatively conservative. In the current fiscal year, the Comptroller projects the City will collect an additional \$100 million in taxes, while taxes in the subsequent years of the Plan are likely to be higher by \$380 million in FY 2008, \$930 million in FY 2009, and \$490 million in FY 2010. Slower economic growth toward the end of the Plan period is expected to boost tax collections in FY 2011 by only \$85 million compared to the City's forecast.

Except for FY 2011, the additional revenues anticipated by the Comptroller's Office are more than enough to offset risks identified in this report. The City's overtime projections for FY 2008 are significantly below revised projections for FY 2007, and recent policy changes in the Police Department are likely to add upward pressure to overtime spending. The Comptroller's Office projects overtime spending will exceed the City's estimates by \$147 million in FY 2008 and \$100 million in subsequent years of the Plan period. Also, the City has designated \$50 million in FY 2008 and \$100 million in FYs 2009-11 in Federal funds for a portion of Department of Education collective bargaining expenses, but these funds have not yet been identified by the Department. The

tentative labor contract agreement the City reached with the Uniformed Firefighters Association (UFA) on March 2, 2007 will also add \$5 million to the City's labor cost in FY 2007 and \$22 million in each of the outyears.

Adjusted for prepayments, total-fund spending as projected in the Financial Plan will grow 4.5 percent from FY 2007 to FY 2008. After that, projected annual average spending growth is 3.5 percent from FY 2008 through FY 2011. While certain expenditure items that have been referred to in the past as "uncontrollable," such as employee health insurance costs, debt service, and judgments and claims, continue to exert pressure on the budget, other components of this category are expected to grow more slowly than in the past. Pension contributions, which have grown substantially in recent years primarily as a result of actuarial investment losses incurred in FYs 2001 through 2003, are expected to grow at an average rate of 3.7 percent through FY 2011. The growth of City Medicaid spending has been capped through State actions and is projected to increase about 3.0 percent annually. Future collective bargaining agreements are funded at half the rate of inflation, so agreements in excess of this amount would require additional funding.

The largest dollar contributor to projected spending growth is education spending. As a result of the January Plan changes, the Department of Education budget is projected to grow about \$1 billion per year from FY 2007 to FY 2010. By 2011, Department spending would have increased 24 percent. This growth reflects a substantial increase in both City funds and expected contributions from the State, which appears poised to comply with the November 2006 Campaign for Fiscal Equity (CFE) court ruling. That ruling required additional spending of at least \$1.93 billion (in 2004 dollars) to ensure a sound, basic education for New York City's children. The Plan's projected additional State and City funding significantly exceeds this amount after adjusting for inflation.

The State's compliance with the CFE ruling will be a laudable achievement. However, to offset partially the additional State costs, the Governor's budget proposes to reduce the State's revenue sharing program and redirect a small portion of it to upstate localities primarily by eliminating revenue sharing completely for New York City. This change impacts the current fiscal year since the next payment of \$328 million from the State was earmarked as FY 2007 revenue. Revenue sharing has been provided by the State to its localities without any requirement for its use, and represents the last remnant of this type of non-categorical aid, which was once more substantial at both the State and Federal levels. Revenue sharing has been an important component of the City's ability to weather the volatility of the tax revenues it uses to fund basic municipal services. While the City is currently flush with cash, elimination of this important revenue source will certainly prove problematic when the City confronts future economic downturns.

Debt service is also projected to grow substantially over the Plan period, increasing nearly \$1.6 billion by FY 2011. However, this growth has been reduced since the November Modification because borrowing conditions have been more favorable than anticipated, especially for debt related to construction of the Hudson Yards project, and the capital program has been stretched from four to five years to accommodate new projects and rising construction costs. The City has included in its baseline \$200 million

for “pay-as-you-go” capital financing. While this is a small amount compared to the City’s average annual borrowing of about \$5 billion excluding water-related projects, it will help reduce debt service over time.

The financial condition of the Health and Hospitals Corporation (HHC) continues to raise concerns in the later years of the Plan. As it did last year, the City has provided funding in the January Plan to facilitate a transaction that would increase Medicaid Disproportionate Share and Upper Payment Limit receipts for HHC. Despite these actions by the City to bring additional support to HHC, the Corporation’s cash balances are expected to decline over the Plan period. Recent policy proposals at the State and Federal levels signal additional financial stress in coming years.

The City’s current financial condition is a remarkable change from the situation just a few years ago. In these good times, it is important to keep in mind the rapidity and extent to which the City’s budget situation can worsen. The City has used part of its surpluses over the past several years to improve its long-term financial strength, particularly by setting up the Retiree Health Benefits Trust Fund. The City should consider additional steps to ensure that resources accumulated during flush years are available to sustain services when economic events reduce revenues. A true Rainy Day Fund, to be used only when the City is facing such stresses, should be established while the City has funds to place in it. Furthermore, increasing the amount devoted to pay-as-you-go capital financing would save costs in the future and provide a cushion during downturns when the City could legitimately convert budgeted capital spending to debt.

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Table 1. FY 2007–FY 2011 Financial Plan

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2007 – 2011	
						Dollar	Percent
Revenues							
Taxes:							
General Property Tax	\$13,106	\$13,381	\$14,471	\$15,542	\$16,446	\$3,340	25.5%
Other Taxes	\$22,711	\$22,301	\$22,085	\$22,985	\$24,101	\$1,390	6.1%
Tax Audit Revenues	\$859	\$559	\$559	\$560	\$560	(\$299)	(34.8%)
Miscellaneous Revenues	\$5,422	\$5,440	\$4,818	\$4,844	\$4,867	(\$555)	(10.2%)
Unrestricted Intergovernmental Aid	\$340	\$340	\$340	\$340	\$340	\$0	0.0%
Less: Intra-City Revenues	(\$1,417)	(\$1,337)	(\$1,344)	(\$1,345)	(\$1,345)	\$72	(5.1%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$41,006	\$40,669	\$40,914	\$42,911	\$44,954	\$3,948	9.6%
Other Categorical Grants	\$1,061	\$991	\$1,003	\$1,009	\$1,004	(\$57)	(5.4%)
Inter-Fund Revenues	\$416	\$406	\$388	\$387	\$386	(\$30)	(7.2%)
Total City & Inter-Fund Revenues	\$42,483	\$42,066	\$42,305	\$44,307	\$46,344	\$3,861	9.1%
Federal Categorical Grants	\$5,690	\$5,218	\$5,248	\$5,250	\$5,255	(\$435)	(7.6%)
State Categorical Grants	\$9,981	\$10,588	\$11,335	\$12,112	\$12,161	\$2,180	21.8%
Total Revenues	\$58,154	\$57,872	\$58,888	\$61,669	\$63,760	\$5,606	9.6%
Expenditures							
Personal Service							
Salaries and Wages	\$19,848	\$20,963	\$22,011	\$23,202	\$24,052	\$4,204	21.2%
Pensions	\$4,866	\$5,575	\$6,151	\$6,208	\$6,208	\$1,342	27.6%
Fringe Benefits	\$7,109	\$6,936	\$6,759	\$7,023	\$7,322	\$213	3.0%
Subtotal-PS	\$31,823	\$33,474	\$34,921	\$36,433	\$37,582	\$5,759	18.1%
Other Than Personal Service							
Medical Assistance	\$4,948	\$5,380	\$5,222	\$5,376	\$5,535	\$587	11.9%
Public Assistance	\$1,210	\$1,200	\$1,200	\$1,200	\$1,200	(\$10)	(0.8%)
Pay-As-You-Go Capital	\$200	\$200	\$200	\$200	\$200	\$0	0.0%
All Other	\$16,703	\$16,475	\$16,936	\$17,381	\$17,710	\$1,007	6.0%
Subtotal-OTPS	\$23,061	\$23,255	\$23,558	\$24,157	\$24,645	\$1,584	6.9%
Debt Service							
Principal	\$1,646	\$1,765	\$1,848	\$1,872	\$1,823	\$177	10.8%
Interest & Offsets	\$2,011	\$2,200	\$2,444	\$2,780	\$3,217	\$1,206	60.0%
Subtotal Debt Service	\$3,657	\$3,965	\$4,292	\$4,652	\$5,040	\$1,383	37.8%
BSA	\$3,937	\$1,376	\$0	\$0	\$0	(\$3,937)	(100.0%)
Prepayments	(\$3,751)	(\$3,937)	(\$1,376)	\$0	\$0	\$3,751	0.0%
Transfer for NYCTFA Debt Service	(\$200)	\$0	\$0	\$0	\$0	\$200	(100.0%)
Defeasance of certain NYCTFA Debt	(\$13)	(\$350)	\$0	\$0	\$0	\$13	(100.0%)
NYCTFA							
Principal	\$369	\$106	\$458	\$495	\$498	\$129	35.0%
Interest & Offsets	\$578	\$1,010	\$696	\$658	\$661	\$83	14.4%
Subtotal NYCTFA	\$947	\$1,116	\$1,154	\$1,153	\$1,159	\$212	22.4%
MAC Administrative Expenses	\$10	\$10	\$0	\$0	\$0	(\$10)	(100.0%)
General Reserve	\$100	\$300	\$300	\$300	\$300	\$200	200.0%
Less: Intra-City Expenses	(\$1,417)	(\$1,337)	(\$1,344)	(\$1,345)	(\$1,345)	\$72	(5.1%)
Total Expenditures	\$58,154	\$57,872	\$61,505	\$65,350	\$67,381	\$9,227	15.9%
Gap To Be Closed	\$0	\$0	(\$2,617)	(\$3,681)	(\$3,621)	(\$3,621)	

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

**Table 2. Plan-to-Plan Changes
January Plan vs. November Plan**

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
Revenues				
Taxes:				
General Property Tax	(\$30)	(\$380)	\$54	\$446
Other Taxes	\$1,170	\$1,038	\$385	\$295
Tax Audit Revenues	\$100	\$0	\$0	\$0
Miscellaneous Revenues	\$190	\$246	\$37	\$36
Unrestricted Intergovernmental Aid	\$0	\$0	\$0	\$0
Anticipated State & Federal Actions	\$0	\$0	\$0	\$0
Less: Intra-City Revenues	(\$22)	(\$11)	(\$16)	(\$17)
Disallowances Against Categorical Grants	\$0	\$0	\$0	\$0
Subtotal: City Funds	\$1,408	\$893	\$460	\$760
Other Categorical Grants	\$20	\$8	\$7	\$8
Inter-Fund Revenues	\$2	\$14	\$4	\$3
Total City & Inter-Fund Revenues	\$1,430	\$915	\$471	\$771
Federal Categorical Grants	\$226	\$106	\$138	\$137
State Categorical Grants	\$109	\$731	\$1,407	\$2,058
Total Revenues	\$1,765	\$1,752	\$2,016	\$2,966
Expenditures				
Personal Service				
Salaries and Wages	\$224	\$909	\$1,516	\$2,426
Pensions	(\$3)	(\$20)	\$191	\$236
Fringe Benefits	\$24	\$587	\$90	\$95
Subtotal-PS	\$245	\$1,476	\$1,797	\$2,757
Other Than Personal Service				
Medical Assistance	\$13	\$297	\$0	\$0
Public Assistance	(\$145)	(\$155)	(\$155)	(\$155)
Pay-As-You-Go Capital	\$0	\$0	\$0	\$0
All Other	\$38	\$451	\$540	\$672
Subtotal-OTPS	(\$94)	\$593	\$385	\$517
Debt Service				
Principal	\$0	\$1	\$13	\$31
Interest & Offsets	(\$145)	(\$190)	(\$226)	(\$237)
Subtotal Debt Service	(\$145)	(\$189)	(\$213)	(\$206)
BSA				
Prepayments	\$0	(\$1,991)	(\$1,376)	\$0
Transfer for NYCTFA Debt Service	\$0	\$0	\$0	\$0
Defeasance of certain NYCTFA Debt	\$3	\$0	\$0	\$0
NYCTFA				
Principal	\$0	\$0	\$33	\$34
Interest & Offsets	(\$14)	(\$12)	(\$45)	(\$46)
Subtotal NYCTFA	(\$14)	(\$12)	(\$12)	(\$12)
MAC Debt Service/Administrative Expenses				
General Reserve	(\$199)	\$0	\$0	\$0
Total Expenditures	\$1,787	\$1,253	\$581	\$3,056
Less: Intra-City Expenses	(\$22)	(\$11)	(\$16)	(\$17)
Total Expenditures	\$1,765	\$1,242	\$565	\$3,039
Gap To Be Closed	\$0	\$510	\$1,451	(\$73)

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

As the November Plan did not contain a forecast for FY 2011 plan-to-to plan changes is unavailable for that fiscal year.

Table 3. FYs 2007-2011 Risks and Offsets

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
City Stated Gap	\$0	\$0	(\$2,617)	(\$3,681)	(\$3,621)
Tax Revenue Assumptions					
Property Tax	\$0	\$0	\$90	(\$50)	\$90
Personal Income Tax	\$0	\$110	\$240	\$140	(\$50)
Business Taxes	\$100	\$100	\$360	\$200	(\$40)
Sales Tax	\$0	\$50	\$80	\$10	(\$100)
Real-Estate-Related Taxes	<u>\$0</u>	<u>\$120</u>	<u>\$160</u>	<u>\$190</u>	<u>\$185</u>
Subtotal	\$100	\$380	\$930	\$490	\$85
Expenditure Projections					
Overtime	\$0	(\$147)	(\$100)	(\$100)	(\$100)
Department of Education	\$40	(\$10)	(\$60)	(\$60)	(\$60)
Tentative UFA Contract Agreement	<u>(\$5)</u>	<u>(\$22)</u>	<u>(\$22)</u>	<u>(\$22)</u>	<u>(\$22)</u>
Subtotal	\$35	(\$179)	(\$182)	(\$182)	(\$182)
Total Risk/Offsets	\$135	\$201	\$748	\$308	(\$97)
Restated (Gap)/Surplus	\$135	\$201	(1,869)	(\$3,373)	(\$3,718)

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II. The State of the City's Economy

Both the City and the national economies ended 2006 on a better note than anticipated. Mild weather, strong holiday sales, declining oil prices, stable interest rates, and even a steady housing market were among the factors that helped the economy outperform expectations.

The latest economic indicators point to continued growth through 2007. No threats have emerged that should prevent the current economic expansion from continuing for the foreseeable future; the risk of skyrocketing energy prices or of a collapsing housing market have receded in recent months. However, the national economy remains vulnerable to international financial or energy crises while local economic growth remains highly sensitive to business conditions on Wall Street.

A. THE U.S. ECONOMIC OUTLOOK

The U.S. economy grew faster than expected in 2006. Real chain-weighted gross domestic product (GDP) grew 3.3 percent (preliminary estimate) during the year, an increase from the 3.2 percent rate of increase registered during 2005. The number of payroll jobs expanded 1.8 percent, slightly above the previous year's 1.7 percent rate of increase and the unemployment rate dropped to 4.6 percent, the lowest annual rate since the peak of the previous expansion.

Oil prices soared during the first half of 2006, siphoning dollars out of household budgets and undermining consumer confidence. The second half of the year, however, brought welcome price relief. The price of a barrel of benchmark West Texas Intermediate, which averaged over \$74 in July 2006, receded to slightly above \$62 by December. Aside from restoring lost purchasing power to consumer budgets, receding energy prices reduced inflationary pressures and allowed the Federal Reserve to suspend its three-year increase of short-term interest rates. Futures markets indicate that oil experts are expecting stability in petroleum prices during the first half of 2007.

After 17 consecutive rate hikes, the Federal Reserve has held the federal funds rate unchanged since June of 2006. Interest rates, including those on three-year and 10-year Treasury securities, high-quality corporate bonds, and 30-year fixed rate home mortgages remain slightly below the levels prevailing during the late 1990s, when the national and regional economies were quite strong. There is at this point no clear consensus among forecasters regarding the direction of Federal Reserve policy; monetary policy will depend to a great degree on the economic data that is released during the early months of 2007.

The nation's five-year housing boom finally cooled during 2006. According to the Office of Federal Housing Enterprise Oversight (OFHEO), the rate of price appreciation for existing homes slowed to a 3.45 percent annual rate in 3Q06, down from its torrid 17.74 percent rate two years earlier. Slower price appreciation and growing inventories caused new housing starts to decrease by 12.9 percent in 2006. With home values

leveling off, growth in home mortgage debt also began to slow, rising during 3Q06 at its slowest rate in nine years. While the housing market has not plunged as sharply as some forecasters feared, the decrease in new home building and the apparent slowing in home equity lending will contribute to a deceleration of economic growth during 2007.

During the first five years of the current expansion real wages stagnated, so households increased consumption spending by taking on greater debt. In 2007, a slower rate of household debt accumulation may be partially offset by increased spending from current income, as wages began to increase more rapidly during the second half of 2006. Business investment should also remain strong, as corporate profits have increased by over 130 percent during the past five years.

Overall, the U.S. economy is expected to grow during 2007, but at a slower pace than in recent years. The Comptroller projects a 2.5 percent rate of increase in GDP for the year, with a slightly lower inflation rate and generally stable interest rates.

Table 4 shows the Comptroller's and the Mayor's forecast of five economic indicators for 2007 and 2008.

Table 4. Selected U.S. Economic Indicators Annual Averages, Actual 2006 and Forecast 2007-2008

	2006	2007 Forecast		2008 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GDP Change (%)	3.3	2.5	2.2	3.0	3.1
Jobs Change (%)	1.8	1.4	0.9	1.5	1.2
Inflation Rate (%)	3.2	2.8	1.7	2.5	2.0
Federal Funds Rate (%)	5.0	5.0	5.0	4.6	4.8
10-Year T-Notes (%)	4.8	5.0	4.6	5.3	4.9

SOURCE: Actual=preliminary U.S. data from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office.

B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

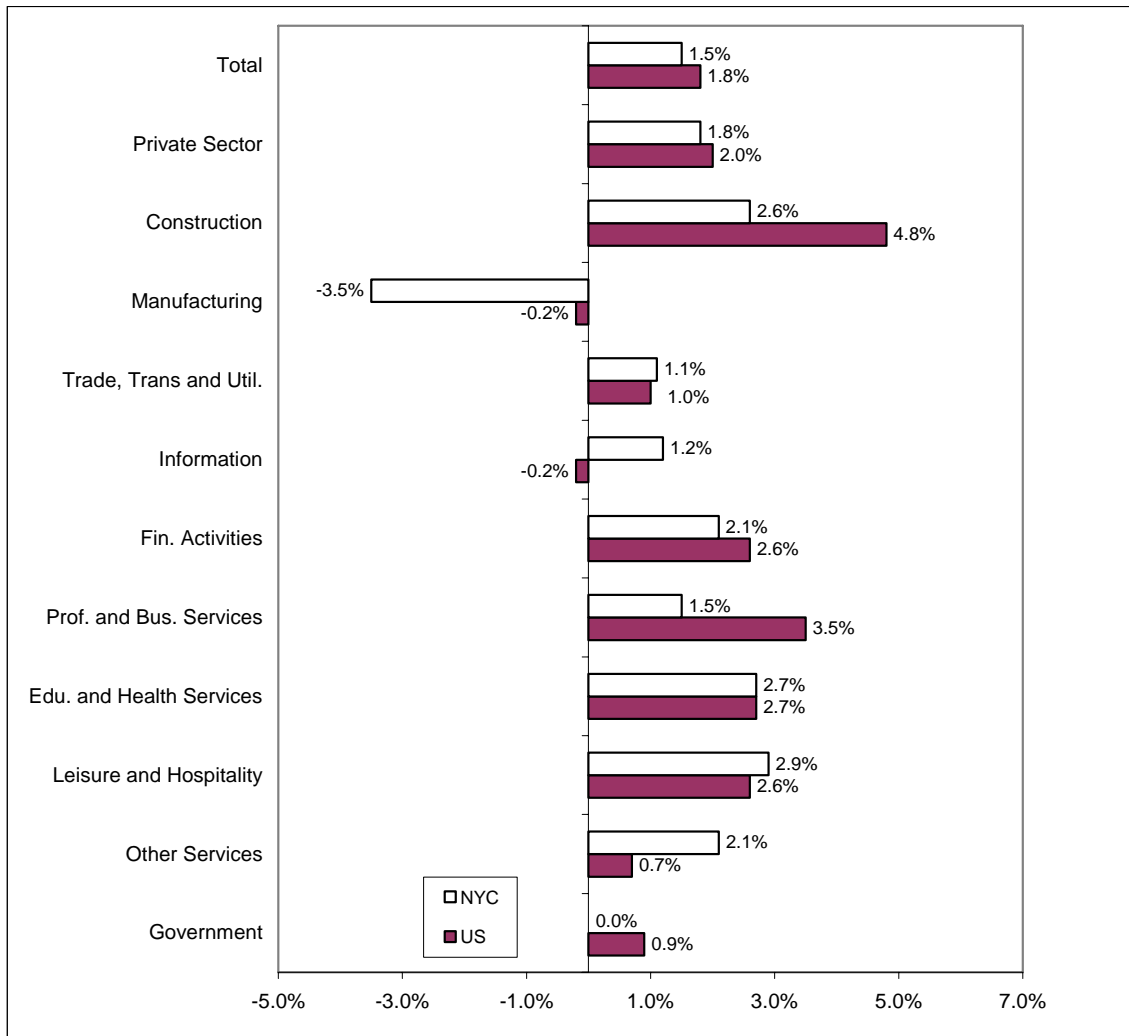
The City's economy remained sound in 2006. Although the rate of economic growth slowed somewhat during the year, the local economy grew more rapidly than was generally expected. Real Gross City Product (GCP) increased 3.1 percent in 2006 compared with a 3.4 increase in the previous year. Payroll jobs increased by the largest amount in six years and the unemployment rate reached a 20-year low. Wall Street profits were at a record high, surging tourism boosted the hospitality and entertainment industries, and real estate markets displayed surprising resiliency.

The City added 54,200 payroll jobs in 2006, with all of the net gain registered by the private sector. The job gains were broad-based, with health services adding 13,400 jobs; the securities industry adding 6,800 jobs; wholesale and retail trade adding 5,500 jobs; and education services adding 4,900 jobs. Significant job gains were also registered in eating and drinking establishments (4,500 jobs) and construction (2,900 jobs). Chart 1 on page 7 shows the change in payroll jobs for the City and the

nation in 2006. Self-employment, which has been a growing factor in the City’s job market, also contributed to the improving employment picture. On a monthly average basis, 63,000 more City residents reported themselves employed during 2006 than in the previous year.

Increases in both wage and salary and independent employment helped to reduce the City’s unemployment rate to 4.0 percent in December, the lowest level in more than three decades. For the full year, the unemployment rate averaged 5.0 percent, also the lowest in more than three decades. The labor-force-participation rate, which had sunk to only 55.5 percent as recently as 1995, climbed to over 60 percent. By December 2006, the number of unemployed City residents had fallen to 159,000, less than half the number of four years earlier.

Chart 1. NYC and U.S. Payroll Job Growth, Percent Change, 2006 vs. 2005



SOURCE: NYS Department of Labor.
 NOTE: Jobs are based on annual averages of monthly data.

The NYC Metro area inflation rate was 3.8 percent in 2006 compared with 3.9 percent in 2005. The comparable national rates were 3.2 percent and 3.4 percent, respectively. The City's higher inflation rate was due primarily to more rapid price increases for housing and food. Price increases in those categories reflected strong income growth and consumer demand, but might have been exacerbated by constraints on supply and other inefficiencies.

Personal income taxes (PIT) collected, an indicator of underlying earning trends, showed solid growth in 2006. PIT collections rose 9.9 percent in 2006 after growing 15 percent in 2005. Local income taxes withheld from employee paychecks rose 3.2 percent in 2006 despite a decrease in tax rates that took effect at the beginning of the year. Estimated tax payments—which are based primarily on taxpayers' estimates of interest earned, rental income, and capital gains—rose 24.9 percent in 2006 compared with 29.2 percent in 2005.

Because of their high wages and bonuses, financial firms are disproportionate contributors to the City's personal income stream. In 2006, the City's financial sector enjoyed a strong year. New York's seven largest publicly-held investment and commercial banking firms recorded a collective 19 percent increase in net revenue and a 16 percent increase in net income. As a result, the bonus pool was also believed to be at record levels. Much of that bonus money will be disbursed during the first quarter of 2007, providing a boost to the housing market and to local retail demand.

Wall Street profits are extremely volatile, so the financial industry's ability to power the local economy throughout 2007 is uncertain. However, relatively low and stable long-term interest rates are generally considered favorable for Wall Street's prospects, as is a high and rising stock market. Those indicators remained positive entering 2007, although recent turbulence in world equity markets could prove troublesome.

Tourism is another key sector for the City's economy, with tourists accounting for nearly all hospitality spending and a significant portion of retail, entertainment and cultural spending. The City has enjoyed a rising market share of foreign tourism to the U.S. and the City estimates that the total number of visitors reached a record 44 million in 2006. A stronger European economy and a weakening dollar portend another strong year for the sector in 2007.

The underlying strength of the City's economy is reflected in the commercial real estate market. According to Cushman and Wakefield, the Manhattan office vacancy rate dropped to 6.7 percent in the fourth quarter of 2006, the lowest level since the peak of the previous expansion. Asking rents rose to \$50.56 per square foot. Several recent office building sales at prices exceeding \$1,000 per square foot indicate that investors expect continued strong demand for office space, low vacancy rates, and strong rental prices.

As is the case with the national economy, a major source of uncertainty in the City's economic outlook is the direction of the residential real estate market. The City's housing market has undoubtedly cooled during the past year, but data limitations make it

difficult to gauge accurately the condition of housing markets citywide. According to OFHEO, the rate of annual price appreciation of existing homes in the New York-White Plains metropolitan area slowed to 2.9 percent in 3Q06. The OFHEO prices, however, measure only single-family homes purchased with conforming, conventional mortgages of no more than \$417,000, so many higher-priced homes, as well as condominium and cooperative apartments, are excluded. According to data compiled by Miller-Samuel for Prudential Douglas Elliman, the average price per square foot for Manhattan co-ops fell 4.0 percent in the fourth quarter of 2006 while the average condominium sales price rose 6.5 percent. The number of co-op sales increased 71.3 percent to 1,453 and the number of condo sales increased 36.1 percent to 988. However, the number of condominiums listed for sale increased 13.3 percent and the average time on the market increased 14.9 percent to 162 days. Overall, it appears that the City's housing market will not experience a sharp drop in selling prices or transaction volume; rather, it will gradually return to a more sustainable rate of price appreciation than has recently been the case.

In response to the soaring prices of residential real estate during the past five years, new residential construction activity in the City has been at levels not seen for several decades. Permits for 30,927 new housing units were issued citywide in 2006, almost equaling the 31,599 issued in 2005. Many of those units will be under construction during 2007, generating additional construction jobs and new orders for local materials suppliers. However, stabilizing housing prices and soaring construction costs should begin to constrain new residential development, and the number of new construction permits issued during 2007 can be expected to decrease significantly. Permits issued during 4Q06 were 14 percent below the number issued in the corresponding quarter of 2005.

As a result of the above considerations, the Comptroller's Office projects a slower rate of local economic growth in 2007 and 2008. Barring unexpected turmoil in the stock market or the local housing market, however, the threat of recession appears remote.

Table 5. Selected NYC Economic Indicators Annual Averages, Actual 2006 and Forecast 2007-2008

	2006	2007 Forecast		2008 Forecast	
	Actual	Comptroller	Mayor	Comptroller	Mayor
GCP Change (%)	3.1	2.5	(0.6)	2.3	(0.3)
Jobs Change (thousands)	54.2	29.0	27.9	39.0	24.0
Unemployment Rate (%)	5.0	4.6	N/A	5.2	N/A
Wage Rate (%)	6.6	3.7	4.1	3.5	0.3
Inflation Rate (%)	3.8	3.3	2.1	2.8	2.2

SOURCE: Actual=preliminary NYC data from NYS Department of Labor, Bureau of Labor Statistics. Mayor=forecast by the NYC Office of Management and Budget in the January Plan. Comptroller=forecast by the NYC Comptroller's Office. na=not available.

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III. The FY 2007 Budget

The January Modification to the FY 2007 Budget shows that the City now expects to end FY 2007 with a surplus of \$3.94 billion, an increase of \$1.99 billion from the November Modification. This record surplus is due primarily to a higher revenue forecast driven by strong Wall Street profits, continued strength in the commercial real-estate market, and employment growth.

City-fund revenues are now forecasted to total \$42.48 billion for FY 2007, an increase of \$1.43 billion from the November Modification estimate, and \$3.79 billion more than projected in the FY 2007 Adopted Budget.¹ Revisions to the tax revenue forecast account for most of the increase. The revised FY 2007 tax revenue estimate of \$36.7 billion is \$1.24 billion more than the November Modification, representing an increase of \$3.47 billion since the Adopted Budget. As Table 6 below shows, revisions to personal income, business, and real-estate-related (mortgage recording and real property transfer) tax revenues account for the bulk of the improvement in the FY 2007 tax revenue forecast.

Table 6. Changes to the City's FY 2007 Tax Revenue Estimates

(\$ in millions)

	Adopted Budget Estimate	November Modification Change	January Modification Change	Total Change	January Modification Estimate
Property Tax ^a	\$13,140	(\$4)	(\$30)	(\$34)	\$13,106
Personal Income (PIT) ^b	7,500	604	408	1,012	8,512
Business Taxes	4,142	489	398	887	5,029
Real Estate Related	1,745	812	317	1,129	2,874
Sales	4,508	30	0	30	4,538
Tax Audit Revenue	509	250	100	350	859
Others	1,665	47	47	94	1,759
Total	\$33,209	\$2,228	\$1,240	\$3,468	\$36,677

^a Property tax revenue includes State reimbursement of School Tax Relief (STAR) program.

^b PIT revenue includes State reimbursement for STAR program as well as the portion of PIT revenue retained for New York City Transitional Finance Authority debt service.

SOURCE: New York City Office of Management and Budget.

¹ City-fund revenues in this report include both other categorical grants and inter-fund revenues. Total-fund revenues include City-fund revenues and State and Federal categorical grants. Since Federal and State categorical grants support Federal and State categorical expenditures, they do not impact the City's budget gap. In the November Modification, the City increased its total-fund revenue estimate by \$1.77 billion to \$58.15 billion. Revenues include personal income tax (PIT) revenues retained for New York City Transitional Finance Authority (NYCTFA) debt service and State reimbursement for the State Tax Relief (STAR) program.

City-fund expenditures in FY 2007, net of prepayments, are estimated to total \$38.55 billion, \$561 million less than the November Modification estimate.² The downward revision to the expenditure estimates stems from a reduction of \$199 million in the General Reserve, a reduction of \$400 million in prior-year-payables, and a \$150 million reduction in debt service due primarily to a re-estimate of Hudson Yards Infrastructure Corporation debt service. These reductions are partially offset by additional agency expenditure of \$193 million, including \$40 million to fund the additional cost of the contract agreement with the United Federation of Teachers (UFT).

A. THE FY 2007 SURPLUS

While the City is projecting a surplus of \$3.94 billion for FY 2007, revenues generated in FY 2007 are expected to exceed estimated FY 2007 expenditures by a much smaller \$186 million. The \$3.94 billion surplus is the result of a \$3.75 billion prepayment of FY 2007 expenditures in FY 2006 and the expected \$186 million operating surplus in the current fiscal year. Table 7 below illustrates the accumulation of the projected FY 2007 surplus.

Table 7. Build-Up of the Year-End Surplus

(\$ in millions)

	Revenues minus Expenditures	Year-End Surplus Used for Prepayments	Reported Surplus
FY 2001	(\$238)	\$2,944	\$5
FY 2002	(\$2,258)	\$681	\$5
FY 2003	\$741	\$1,417	\$5
FY 2004	\$511	\$1,923	\$5
FY 2005	\$1,611	\$3,529	\$5
FY 2006	\$227	\$3,751	\$5
FY 2007p	\$186	\$3,937	\$0

p = projected

At the close of FY 2001, the City prepaid \$2.944 billion of FY 2002 expenditures and reported a surplus of \$5 million for the fiscal year. In FY 2002, in the aftermath of the terrorist attacks on the World Trade Center, expenditures incurred in that fiscal year exceeded revenues generated by \$2.258 billion.³ However, the \$2.944 billion prepayment in FY 2001 enabled the City to fund this deficit. After reporting a surplus of \$5 million, the funds available in FY 2002 to prepay the following year's expenditures declined to \$681 million.

² City-fund expenditures in this report include both other categorical and inter-fund expenditures. Total-fund expenditures are estimated to total \$54.22 billion before prepayments, and \$58.15 billion after prepayments. Expenditures include NYCTFA debt service.

³ FY 2003 revenues are distorted by the use of \$361 million of NYCTFA Recovery Bond revenues for operating purposes. Without the use of NYCTFA Recovery Bond revenues for operating purposes, expenditures would have exceeded revenues by \$2.619 billion.

Revenues in FY 2003 exceeded expenditures by \$741 million. Added to the prepayment of \$681 million of FY 2003 expenditures in the prior fiscal year, the City ended FY 2003 with excess funds of \$1.422 billion. After reporting a surplus of \$5 million, the City increased its prepayment, relative to the previous year's, by \$736 million to \$1.417 billion.

Since FY 2003, the City's revenues exceeded expenditures in each fiscal year through 2006.⁴ As such, the City was able to add to the surplus available for prepayments in each of these years. As Table 7 shows, over this period, the surplus available for prepayments grew from \$1.42 billion in FY 2003 to \$3.75 billion in FY 2006, and is expected to reach \$3.94 billion in FY 2007.

However, the City's revenues and expenditures include non-recurring resources and actions that accelerate expenditures and delay the recognition of revenues. These actions, which mask the true operating results of the fiscal years that are affected, include:

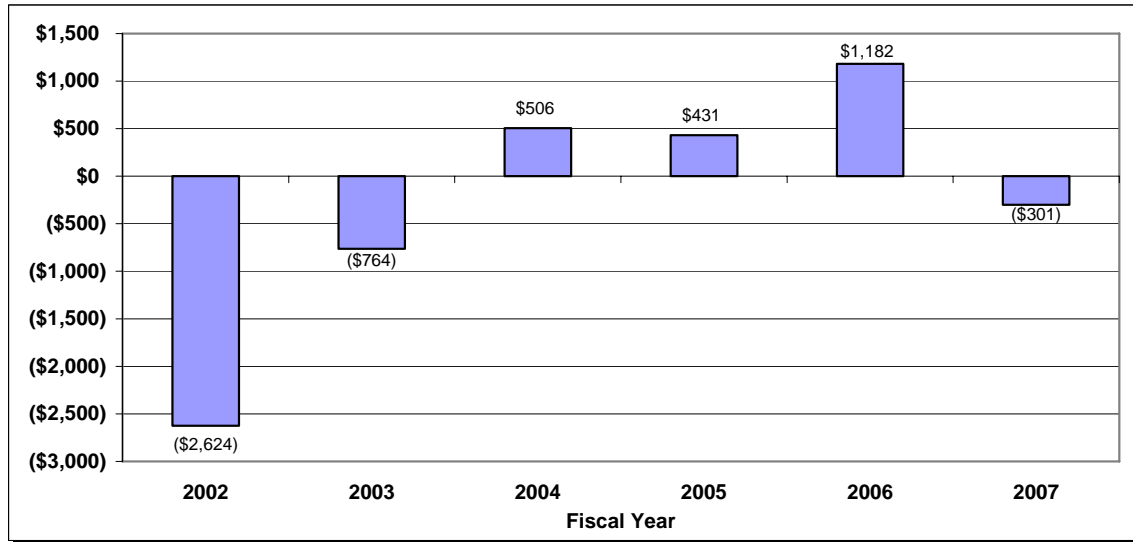
- The transfer of \$200 million in FY 2005 to NYCTFA for FY 2007 NYCTFA debt service.
- Non-recurring revenues of \$744 million in retroactive airport rent payments from the Port Authority of New York and New Jersey, and \$631 million in Municipal Assistance Corporation debt service reimbursement from the State in FY 2005.
- The delayed recognition of \$233 million of FY 2006 and \$121 million of FY 2007 tobacco settlement residual revenues until FY 2008.
- The FY 2006 defeasance of \$350 million of NYCTFA bonds maturing in FY 2008.
- A \$377 million increase in FY 2006 contribution to the Health and Hospitals Corporation which allow the City to reduce its FY 2007 and FY 2008 contributions by \$287 million and \$90 million, respectively.

Chart 2 on page 14 shows the operating results for FYs 2002 through 2006 after adjusting for non-recurring resources and actions which distort the recognition of revenue and expenditures.

⁴ FY 2003 revenues are distorted by the use of \$1.5 billion of NYCTFA Recovery Bond revenues for operating purposes. Without the \$1.5 billion NYCTFA bond revenues, expenditures would have exceeded revenues by \$759 million.

Chart 2. The City's Operating Results Adjusted for Non-Recurring Actions

(\$ in millions)



IV. The FY 2008 Preliminary Budget

The City’s \$57.9 billion FY 2008 Preliminary Budget, released on January 25, 2007, increased spending by \$1.2 billion compared with the November Modification and represents a decline of \$282 million from the estimated FY 2007 expenditures. The City-fund portion of the budget, which excludes Federal and State categorical grants, is estimated to total \$42.1 billion, \$405 million more than projected in the November Modification.

Since the November Modification, revisions to City-fund revenue and spending estimates for FYs 2007 and 2008 have resulted in \$3.9 billion in additional resources in the FY 2008 budget, enabling the City to close the \$510 million gap identified in November. As Table 8 below shows, these additional resources stem from an increase of \$1.99 billion in expected prepayments of FY 2008 expenditures and an upward revision of \$1.92 billion to the FY 2008 revenue projection. In addition to closing the budget gap, these resources will enable the City to support additional agency spending of \$520 million, contribute \$500 million into the Retiree Health Benefits Trust, fund tax cuts totaling \$1 billion, and establish a Budget Stabilization Account (BSA) of \$1.38 billion to prepay FY 2009 expenditures.

Table 8. Changes to the FY 2008 Estimates

(\$ in millions)

November Modification Gap	(\$510)
Additional Resources	
Prepayments	\$1,991
Revenues	<u>1,915</u>
Subtotal	\$3,906
Additional Obligations	
Agency Spending	(\$520)
Retiree Health Benefits Trust Contribution	(500)
Tax Cut Program	(1,000)
FY 2008 Budget Stabilization Account	<u>(1,376)</u>
Subtotal	(\$3,396)
January Modification Gap	\$0

SOURCE: NYC Office of Management and Budget

A. RISKS AND OFFSETS

As Table 3 on page 3 shows, the Comptroller’s Office has identified additional resources ranging from \$135 million to \$748 million in FYs 2007 through 2010, and a risk of \$75 million in FY 2011. The additional resources result from higher revenue projections by the Comptroller’s Office relative to the City’s forecasts. As discussed in “Tax Revenues” beginning on page 17, the higher revenue projections of the Comptroller’s Office are driven by the Office’s more optimistic outlook for the local economy for FYs 2007 through 2009. As a result, the Comptroller’s Office expects non-

property tax revenues to be \$100 million, \$380 million, \$840 million, and \$540 million more than the City's projections for FYs 2007, 2008, 2009, and 2010, respectively. The Comptroller's Office's outlook for FY 2011 is less optimistic than the City's. As such, the Office's projections for the income, business and sales tax revenues for FY 2011 are \$190 million below the City's. However, the Comptroller's Office expects property tax and real-estate-related tax revenues in that fiscal year to be \$275 million more than the City's projection, more than offsetting the Office's lower projections for the income, business and sales tax revenues.

Partially offsetting the higher revenue projections by the Comptroller's Office are risks to the City's expenditure projections of \$179 million in FY 2008 and \$182 million in each of the outyears of the Plan. The risks stem from the City's lower projections for overtime spending and Department of Education (DOE) expenditures, and the incremental cost of the March 2, 2007 tentative contract agreement with the Uniformed Firefighter's Association (UFA).

The Comptroller's Office expects overtime spending to be \$147 million more than the City's estimate in FY 2008, and \$100 million above the City's projections in the remaining years of the Financial Plan. As discussed in "Overtime" beginning on page 34, the City's overtime estimate in the Preliminary Budget is significantly below the revised FY 2007 estimate. In addition, the recent removal of the cap on arrest processing related overtime will likely exert upward pressure on overtime spending.

The City could also face risks of \$10 million in FY 2008 and \$60 million annually in FYs 2009-2011 in DOE expenditure projections. These risks stem mainly from collective bargaining needs of \$50 million in FY 2008 and \$100 million in each of the outyears of the Financial Plan. The City has designated a certain portion of these new needs in the January Plan as Federally funded, although corresponding Federal funds have not yet been identified by the Department. Meanwhile, the Department could receive an additional \$40 million annually in education fiscal stabilization grants from the State, thereby offsetting some of the collective bargaining risks. In the November Plan, the City increased tax levy funding by a similar amount to offset the intercept of this grant for Municipal Bond Bank debt service payment. Yet, education aid receipts in the current year show that the State has continued making this payment, which would free up City funds to support other areas.

As discussed in "Labor" beginning on page 30, the City reached a tentative agreement with the UFA on March 2, 2007. The tentative agreement provides for a 4 percent wage increase on August 1, 2006 and another 4 percent increase on August 1, 2007. Funding in the Financial Plan for wages increases for UFA is patterned after the DC 37 agreement.⁵ The Comptroller's Office estimates that the difference between the provisions in the tentative agreement and the assumptions in the Financial Plan will result in additional costs of \$5 million in FY 2007 and \$22 million in each of the outyears.

⁵ The DC 37 contract provides for a 2 percent increase on August 1, 2006 and a 4 percent increase on February 1, 2007.

B. REVENUE OUTLOOK

The Preliminary Budget projects City-fund revenue to decrease by approximately 1.0 percent in FY 2008, increase moderately by 0.6 percent in FY 2009, then to rebound sharply in the following two fiscal years. Over the four years of the Financial Plan, City-fund revenues are expected to grow at annual rate of 2.2 percent, reaching \$46.34 billion in FY 2011. The revenue decrease in FY 2008 is due primarily to an expected decline in real-estate-related tax collections and in tax audit revenues. Property tax revenues are expected to grow rapidly throughout the plan period.

Tax Revenues

The Preliminary Budget projects \$36.2 billion in total tax revenue for FY 2008.⁶ Total tax revenue is expected to decline 1.2 percent in FY 2008, and then to grow 2.4 percent in FY 2009, 5.3 percent in FY 2010, and 5.2 percent in FY 2011. The forecast includes planned tax cuts of \$1.3 billion in FY 2008, \$1.4 billion in FY 2009, \$1.5 billion in FY 2010, and \$1.6 billion in FY 2011.

Changes from November Modification, FY 2008

Tax revenue projections for FY 2008, including for the Mayor's proposed reduction in certain tax rates, have increased \$659 million, or 1.9 percent, since the November Modification. All of the increases are attributable to non-property tax revenues.

From FY 2007 to FY 2008, according to the Department of Finance's FY 2008 tentative assessment roll, a 19 percent rise in aggregate market value of real property will produce a 9.0 percent increase in total billable assessed value⁷. The resulting growth in real property tax revenue is expected to yield an additional \$370 million above the previous estimate from the November Modification. However, after a downward adjustment is made to reflect a 5.0 percent property tax rate reduction proposed by the Mayor, the current Plan's revenue projection for FY 2008 is \$380 million lower than the November Plan's forecast.

⁶ PIT revenue includes School Tax Relief (STAR) reimbursement and the portion of PIT retained for NYCTFA debt service. Property tax revenue includes STAR reimbursement. Total tax revenue includes STAR, NYCTFA, and tax audit revenues. Tax reduction programs are included in the individual taxes.

⁷ Among the five boroughs, Brooklyn and Manhattan combined, contribute to nearly two thirds of the growth in total market value, with the former outpacing the latter by 3.5 percentage points. When divided into classes, Class 1 properties alone account for 47 percent of the increase while Classes 2 and 4's contributions are 29 percent and 25 percent, respectively. In terms of billable assessed value – which, in conjunction with the class tax rate, determines the tax burden of any given class – Manhattan, at 62 percent, leads as the borough that contributes the most. Among the classes, Class 4 properties' share of the growth in billable assessed value is the largest, at 62 percent.

The City has raised its FY 2008 PIT forecast \$354 million, or 4.3 percent, over the forecast presented in the November Modification. The business tax revenue projection has increased \$404 million, or 8.8 percent, compared with the previous plan. The increase is attributable to each of the three business taxes, with an additional \$199 million from the general corporation tax (GCT), \$167 million from the banking corporation tax (BCT), and \$38 million from the unincorporated business tax (UBT). The sales tax revenue forecast has decreased \$66 million from the November forecast.

The current plan also contains a projected increase in real-property transfer tax revenue in FY 2008 of \$151 million from the November Plan, as well as a \$194 million increase in anticipated revenues from the mortgage recording tax, reflecting an expected higher level of commercial real estate transaction activities. The City's tax revenue assumptions for FY 2008 are illustrated in Table 9.

Table 9. Changes to the City's Tax Revenue Assumptions, FY 2008

(\$ in millions)

	Nov. Mod.	Jan. Mod.	Change
Property	\$13,761	\$13,381	(\$380)
PIT	8,210	8,564	354
Business	4,625	4,998	373
Sales	4,600	4,534	(66)
Real-Estate Transaction	2,108	2,453	345
All Other	<u>2,279</u>	<u>2,312</u>	<u>33</u>
Total	\$35,553	\$36,242	\$659

SOURCE: NYC Office of Management and Budget.

Projected Tax Revenue Growth in FY 2008

The \$36.2 billion in expected total tax revenue for FY 2008 represents a decrease of \$435 million, or 1.2 percent, from FY 2007.

In FY 2008, real property tax revenue is expected to grow 2.1 percent, a relatively slow rate by historical standards. The low rate of increase is attributable to the Mayor's proposed 5.0 percent tax rate reduction, which will reduce property tax revenues \$750 million. Without the rate reduction, the rise in real property tax revenues over FY 2007 would be 7.8 percent, well above the long-term trend. Between FYs 1981 and 2006, these revenues grew on average 5.5 percent annually, due to both higher assessed values and higher tax rates.

Non-property tax revenues are expected to decrease \$710 million from FY 2007, as shown in Table 10. The largest decline is expected in real estate transaction revenues, as a result of an expected decline in the number of real estate transactions and weakening real estate sales prices. The City also expects to realize significantly lower tax audit revenues. The projected reduction in business tax collections is primarily due to proposed business tax cuts intended to spur job creation.

Table 10. Tax Revenues in FY 2008, Compared with FY 2007

(\$ in millions)

	FY 2007	FY 2008	Change
Property	\$13,106	\$13,381	\$275
PIT	8,512	8,564	52
Business	5,029	4,998	(31)
Sales	4,538	4,534	(4)
Real-Estate Transaction	2,874	2,453	(421)
All Other	<u>2,618</u>	<u>2,312</u>	<u>(306)</u>
Total	\$36,677	\$36,242	(\$435)

SOURCE: NYC Office of Management and Budget.

PIT revenue is expected to increase by \$52 million, or 0.6 percent, in FY 2008, after a \$505 million increase in FY 2007. The slower growth reflects the City's expectation of declines in financial-sector bonus payments and capital gains realizations for calendar year 2007.

Business tax collections are expected to decrease by \$31 million, or 0.6 percent, in FY 2008 compared with FY 2007, primarily due to the proposed tax cuts. Without the tax reductions, collections would increase by 2.2 percent, according to the City's projections. The relatively low rate of increase, even without the proposed tax reductions, reflects the City's forecast of a slowdown in the local economy and a decline in Wall Street profitability. The general corporation tax is expected to decline 0.2 percent, and the unincorporated business tax is forecast to decline 1.9 percent. Banking corporation tax collections are expected to remain flat.

Sales tax revenue is projected at \$4.53 billion in FY 2008, a decline of \$4 million, or 0.1 percent, from FY 2007. The decrease is anticipated because of an expected slowing in aggregate income growth, a decline in household spending on residential improvements and furnishings, and the elimination of the sales tax on all clothing and footwear. Without the tax reduction program, projected sales tax revenues would be expected to increase 2.3 percent in FY 2008.

Real-estate-related taxes are forecast to drop 14.7 percent to \$2.45 billion in FY 2008. Mortgage recording tax collections are expected to decrease 14.5 percent to \$1.19 billion, while real property transfer tax collections are forecast to drop 14.8 percent to \$1.26 billion. The City expects the number of annual residential transactions to decline 16.9 percent from calendar year 2006 to 2009, and that the average home sales price will decline 9.5 percent between 2007 and 2009. While the commercial real estate market is expected to remain strong, the City does not expect the number of sales of high-value commercial properties to remain at 2005-2007 levels.

Tax Revenue Trends

Forecasts of total tax revenue in the January Financial Plan have been revised upward by \$470 million for FY 2009 and \$772 million for FY 2010. Collections are

expected to grow 2.4 percent in FY 2009, 5.3 percent in FY 2010, and 5.2 percent in FY 2011.

Total tax revenue is forecast to grow 4.3 percent annually from FY 2008 through FY 2011, following four years of double-digit growth through FY 2007. Non-property tax collections are expected to decline 3.0 percent in FY 2008 and increase 4.4 percent from FY 2009 to FY 2011, reflecting a slowdown of the local economy in FY 2008 and a subsequent recovery in the outyears. Personal income tax growth averages 4.7 percent from FY 2009 to FY 2011, while business taxes are expected to grow 5.5 percent annually during the same period. The real-estate-related taxes are forecast to drop 14.7 percent in FY 2008 and 7.0 percent in FY 2009, and to revert to an annual positive growth averaging 1.8 percent from FY 2010 to FY 2011.

The overall trend in tax collections would be similar in the absence of the tax reduction program. Total tax revenue would grow at an annual average rate of 4.4 percent, and non-property taxes would dip in the early years of the Financial Plan, but not by as much. Non-property tax collections would decline 2.0 percent in FY 2008 without tax reductions. This pattern of modest decline in total tax revenue in FY 2008 and stronger growth in the outyears stems from the City's conservative forecast for the local economy in calendar years 2007 and 2008, and its more optimistic forecast for the outyears.

Historically, Class 2 and 4 properties, with their five-year phase-in of assessed value, have played a significant role in stabilizing revenue growth from real estate taxes. Currently, the two classes combined account for 83 percent of total billable assessed value. Since the Department of Finance started publishing market value data under the four-class system in FY 1993, market value growth has never exceeded 19 percent in Class 2 and 12 percent in Class 4. The remarkable increases of 26 and 22 percent in Classes 2 and 4, respectively, for FY 2008 will affect not only total billable assessed value in FY 2008, but will also enhance revenue levels in the outyears during their phase-in period. Supported by a continuing tightening of the commercial property market, the City is expecting average annual growth of 7.1 percent in real property taxes from FY 2009 to FY 2011. This is equivalent to an upward adjustment from the November Modification averaging over one billion dollars per year. If the 5.0 percent tax rate reduction program were to continue through the outyears, the adjustment would average about \$400 million per year.

Table 11. Tax Revenue Forecast, Growth Rate, FYs 2008-2011

(Percent)

	FY 2008	FY 2009	FY 2010	FY 2011	FYs 2008-2011
Property	2.1%	8.2%	7.4%	5.8%	7.1%
PIT	0.6	1.2	4.3	5.1	3.5
Business	(0.6)	(5.2)	5.1	5.9	1.8
Sales	(0.1)	1.9	4.6	5.4	3.9
Real-Estate Transaction	(14.7)	(7.0)	1.3	2.4	(1.2)
All Other	(11.7)	1.4	2.1	1.9	1.8
Total	(1.2)%	2.4%	5.3%	5.2%	4.3%

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

Tax Reduction Program

The new tax revenue forecasts includes additional tax cuts of \$1.0 billion in FY 2008, \$1.1 billion in FY 2009, \$1.2 billion in FY 2010, and \$1.3 billion in FY 2011. The tax reduction program consists of the elimination of sales tax on all clothing and footwear costing \$110 or above, several reductions in business taxes, and a 5.0 percent rate reduction in the overall property tax. Changes to the sales tax, the PIT, and the business taxes, with the exception of the UBT-PIT credit, would require State legislation.

The sales tax reduction program proposes repeal of the City's 4.0 percent sales tax that applies to clothing and footwear costing \$110 or more, which is expected to reduce sales tax collections \$110 million in FY 2008, \$117 million in FY 2009, \$119 million in FY 2010, and \$122 million in FY 2011.

The unincorporated business tax (UBT) reduction would increase the deduction for compensation paid to active partners. This proposal is expected to reduce UBT collections \$16 million in FY 2008, growing to \$17 million in FY 2011. The City also proposes to increase the credit against the personal income tax for UBT payment. This will reduce tax collections \$28 million in FY 2008, with savings growing gradually to \$31 million in FY 2011.

The City proposes to create a resident PIT/S-corporation credit which will allow S-corporation shareholders who live in NYC to take a credit for a share of their S-corporation tax liability against their personal income tax. The credit is estimated to cost \$70 million in FY 2008, growing to \$78 million in FY 2011. The City also proposes to enact a 50 percent phase-out of the alternative income-plus-compensation tax base over four years. This proposal is expected to affect 25,000 small-to-medium sized firms and to reduce tax collections by \$110 million by FY 2011. The small firm tax simplification proposal is intended to simplify tax filing for small firms having to complete the three-way alternative tax base calculation, and is expected to reduce tax collections \$8 million per year.

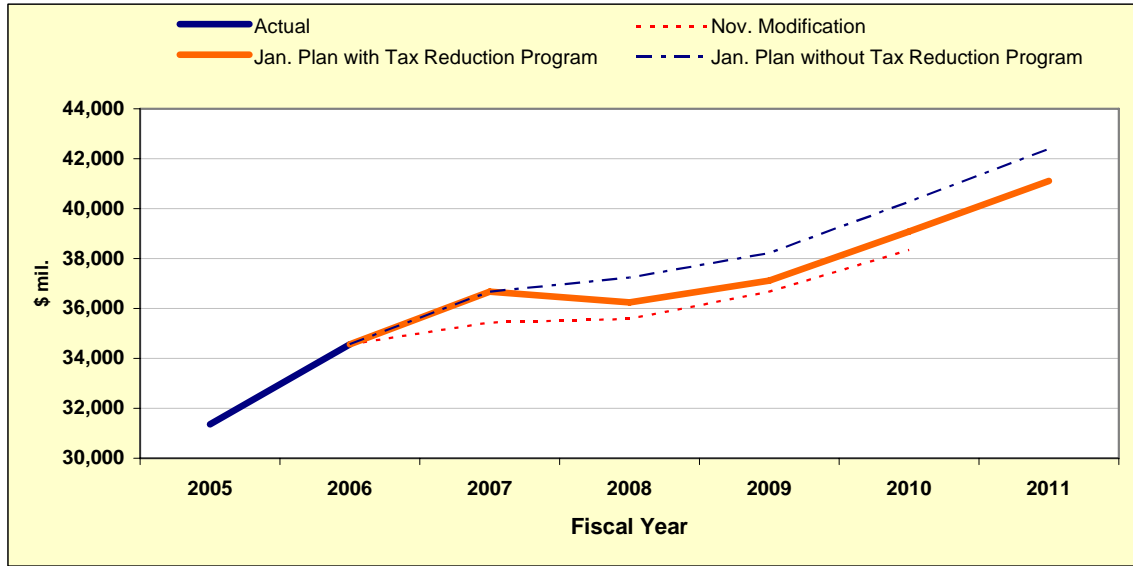
The FY 2008 real property tax reduction is based on a 5.0 percent reduction in the current overall tax rate of 12.283 percent. The overall tax rate is applied to the aggregate billable assessed value to derive the total tax liability of all property owners across the City. Since the creation of the four-class system in FY 1983, the last and only other overall rate reduction was administered in FY 1994, with a 2.12 percent decrease. The last permanent overall rate increase was implemented in FY 2003, with an 18.49 percent hike.

Real property tax rates are set annually by the City Council at levels consistent with the budget it adopts. The Financial Plan projections, however, incorporate the proposed 5.0 percent rate reduction through the outyears. Property tax rate changes do not require approval by the State legislature. The January Plan's revenue projections also assume that a continuation of the \$400 million property tax rebate to owner-occupants of conventional homes, condominiums and cooperatives, worth \$256 million per year, and a City child care PIT credit are approved by the State Legislature.

The property tax rate reduction and the business and sales tax cuts essentially offset the increased tax revenues recognized since the November Modification. Chart 3 compares the City’s projections of tax revenues with and without the tax reduction program to the November Modification projections.

Chart 3. Tax Revenue Trend, Actual and Forecasts, FYs 2005-2011

(\$ in millions)



SOURCE: NYC Office of Management and Budget.

Risks and Offsets

The Comptroller’s Office is projecting risks and offsets to the City’s tax revenue assumptions, based on current year collections and economic growth projections. The results are illustrated in Table 12. The Comptroller’s Office’s economic growth forecasts are more optimistic than the City’s projections for FY 2008 to FY 2010, but slightly less so for FY 2011.

For FY 2008, the Comptroller’s Office is projecting an addition of \$380 million to the City’s estimates, as a result of higher forecasts in non-property taxes. The Comptroller’s Office expects positive offsets of \$930 million in FY 2009 and \$490 million in FY 2010. For FY 2011, non-property tax projections by the Comptroller’s Office are lower than the City’s estimates. The differences stem from a projected slowdown in the growth of PIT, business taxes, and sales tax revenues as the current economic expansion gradually loses momentum. The tax reduction program will have significant effects on real property tax, business taxes, and sales tax revenue forecasts in FY 2008, but its effects on growth rates is expected to moderate through the outyears. Both the Mayor and the Comptroller expect a decline in real-estate-related taxes in FY 2008 and FY 2009. However, with an assumption of a “soft landing” in the real estate market, the Comptroller’s Office remains slightly more optimistic.

**Table 12. Comptroller's Office Projections of Tax Revenue
Risks and Offsets**

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Property	\$0	\$0	\$90	(\$50)	\$90
PIT	0	110	240	140	(50)
Business	100	100	360	200	(40)
Sales	0	50	80	10	(100)
Real-Estate Transaction	0	120	160	190	185
Total	\$100	\$380	\$930	\$490	\$85

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. The City projects miscellaneous revenues to increase slightly in FY 2008 to \$4.1 billion (exclusive of private grants and intra-City revenues). This forecast represents an increase of \$235 million over the amount projected in the November Plan. A large portion of this increase stems from a settlement the City reached with the Internal Revenue Service (IRS) involving a refund of FICA (i.e. Social Security & Medicare) tax that was inappropriately imposed on line-of-duty-injury payments to uniformed workers in the nineties. The settlement provides the City with \$141 million. The FY 2008 forecast for interest income has also increased \$57 million over the previous Plan. Notwithstanding the increase, the City anticipates a 53 percent decline in interest income from FY 2007 mainly due to lower expected cash balances, and to a lesser extent, an anticipation of a decline in short-term interest rates. Cash balances in the last three fiscal years have been at historic highs. In fact, FY 2007 represents the third consecutive year in which there has been no short-term second-quarter borrowing because of strong cash balances.

Table 13. City Forecast of Miscellaneous Revenue

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Licenses, Franchises, Permits	\$428	\$397	\$403	\$406	\$411
Interest Income	409	192	137	144	144
Charges for Services	574	536	535	534	534
Water and Sewer	1,112	1,109	1,120	1,135	1,152
Rental Income	191	173	172	171	171
Fines and Forfeitures	709	736	734	735	734
Other Miscellaneous	582	960	373	374	376
Total Miscellaneous Revenue	\$4,005	\$4,103	\$3,474	\$3,499	\$3,522

NOTE: Water & Sewer Revenues are not available for operating purposes because they are offset by expenditures related to providing water & sewer services.

SOURCE: NYC Office of Management & Budget.

As Table 13 shows, a spike of 65 percent in the “other miscellaneous” category is expected to offset the decline in anticipated interest income for FY 2008. The spike results from the delayed recognition of tobacco settlement revenues from FY 2006 and

FY 2007 to FY 2008 totaling \$354 million as well as non-recurring revenues of \$141 million from the IRS settlement and \$30 million from the sale of taxi medallions. Collectively, the remaining categories shown above are not expected to change significantly in FY 2008.

Over the term of the Financial Plan, miscellaneous revenues are expected to decline to \$3.5 billion annually. Most of the expected decrease is within the “other miscellaneous” category and is due to the loss of the aforementioned one-time resources anticipated in FY 2008. During FYs 2009-2011, proceeds from “other miscellaneous” are expected to return to more moderate levels.

Federal and State Aid

The January Plan projects Federal and State grants of \$15.67 billion for FY 2007, representing an increase of \$335 million from the November Plan. The increase consists mainly of additional funding of \$98 million for welfare and \$139 million for education. The more significant changes in the January Plan are reflected in the outyears. In FY 2008, the City will begin a phase-in of State education aid over a three-year period, pursuant to the Campaign for Fiscal Equity (CFE) court order, that would raise its baseline assumption of State education aid by more than \$2 billion annually in FY 2010 and beyond. As stated in the Financial Plan, these figures represent the required minimum funding level of \$2 billion set by the New York State Court of Appeals in the CFE decision, marked to inflation. State education aid would increase from a base of \$7.09 billion in FY 2007 to \$9.39 billion by the end of the Plan period in FY 2011. Federal and State grants are projected, as a result, to grow 11 percent over the term of the plan, from \$15.67 billion to \$17.42 billion, constituting about 26 percent of the overall budget.

The City has also put forth a Federal and State agenda containing a total \$1.72 billion in potential actions for FY 2008, with about \$1.16 billion in Federal initiatives and \$554 million in State initiatives. The menu of requested actions includes full authorized funding for No Child Left Behind mandates (\$905 million), restoration of criminal justice grants to prior levels (\$72 million), and additional child care funding to support more stringent Federal work participation standards (\$75 million) in the Federal portion of the program. Under State measures, foremost among the City’s proposal are higher reimbursement rates for State-ready inmates (\$144 million), tort reform (\$80 million) and Wicks Law repeal (\$63 million). The City has assigned an expected target of \$350 million to these actions, yet unlike in the past, this estimate was not incorporated in the FY 2008 Preliminary Budget.

Impact of State Executive Budget

The State Executive Budget could provide a net benefit of roughly \$300 million to the City if all of the elements are enacted, based on estimates provided by the State Division of Budget. The largest component of this benefit is the proposed increase of \$638 million in education aid. This increase would represent the first installment under a three-year phase-in schedule that would hike State education aid by \$2.26 billion

annually by FY 2010, exceeding the CFE court order and mirroring the City's baseline expectation of additional State education support. Under the Governor's proposal, the City would receive about 39 percent of Statewide allocation of formula-based education aid. However, if the benefits of the School Tax Relief program are included in assessing State support for local education spending, the City's share of the overall State assistance would drop to about 37 percent, a figure that is more comparable to its share of Statewide public school enrollment. This level of funding would not reflect the greater needs driven by a higher proportion of students with special needs in the City's enrollment. In addition, the Governor's budget contains enhanced revenue of \$344 million mainly from closing various tax loopholes. The initiatives target primarily banking and corporation taxes that could provide up to \$374 million in revenues, partly offset by an increased charge of \$30 million to the City for personal income tax administration.

These benefits are offset significantly by the loss of revenue sharing aid to the City. The Governor has proposed to eliminate revenue sharing aid of \$328 million to the City and redirect about \$50 million of this amount to help other localities across the State. Making matters worse, the first State revenue sharing payment to be cut under the proposal is earmarked for the City's FY 2007. Thus, this action would have an immediate impact in the current fiscal year, reducing the City's baseline revenue projection by a cumulative \$656 million in FYs 2007 and 2008. In other actions, the City could gain \$40 million in transportation subsidy and mandate relief savings, though this impact will likely be muted by Medicaid revenue losses at the Health and Hospitals Corporation and a slight decline in welfare support.

Moreover, the Governor's budget proposal for the City is not without certain elements of risk. In particular, it is not clear how the legislature will receive the proposed revenue loophole closures, even though other states have adopted some of these measures, since they would raise the tax liability of both businesses and individuals. Also, mandate relief actions targeted by the Governor involve the repeal of the Wicks Law and enactment of certain tort reform initiatives. While the City has given its full backing to these actions, they have been proposed before without success.

C. EXPENDITURE ANALYSIS

The City's projected FY 2008 spending totals \$57.9 billion.⁸ However, the City's expenditure estimates encompass prepayments of \$3.94 billion, which include prepayments of FY 2008 debt service of \$3.41 billion, advance subsidies to libraries, Transit Authority (TA) and Metropolitan Transportation Authority (MTA), and Health and Hospitals Corporation (HHC) of \$225 million, \$208 million, and \$91 million, respectively, as well as a BSA of \$1.38 billion to be used for prepaying FY 2009 debt service. Further, FY 2008 NYCTFA debt service has been reduced by \$350 million from a NYCTFA bond defeasance in the same amount in FY 2006.

⁸ Expenditures include NYCTFA debt service.

After adjusting for net prepayments, FY 2008 expenditure totals \$60.8 billion.⁹ This is an increase of 4.5 percent from the adjusted FY 2007 expenditure estimate of \$58.2 billion. From 2008 to FY 2011, expenditures, after adjusting for pre-payments, are projected to grow by 10.9 percent. As Table 14 shows, spending increases in FY 2008 and the outyears of the Financial Plan are dominated by growth in pension contributions, health insurance costs, debt service, and judgments and claims (J&C) settlements. The combined spending in these areas, which accounts for approximately 24 percent of FY 2008 spending, is projected to grow by 18 percent, or \$2.6 billion from FY 2008 to FY 2011.

Table 14. FY 2008 –FY 2011 Expenditure Growth

(\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	Growth FY 08-11	Annual Growth
Pensions	\$5,439	\$6,015	\$6,072	\$6,072	11.6%	3.7%
Health Insurance	3,511	3,795	4,008	4,251	21.1%	6.6%
Debt Service	5,091	5,446	5,805	6,198	21.7%	6.8%
J & C	635	688	738	795	25.3%	7.8%
Subtotal	<u>\$14,676</u>	<u>\$15,944</u>	<u>\$16,623</u>	<u>\$17,316</u>	18.0%	5.7%
Wages and Salaries	\$20,000	\$20,295	\$20,379	\$20,744	3.7%	1.2%
CFE Supported Expenditures	723	1,476	2,256	2,302	218.4%	47.1%
City-Fund New Education Initiatives	0	0	326	767	N/A	N/A
Retiree Health Benefits Trust	500	0	0	0	(100.0%)	(100.0%)
Other Fringe Benefits	2,925	2,963	3,015	3,071	5.0%	1.6%
Medicaid ^a	5,380	5,222	5,376	5,535	2.9%	1.0%
Public Assistance	1,200	1,200	1,200	1,200	0.0%	0.0%
Other OTPS	15,380	15,781	16,175	16,445	6.9%	2.3%
Subtotal	<u>\$46,108</u>	<u>\$46,937</u>	<u>\$48,727</u>	<u>\$50,064</u>	8.6%	2.8%
Total Expenditure	\$60,784	\$62,881	\$65,350	\$67,380	10.9%	3.5%

SOURCE: NYC Office of the Comptroller

NOTE: Expenditures are Total-fund expenditures and include NYCTFA debt service

^a Medicaid growth in the Table reflects a one-time transaction for HHC in FY 2008. After adjusting for non-City funds and the one-time transaction, Medicaid outlay shows annual growth of 3.0 percent in FYs 2008 through 2011, reflecting the State cap on local Medicaid growth.

All other expenditures, including wages and salaries, are expected to grow by 8.6 percent over the same period. The City’s Financial Plan shows wages and salaries growing by 14.9 percent over the Plan period. However, salaries and wages in the Financial Plan reflect both the City’s assumption of increased State funding in response to the Court ruling on the Campaign for Fiscal Equity (CFE) lawsuit and additional City funding to the Department of Education in FYs 2010 and 2011 as discussed in “Department of Education” beginning on page 36. As Table 14 shows, salaries and wages, after adjusting for the expected CFE funding and additional City-funding, are expected to grow by 3.7 percent, or an annual compounded rate of 1.2 percent.

⁹ Net prepayment for a given fiscal year is the prepayment of that fiscal year’s expenditures minus the prepayment for the following year’s expenditures.

Pensions

The January Plan projects that the City’s pension expenditures will increase at an average annual rate of 15.3 percent from FY 2006 through FY 2009 and then remain stable through FY 2011, as shown in Table 15 below. Most of the increase from FY 2006 to FY 2009 is due to the phase-in of actuarial investment losses, experienced in FYs 2001 through 2003, into the actuarial asset values through FY 2009. The January Plan projections include (a) the estimated impact of death benefits related to the World-Trade-Center-disaster provided by Chapter 445 of the Laws of 2006, (b) additional pension costs associated with the assumption of City-wide wage increases patterned after the DC 37 and/or UFT agreements, (c) the impact of actual investment returns on pension fund investments through June 30, 2006, and (d) a reserve of \$200 million per year beginning in FY 2009 to accommodate the potential changes in actuarial assumptions and methods recommended by The Segal Company (Segal), who recently completed a Charter-mandated, independent actuarial audit of the City’s actuarial pension systems.¹⁰ The projections also include some small reserves for anticipated changes in headcount, investment costs, and administrative costs.

The net changes in the projections of the City’s pension contributions between the November Plan and the January Plan are illustrated in Table 15.

Table 15. January Plan Projections of the City’s Pension Expenditures

(\$ in millions)

	FY 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Five Actuarial Systems	\$3,919	\$4,762	\$5,472	\$6,044	\$6,101	\$6,101
Other Systems	96	104	103	107	107	107
TOTAL January Plan	\$4,015	\$4,866	\$5,575	\$6,151	\$6,208	\$6,208
TOTAL November Plan	\$4,015	\$4,869	\$5,595	\$5,960	\$5,972	\$5,998
Net Increase/(Decrease)		(\$ 3)	(\$ 20)	\$ 191	\$ 236	\$ 210

As mentioned above, the City has created a \$200 million reserve per year beginning in FY 2009 for possible revisions in actuarial assumptions and methods. These reserves would be adequate if the Chief Actuary of the City’s pension systems (Chief Actuary) implements Segal’s recommendations and also decides to adopt the actuarial cost method (Entry Age Normal, or EAN) favored by Segal. As Table 16 shows, adoption of all of Segal’s recommendations would increase pension contributions by \$339 million. Coupled with that, a change from the City’s current actuarial cost method

¹⁰ Segal’s actuarial audit engagement and resulting findings and recommendations are discussed briefly under “Pensions” in the Comptroller’s report on *The State of the City’s Economy and Finances, 2006* dated December 14, 2006. Segal’s reports, in their entirety, are available on the Comptroller’s website at http://comptroller.nyc.gov/bureaus/bud/all_budget_reports.shtm under “Miscellaneous Reports.”

(Frozen Initial Liability or FIL) to the EAN with 15-year amortization of the Unfunded Accrued Actuarial Liability would provide an offsetting saving of \$232 million, resulting in a net increase of \$107 million.

Table 16. Estimated Impact to the City’s Annual Pension Contributions if Segal’s Recommended Changes in Assumptions and a Change in the Actuarial Cost Method are Implemented ^a

(\$ in millions)

	<u>Increase/(Decrease)</u>
Real Return & Inflation	\$ 224
Post-Retirement Mortality	151
Merit Salary Scale	(139)
Retirement	45
Other Miscellaneous	58
Total Impact ^a	\$ 339
Change from FIL to EAN ^a	(\$232)
Net Impact ^a	\$107

^a The Comptroller’s Office derived the cost impacts shown in Table 16 to exclude non-City employers from estimates provided by Segal. All Segal’s estimates are based on June 30, 2004 data (which was used to derive FY 2006 employer contributions). The cost impacts are expected to increase with time. For example, the \$339 million “Total Impact” estimate in Table 16 is based on Segal’s FY 2006 employer contribution audit and, all else being equal, the estimate is expected to increase each fiscal year at about the same rate as the assumed general wage increase.

The Chief Actuary is currently reviewing Segal’s report. The most recent set of revisions in actuarial assumptions and methods was implemented effective FY 2006.

Health Insurance

The January Plan shows that pay-as-you-go spending for employee and retiree health insurance is projected to increase almost 35 percent between FY 2007 and FY 2011, an average annual growth rate of about 7.7 percent. The projections are based on an expected premium rate increase of 8.69 percent in FY 2008 and assumed increases of 8.0 percent for the remaining outyears.

The January Plan increased allocations by \$4 million in FY 2007, \$59 million in FY 2008, \$63 million in FY 2009, \$68 million in FY 2010, and \$74 million in FY 2011, compared with the November Plan. As shown in Table 17, the City attributes these increases to three main causes.

1. Anticipated changes in headcount.
2. A 0.69 percentage point revision in the Health Insurance Plan of New York (HIP) premium rate increase for FY 2008 to 8.69 percent from the previously-budgeted 8.0 percent.

3. Increases in HIP premium rates due to the enactment of Chapter 748 of the Laws of New York, 2006, which required upgrades in coverage for mental illnesses. This law, cited as “Timothy’s law,” mandates that coverage for mental illnesses must be provided under the same terms and conditions as coverage provided for physical illnesses.

**Table 17. Revisions in Health Insurance Expenditure Projections
FY 2008 January Plan Vs. November Plan**

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
November Plan	\$3,152	\$3,452	\$3,732	\$3,940	\$4,177
Headcount Changes	4	11	11	11	12
Revision in the Anticipated HIP Rate Increase for FY 2008	0	18	19	21	24
Mental Health Parity Coverage	0	30	33	36	38
FY 2008 January Plan	\$3,156	\$3,511	\$3,795	\$4,008	\$4,251

- NOTES: (1) The projections include health insurance expenditures for the Department of Education as well as the City's portion for the City University of New York.
(2) The projections do not include planned contributions of \$1 billion in FY 2007 and \$500 million in FY 2008 to the Retiree Health Benefits Trust.
(3) The November Plan amount for FY 2011 is an estimated number.

In addition to the health insurance costs shown in Table 18, the January Plan has allocated a contribution of \$500 million to the New York City Retiree Health Benefits Trust (RHBT) in FY 2008. This contribution would follow a \$1 billion contribution in FY 2006 and an expected \$1 billion contribution in FY 2007.¹¹ The January Plan’s expected health costs, including contributions to the RHBT are shown in Table 18.

¹¹ The RHBT was established with an initial deposit of \$1 billion in FY 2006 to establish reserves to offset “post-employment benefits other than pensions” (OPEB) provided by the City to its retired employees. In addition, the City expects to contribute \$1 billion in FY 2007 and \$500 million in FY 2008 to the RHBT. Every year’s pay-as-you-go expenses for OPEB (which include retirees’ health insurance, welfare benefit contributions for retirees, and Medicare Part B reimbursements) are expected to be channeled through the RHBT. The City does not have any legal obligation to fund or reimburse the RHBT.

**Table 18. FYs 2006 –2011 Health Insurance Expenditures
FY 2008 January Plan**

(\$ in millions)

	FY 2006 Actual	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Active Employees	\$1,933	\$2,075	\$2,299	\$2,450	\$2,516	\$2,596
Retirees	924	1,081	1,212	1,345	1,492	1,655
Transfer to RHBT	1,000	1,000	500	0	0	0
Total	\$3,857	\$4,156	\$4,011	\$3,795	\$4,008	\$4,251

Labor

Wage and salary expenditures are projected to increase 14.9 percent from \$20.7 billion in FY 2008 to \$23.8 billion in FY 2011. These projections, which average about one third of total expenditures, include assumed additional State funds resulting from the CFE court ruling of \$723 million, \$1.48 billion, \$2.26 billion, and \$2.30 billion in FYs 2008, 2009, 2010, and 2011, respectively, as well as additional City funding of \$326 million in FY 2010 and \$767 million in FY 2011 for DOE, as discussed in “Department of Education” beginning on page 36.¹² Wages and salaries also include funds in the labor reserve that have not yet been transferred to individual agencies to fund recent and expected contract settlements. The labor reserve contains funding of \$385 million for FY 2007, \$824 million for FY 2008, \$1.112 billion for FY 2009, \$1.459 billion for FY 2010, and \$1.821 billion for FY 2011.

In November 2006, the City reached a contract agreement with the United Federation of Teachers (UFT) covering a 24-month and 19-day period from October 13, 2007 to October 31, 2009. Under the contract agreement, each member received a lump sum payment of \$750 on January 1, 2007. Additionally, the agreement provides for wage increases of 2.0 percent effective October 13, 2007 and 5.0 percent compounded effective May 19, 2008. The budget previously included funding for wage increases of 2.0 percent and 4.0 percent. In the FY 2008 Preliminary Budget, the City added \$39 million in FY 2007, \$116 million in FY 2008, \$96 million in FY 2009, \$124 million in FY 2010, and \$125 million in FY 2011 to fund additional benefits including the lump-sum payment, increased longevity payments, and the additional 1.0 percent wage increase.

In addition to the UFT and District Council 37, the City has reached similar agreements with other unions, including probation officers and traffic enforcement agents. Contract agreements have yet to be reached with the Patrolmen’s Benevolent

¹² The additional City-funding for DOE in FYs 2010 and 2011 totals \$356 million and \$836 million, respectively, of which \$326 million and \$767 million are reflected in FY 2010 and FY 2011 wages and salaries, respectively. The remainder are reflected in other-than-personal-services projections.

Association (PBA) and other uniformed employees unions. A mediator appointed by the Public Employment Relations Board (PERB) is currently working with the City and the PBA to forge a settlement. Every percentage increase for uniformed employees over the City's funding assumption will result in additional cost of approximately \$83 million.

On March 2, 2007, the City reached a tentative collective bargaining agreement with the Uniformed Firefighter's Association (UFA). The tentative agreement will cover the period from August 1, 2006 to July 31, 2008. The tentative agreement provides for a wage increase of 4.0 percent on August 1, 2006 and another 4.0 percent increase on August 1, 2007 for a combined 8.16 percent increase, compounded, over the two-year period. Other provisions in the tentative agreement include:

- Increasing the starting salary from \$25,100 to \$30,000.
- A \$1,000 longevity increase at each step, effective September 1, 2007.
- A 3.0 percent increase in the differential for performing Chauffeur or Tillerman duties, effective September 1, 2007
- Effective July 31, 2008, a \$1,100 increase to the Fire Marshall uniform allowance.
- An assignment differential of 12 percent of base salary, effective July 1, 2007, payable to certain firefighters assigned to Hazmat and Rescue Companies.
- An increase of \$80 per retiree in the City's contribution to the Welfare Fund, effective July 31, 2008.
- Six fewer paid holidays during the first five years of service for employees hired on or after April 1, 2007.
- Elimination of both the City's annuity contribution on behalf of employees during the first five year's of service and the additional annuity contribution of \$1,150 during the first one and one-half years of service for employees hired on or after April 1, 2007.
- A 50 percent reduction in the night shift differential during the first five years of service for employees hired on or after April 1, 2007.

The Financial Plan contains funding for the UFA based on the DC 37 contract. The Comptroller's Office estimates that the difference between the terms of the tentative agreement with the UFA and the funding assumptions in the budget for UFA wage increases will result in additional cost of \$5 million in FY 2007 and \$22 million annually in the outyears.

Headcount

The planned FY 2008 year-end City-funded full-time headcount of 229,976 employees in the Preliminary Budget represents an increase of 3,274 employees from the December 31, 2006 staffing level, and 143 employees more than the planned FY 2007 year-end headcount. In the outyears of the Plan, workforce levels are expected to decline to 228,818 by June 30, 2009, 227,976 by June 30, 2010, and 228,206 by June 30, 2011, as shown in Table 19.

In order to reach the 229,976, City-funded full-time headcount planned for FY 2008, the City expects to increase headcount by 3,131 employees between December 31, 2006 and June 30, 2007. The projected increase in City-funded full-time headcount from current levels reflects mainly an expected increase, by FY 2008, of 1,213 employees in the Department of Social Services (DSS), 1,048 employees in the Department of Health and Mental Hygiene (DOHMH), and 882 employees in the Administration for Children Services (ACS). Except for the conversion of 530 per-diem employees to full-time status at the DOHMH, all other hires in these agencies will support and enhance on-going or new programs. Moderate headcount increases are projected for other agencies such as the Departments of Buildings, Homeless Services, Juvenile Justice, and Transportation. These increases are partially offset by a planned reduction in headcount levels for pedagogical staff of 2,019 at the Department of Education (DOE) from 89,432 as of December 31, 2006 to 87,413 by June 30, 2008.

Uniformed headcount was 63,692 on December 31, 2006. The number of uniformed employees has declined from the peak level of 69,586 on June 30, 2000 to 63,438 on June 30, 2006. As shown in Table 19, the City expects uniform headcount level to decline to 63,213 by June 30, 2007 and remain relatively stable through FY 2011.

Table 19. City-Funded Full-Time Year-End Headcount Projections

	Dec. 31, 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Agency						
Uniformed:						
Police	35,672	35,624	35,624	35,624	35,624	35,624
Fire	11,544	11,232	11,232	11,232	11,232	11,232
Correction	8,710	8,735	8,822	8,780	8,780	8,780
Sanitation	<u>7,766</u>	<u>7,622</u>	<u>7,622</u>	<u>7,622</u>	<u>7,622</u>	<u>7,870</u>
Sub-total	63,692	63,213	63,300	63,258	63,258	63,506
Pedagogical:						
Dept. of Education	89,432	88,553	87,413	86,513	85,691	85,691
City University	<u>2,745</u>	<u>2,706</u>	<u>2,700</u>	<u>2,700</u>	<u>2,700</u>	<u>2,700</u>
Sub-total	92,177	91,259	90,113	89,213	88,391	88,391
Civilian:						
Police	9,378	9,990	9,845	9,845	9,845	9,845
Fire	4,492	4,556	4,650	4,650	4,650	4,650
DOE	8,602	7,963	7,963	7,961	7,961	7,961
Admin for Child Svcs.	6,483	7,380	7,365	7,361	7,361	7,361
DOHMH	2,774	3,102	3,822	3,822	3,806	3,808
Social Services	10,603	11,477	11,816	11,805	11,805	11,805
Parks and Recreation	2,706	3,004	3,125	3,125	3,124	3,052
All Other Civilians	<u>25,795</u>	<u>27,889</u>	<u>27,977</u>	<u>27,778</u>	<u>27,775</u>	<u>27,827</u>
Sub-total	70,833	75,361	76,563	76,347	76,327	76,309
Total	226,702	229,833	229,976	228,818	227,976	228,206

SOURCE: Office of Management and Budget, FY 2008 Preliminary Budget.

City-funded part-time headcount is expected to total 30,327 full-time-equivalent (FTE) employees on June 30, 2008. This is 2.0 percent lower than the actual 30,919 FTEs employed on December 31, 2006. This results mainly from expected part-time headcount decreases in the City University of New York (CUNY), DOHMH, Police Department, and DOE. Part-time pedagogical staff in CUNY is expected to decline 25 percent, from 1,946 FTE positions to 1,468 FTE positions. In DOHMH, part-time employees are expected to decrease 31 percent, from 1,817 FTEs to 1,261 FTEs, mainly as the result of the conversion of 530 per-diem employees to full-time status. Part-time civilian employees in the Police Department and non-pedagogical employees in CUNY are together projected to decline 8.0 percent, from 7,182 FTE employees to 6,599 FTE employees. These reductions are partially offset by projected increases in part-time employees in other agencies, including an increase of 726 FTEs in the Department of Parks and Recreation. FTEs are then projected to decline to 30,238 by June 30, 2011, as shown in Table 20.

Table 20. City-Funded Full-Time Equivalent (FTE) Year-End Headcount Projections

Agency	Dec. 31, 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
	Actual					
Pedagogical FTEs:						
Dept. of Education	896	902	902	902	902	902
City University	1,946	1,468	1,468	1,468	1,468	1,468
Sub-total	2,842	2,370	2,370	2,370	2,370	2,370
Civilian FTEs:						
Dept. of Education	14,709	14,784	14,784	14,784	14,784	14,784
City University	886	800	800	800	800	800
Police	6,296	5,776	5,799	5,799	5,799	5,799
Dept. of Parks & Rec.	2,631	3,538	3,357	3,319	3,269	3,251
Dept. of Health	1,817	1,546	1,261	1,280	1,280	1,280
All Other Civilian FTEs	1,738	1,996	1,956	1,954	1,955	1,954
Sub-total	28,077	28,440	27,957	27,936	27,887	27,868
Total FTEs	30,919	30,810	30,327	30,306	30,257	30,238

SOURCE: Office of Management and Budget, FY 2008 Preliminary Budget.

Overtime

The City has allocated about \$727 million for overtime expenditures in the FY 2008 Preliminary Budget. This is approximately \$113 million, or 13 percent, lower than the budgeted amount for FY 2007. The Comptroller's Office estimates that overtime spending will increase to \$890 million in FY 2008 as shown in Table 21, resulting in a risk of \$147 million to the budget.

Table 21. Projected Overtime Spending, FY 2008

(\$ in millions)

	City Planned Overtime FY 2008	Comptroller's Projected Overtime FY 2008	FY 2008 Risk
Uniform			
Police	\$272	\$375	(\$103)
Fire	158	158	0
Correction	55	75	(20)
Sanitation	63	63	0
Total Uniformed	\$548	\$671	(\$123)
Others			
Police-Civilian	\$16	\$40	(\$24)
Admin for Child Svcs	17	17	0
Environmental Protection	21	21	0
Transportation	30	30	0
All Other Agencies	95	95	0
Total Civilians	\$179	\$203	(\$24)
Total City	\$727	\$874	(\$147)

NOTE: The Comptroller's overtime projection assumes that the City will be able to achieve some offsets to overtime spending from personal services savings.

The risk to the overtime budget stems mainly from expected overtime spending at the Police Department. Between FYs 2001 and 2006, police officer overtime averaged \$337 million annually.¹³ The current fiscal year-to-date police uniformed overtime spending of \$166 million, through December, is on track to mirror this average. However, the recent removal of the overtime cap on arrest processing for police officers will likely exert upward pressure on overtime spending for FY 2008.

Overtime expenses for uniformed employees at the Department of Correction (DOC) increased by 45 percent from \$44 million in FY 2001 to \$64 million in FY 2006. In the current fiscal year, the DOC has incurred \$43 million in uniformed overtime spending through December and is on target to spend the budgeted amount of \$87 million for FY 2007. The rise in overtime cost results mainly from a 4.0 percent increase in the average daily inmate population to approximately 14,000, the difficulty in recruiting new officers, and recent retirement trends. The City has indicated that about 50 percent of current correction officers are eligible to retire within the next five years.

Overtime expenditures increased 22 percent from \$738 million in FY 2001 to \$903 million in FY 2006. Although spending for uniform overtime makes up the bulk of total overtime expenditures, civilian overtime cost has increased at an average annual rate of 4.0 percent since FY 2001, compared to 3.0 percent for uniform cost. As a result, civilian overtime spending has increased from 31 percent of total overtime spending in FY 2001 to 33 percent in FY 2006.

Public Assistance

Through January 2007, the City's public assistance caseload has experienced a decline of 15,868 recipients in the current fiscal year. The January 2007 caseload of 377,896 represents a drop of more than 3.0 percent from the June 2006 caseload of 393,764, continuing its retreat towards the lowest caseload level in more than 40 years. Public assistance grants, which had been relatively steady over the past two years, have also begun to drift lower in FY 2007. Adjusted public assistance expenditures reported by the Department of Social Services show that the City's share of these payments has averaged about \$40 million monthly, which points to the low end of the \$40 million to \$42 million range experienced in the prior two years.

In recognition of the caseload decline, the City has adjusted its public assistance assumptions from a previous target of 411,120 to an estimated caseload of about 373,700 by June 2007. The City has also drawn down its share of projected baseline grants expenditures from \$520 million to \$478 million for FY 2007. Assuming monthly grants will continue to move lower during the latter half of FY 2007, the City's budget would adequately cover these expenditures, though with a marginal cushion. For the outyears of

¹³ Unless otherwise noted, actual overtime numbers are adjusted for one-time occurrences which include the World Trade Center disaster in FY 2001, the electrical blackout in FY 2004, the Republican National Convention in FY 2005, Hurricane Katrina relief work, and increased security of following the London bombing in FY 2006.

the plan, the City holds its caseload projections flat from the June 2007 level and provides funding of \$478 million for City's share of baseline grants spending each year.

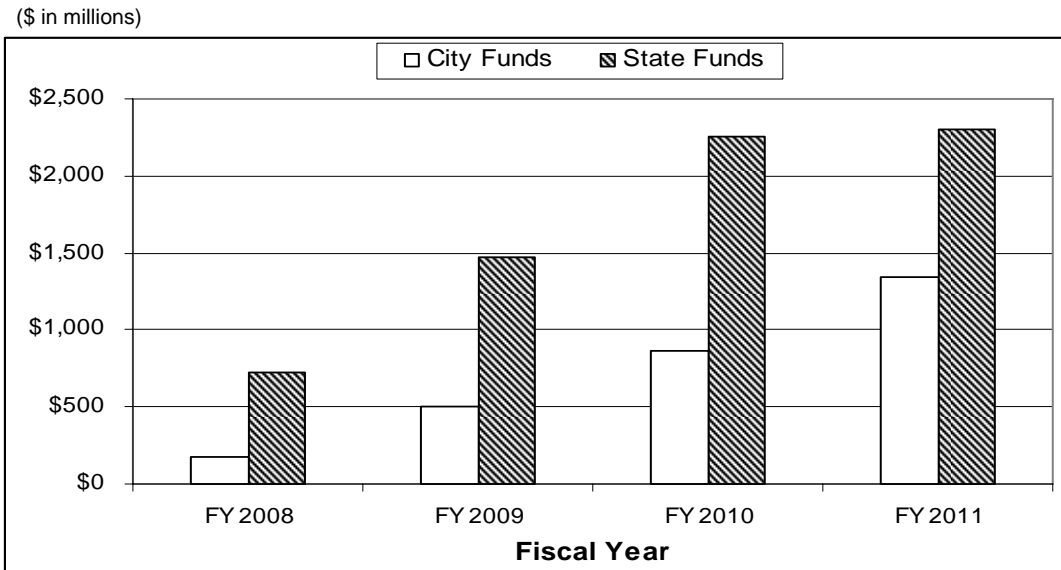
Department of Education

The January Plan reflects significant funding increases to the Department of Education (DOE) in accordance with the November 2006 CFE court ruling. By phasing in the impact of the CFE court order over the next three years, the City has raised its State education aid assumptions by \$723 million in FY 2008, \$1.48 billion in FY 2009, and \$2.26 billion in FY 2010. After the phase-in, the expected increase for FY 2011 is marginally higher at \$2.30 billion. For the most part, these assumptions are consistent with the Governor's education aid proposals, with both reaching a similar increase of \$2.26 billion in State education aid by FY 2010.¹⁴

As a result of the January Plan changes, the DOE budget is projected to grow by about \$1 billion each year from FY 2007 to FY 2010. Compared with the FY 2007 estimate of \$15.74 billion, the DOE budget would rise to funding levels of \$16.68 billion in FY 2008, \$17.80 billion in FY 2009, and \$18.94 billion in FY 2010. By the end of the plan, education funding would edge close to \$20 billion, at a projected \$19.46 billion in FY 2011, an increase of about 24 percent from the FY 2007 base. Chart 4 on page 37 depicts the cumulative growth of State and City funds in the DOE budget over the January Plan. Other changes in the January Plan that figure in this growth include collective bargaining transfers and various Federal revenues contributing to the incremental growth in FYs 2008 and 2009. In the latter part of the plan, additional City funding of \$356 million and \$836 million has been reflected in FYs 2010 and 2011 respectively to maintain comparable growth as in the early stages of the plan.

¹⁴ As shown in State Executive Budget documents, the Governor's proposal includes a fourth year that would boost education aid to the City by \$3.2 billion in FY 2011, significantly higher than the City's expectation of \$2.3 billion.

Chart 4. Cumulative DOE Funding Growth in January Plan

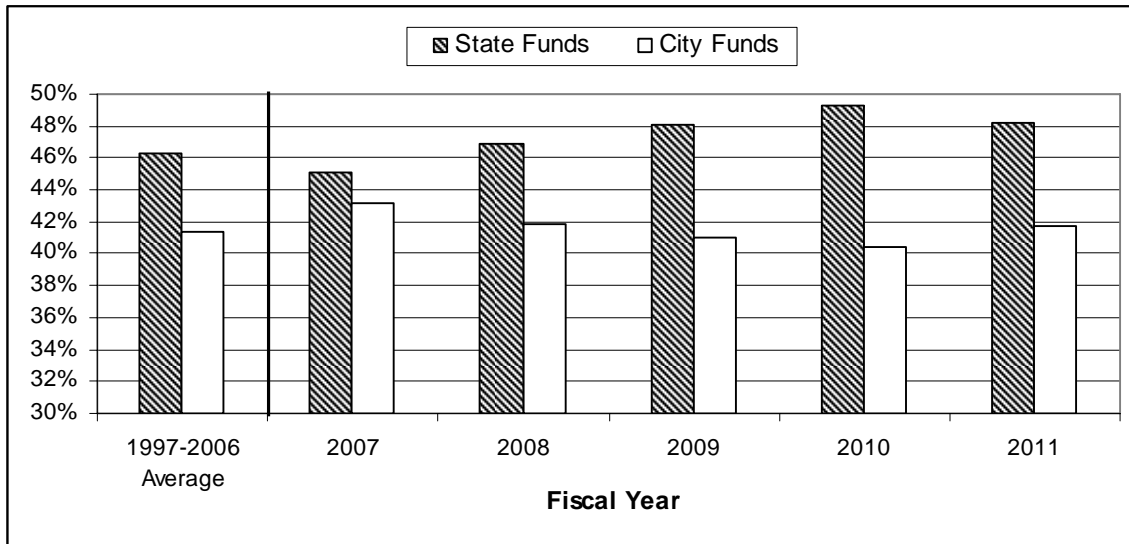


The inclusion of additional State aid will drive up its share of the Department's budget beginning in FY 2008. As shown in Chart 5 on page 38, the January Plan estimates show that the State share of total DOE funding will move to a range of 47 percent to 49 percent in FYs 2008-11, compared to an estimated 45 percent in FY 2007 and an average of 46 percent in the 10 years prior.¹⁵ As a result of the rising State share, the City share will fluctuate between 40 percent and 42 percent of the total DOE budget in FYs 2008-11, still in line with the 41 percent share average seen for FYs 1997-2006.

By function, the planned allocations within the Department show that, for the time being, about \$2.25 billion or two-thirds of the total DOE funding growth of \$3.72 billion over the January Plan is earmarked for general education instruction and support. Other significant areas of growth, compared to the FY 2007 base, includes DOE-based special education programs (\$443 million), non-public school payments (\$352 million), collective bargaining (\$378 million), health insurance (\$171 million), and pupil transportation (\$175 million).

¹⁵ Under the Governor's plan, the City would receive an education aid increase of about \$3.2 billion in FY 2011. The proposal would provide about \$900 million more than the City's baseline assumption and would push the State funding share of total DOE funding to 51 percent. At the same time, the City funding share would drop to 40 percent.

Chart 5. State and City Shares of Total DOE Funding, FYs 1997-2011



In January, the Mayor unveiled his plan for the next phase of Children First reforms in the State of the City address. The plan calls for the current regional structure for school operations to be eliminated, returning the Department to a community school district structure that was scrapped in favor of regional operations during 2003. Superintendents from each school district would report directly to the Chancellor under the revamped format. Within the proposed plan, principals could choose from one of three options for school support services: 1) becoming empowerment schools; 2) partnering with one of four internal learning support organizations to be headed by existing regional superintendents; or 3) partnering with external support organizations. The Mayor also introduced the Fair Student Funding reform, whereby schools with similar profiles will receive comparable tax levy allocations. The Department has indicated that it will aim to smooth out current inconsistencies in school allocations by adopting a fixed funding base that would apply to each student in future years. The City has not yet reflected the fiscal impact of the Mayor’s proposals in its Financial Plan. According to the Department, however, an impact estimate will likely be available prior to the release of the upcoming Executive Budget.

Health and Hospitals Corporation

In the January Plan, the City projects that the Health and Hospitals Corporation (HHC) will achieve a net operating income of \$610 million, on an accrual basis, in FY 2007. More importantly, the January Plan shows that HHC would end the current fiscal year with a record cash balance of about \$1.11 billion. The balance is expected to carry over into the next fiscal year, culminating in a slightly higher cash balance of \$1.13 billion for the Corporation by the end of FY 2008.

The Corporation fares considerably better in the January Plan financially because of the inclusion of additional Medicaid revenue for Upper Payment Limit (UPL) and Disproportionate Share (DSH) aid. Compared with previous projections, HHC’s cash

position has improved by more than \$600 million in FY 2007 and by roughly \$1 billion in FY 2008. The enhanced revenue, estimated at \$1.4 billion across FYs 2007 and 2008, is similar to a previous action that provided HHC with a \$1.3 billion revenue boost in FY 2006. The City, in providing the necessary funding to facilitate the current transaction, would incur a net increase of \$219 million in projected costs over the Plan period. The additional assistance to HHC is reflected primarily in FY 2008 and FY 2011. HHC would assume the responsibility of paying certain portions of its debt service costs in each of FYs 2008-2011. While the UPL and DSH revenue initiatives appear to sustain HHC's cash flow through the initial years of the plan, the financial picture in the later years remains a concern.

Beyond FY 2008, the financial outlook for HHC turns less optimistic as large deficits loom, draining its cash balance in the later stages of the plan. Between FY 2009 and FY 2011, HHC's operating deficits are expected to top \$800 million each year on an accrual basis. In each of these years, HHC plans gap-closing actions of \$492 million to \$589 million annually. Even after accounting for the values of its gap-closing program, HHC's cash balance would decline sequentially over this period, falling to \$637 million in FY 2009, \$305 million in FY 2010, and \$21 million by FY 2011. The composition of the gap-closing actions shows significant reliance on Federal and State actions, constituting about 60 percent of the overall value of planned actions. The reliance on these funding sources poses added uncertainty, given that both Federal and State budgets target hospital payments for savings in health care reform proposals. While the impact of the Governor's proposals appears manageable, the President's proposals could be far more damaging to HHC if approved in their entirety.¹⁶ The Federal government has called for a change in regulation that could cut certain Medicaid support for public hospitals, reducing HHC revenue by \$350 million annually. In addition, the President's budget includes proposals that could significantly reduce Federal Medicaid and Medicare dollars to the Corporation, with a potential impact of several hundred million dollars each year. However, because of the severity of the proposed Federal cuts, it is unclear which of these measures will gain approval from Congress. In addition to the Federal and State actions, the Corporation also seeks to achieve various revenue and operational initiatives that could provide annual offsets of \$207 to \$229 million in each of FYs 2009-2011.

Debt Service

Debt service in the Preliminary FY 2008 Budget and Financial Plan, adjusted for prepayments, is projected to total \$4.70 billion in FY 2007, \$5.18 billion in FY 2008, \$5.54 billion in FY 2009, \$5.90 billion in FY 2010, and \$6.29 billion in FY 2011. General Obligation (GO) debt service, which accounts for more than 70 percent of total debt service, is projected to grow 38 percent from FY 2007 to FY 2011. As shown in Table 22, GO debt service is projected to increase \$1.29 billion over this period.

¹⁶ The Corporation indicates that the Governor's Medicaid cost containment proposals could result in a negative impact of about \$30 million on HHC, primarily through reduction of graduate medical education payments under Medicaid.

NYCTFA debt service is projected to increase \$212 million, or 22 percent, and lease-purchase debt service is projected to increase \$90 million, or 40 percent over the same period.

Table 22. January Financial Plan Debt Service Projections, FYs 2007-2011

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY2010	FY2011	Change FY 2007 to FY 2011
General Obligation ^a	\$3,432	\$3,657	\$3,974	\$4,339	\$4,725	\$1,293
NYCTFA ^b	947	1,116	1,154	1,153	1,159	212
Lease-Purchase Debt ^c	225	308	318	313	315	90
TSASC, Inc	89	88	89	90	91	2
Municipal Assistance Corporation	10	10	0	0	0	(10)
Total	\$4,703	\$5,179	\$5,535	\$5,895	\$6,290	\$1,587

^a GO includes interest on short-term notes.

^b Figures for the NYCTFA do not include debt service for Building Aid Revenue Bonds (BARBs).

^c Lease-purchase debt service includes interest for the Hudson Yards Infrastructure Corporation.

SOURCE: January 2007 Financial Plan, Office of Management & Budget, January 2007.

In total, the January projections represent decreases of \$155 million in FY 2007, \$204 million in FY 2008, \$228 million in FY 2009, \$220 million in FY 2010, and \$196 million in FY 2011 from the November 2006 Financial Plan. The \$155 million reduction in FY 2007 is due primarily to a decrease of \$130 million from a re-estimate of Hudson Yards Infrastructure Corporation debt service, and \$22 million in lower-than-expected long-term borrowing costs for new issuance of GO and NYCTFA debt in the first half of FY 2007. The favorable pricing of a HYIC bond issue in December 2006, with its unique “interest only” structure extending beyond the Financial Plan period, coupled with timing delays, produced considerable savings over past conservative debt service estimates.

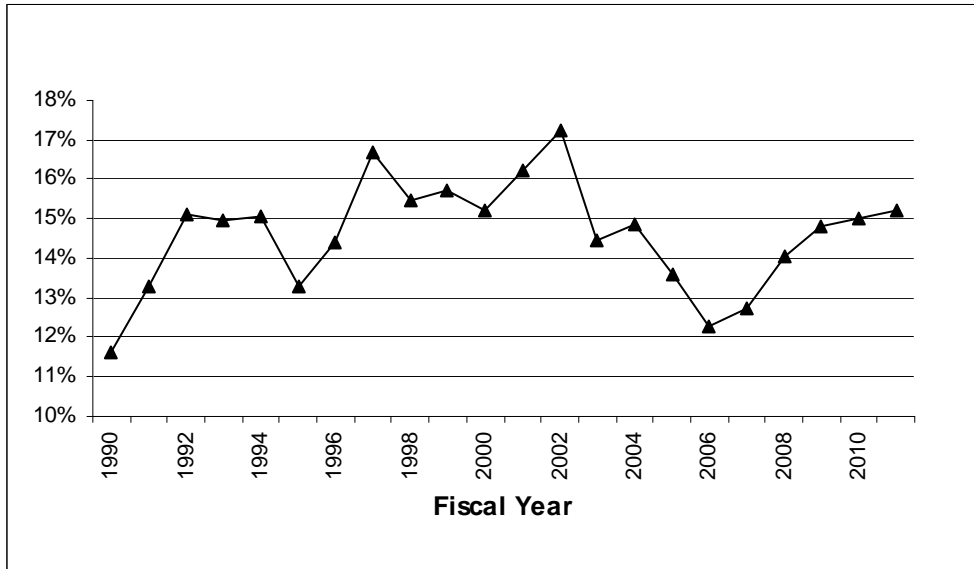
The downward revision to the November Modification in debt service projections for FYs 2008-2010 is due partly to the re-estimate of HYIC debt service which lowered projected lease-purchase debt service by \$27 million in FY 2008, \$65 million in FY 2009, and \$48 million in FY 2010 from the November Financial Plan. In addition, a reduction in planned GO borrowing in the amount of \$1.3 billion in FYs 2007-2009 further lowered projected debt service by \$75 million in FY 2008, \$148 million in FY 2009, and \$158 million in FY 2010.¹⁷ These reductions to debt service result primarily from stretching the capital program from four years to five years across the capital program citywide in the January 2007 Capital Commitment Plan.

¹⁷ In addition to the absolute dollar decrease in borrowing, the City reduced forecasted GO interest rates for borrowing by 1.0 percent in FY 2007 and by 50 basis points in FYs 2008-2009.

Debt Affordability

Debt service as a percent of local tax revenues is an accepted measure of affordability and a measure of debt burden on a municipality. As shown in Chart 6, debt service as a percent of local tax revenues is estimated to be 12.8 percent in FY 2007 growing to 14.2 percent, 14.9 percent, 15 percent, and 15.2 percent over FYs 2008-2011, respectively.¹⁸ Average debt service growth of 7.5 percent per year between FYs 2007 and 2011 is significantly above estimated annual tax revenue growth of 2.9 percent, thus leading to the increased ratio in the outyears of the financial plan.

Chart 6. Debt Service, Adjusted for Pre-payments, as a Percent of Tax Revenues, FYs 1990-2011



SOURCE: Office of Management and Budget, City of New York, January 2007 Financial Plan.

Financing Program

The Financing Program for FYs 2007-2011 totals \$35.01 billion, \$4.3 billion of which has already been issued in the first half of FY 2007.

As shown in Table 23, GO bonds sum to \$21.9 billion over the period, or 62.6 percent of the program. NY Water Authority bonds (NYW) total \$11.1 billion, or 31.7 percent of the program, followed by NYCTFA bonds at \$2 billion or 5.7 percent of the total. The City is seeking State legislative approval to increase NYCTFA's borrowing capacity. If approval is granted, the NYCTFA would potentially absorb half of the future GO borrowing which would total approximately \$10 billion. Barring rating agency

¹⁸ Debt service analysis is adjusted to eliminate the effect of payments.

concerns about an expanded NYCTFA debt load, borrowing through the better rated NYCTFA would, in theory, reduce the City's borrowing costs.

Table 23. Financing Table, January 2007 Financial Plan

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total
General Obligation Bonds	\$1,520	\$4,040	\$4,500	\$5,840	\$6,020	\$21,920
NYCTFA Bonds ¹	2,000					2,000
Water Authority Bonds ²	2,047	1,855	2,424	2,377	2,391	11,094
Total	\$5,567	\$5,895	\$6,924	\$8,217	\$8,411	\$35,014

SOURCE: NYC Office of Management and Budget

¹ NYCTFA bonds do not include BARBs issued for education purposes. NYCTFA has already issued \$650 million in BARB bonds in FY 2007 with an expected BARB issuance total of \$4.8 billion over the plan period.

² Water Authority figures include bonds and initially issued commercial paper.

Water Finance Authority and Water Board

The NYC Water and Sewer System consists of two separate and independent corporations: The New York City Municipal Water Finance Authority (the "NYW") and the New York City Water Board ("the Board"). The system is operated and maintained by the Department of Environmental Protection (DEP). Water and sewer fees paid by users fund the system. The Board leases the system from the City and its primary responsibility is to set the rates for water and sewer use sufficient to ensure adequate funds to pay for debt service of the NYW and to compensate the City, primarily the DEP, for the costs of operating and maintaining the system. To set rates, the Board relies on NYW estimates of debt service on revenue bonds issued to finance the system's capital projects and DEP estimates of the system's operating and maintenance expenses. Sewer charges are set as a percentage of water charges.

The Board also makes a rental payment to the City of New York. This rental payment is computed by multiplying NYW gross debt service, less Environmental Facilities Corporation (EFC) subsidy adjustments, by 15 percent. Estimated rental payments in FY 2007 are \$137.1 million, growing to an estimated \$207.2 million by FY 2011, or an increase of about 11 percent per year, exceeding the projected inflation rate of 2.0 percent over the same period. This rate mirrors growth in NYW debt service which is also projected to grow by an average annual rate of 11 percent.

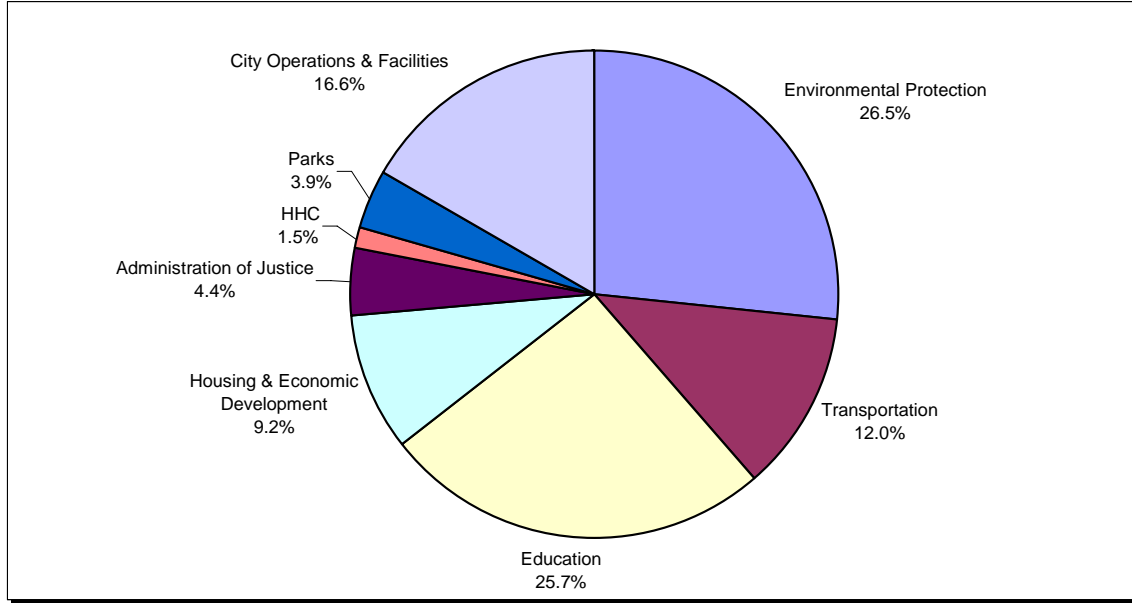
Capital Plan

The January Capital Commitment Plan for FYs 2007-2010 (Four-Year Plan) totals \$46.93 billion for all funds. After factoring in the reserve for unattained commitments, the plan amount drops to \$43.38 billion. This represents an increase of \$5.25 billion from the amount allocated for the same period in the September 2006 Capital Plan, and an increase of \$4.42 billion after factoring in the reserve for unattained commitments. The January Plan contains \$36.98 billion in City-funded commitments and \$9.95 billion in non-city commitments.

Major areas of capital commitments in the Four-Year Plan for FYs 2007-2010 plan continue to be DEP capital projects (\$12.45 billion), DOE and City University of New York (CUNY) capital projects (\$12.08 billion), Department of Transportation (DOT) and mass transit capital projects (\$5.65 billion) and Housing and Economic Development capital projects (\$4.33 billion). These four program areas comprise over 70 percent of the capital plan.

Chart 7. Shares of January 2007-2010 Capital Plan, January 2007

(\$ in millions)



SOURCE: Office of Management & Budget, Capital Commitment Plan, January 2007.

Department of Environmental Protection

The DEP continues to garner a large share of the capital plan, accounting for 26.5 percent of the total Four Year Plan from FYs 2007-2010. The \$12.45 billion projected total represents a \$4.65 billion increase from the September 2006 Capital Plan. A \$2.04 billion increase in water main projects and a \$1.96 billion increase in water pollution control projects account for the majority of the increase.

Overall, capital commitments for water main work are estimated to total \$5.1 billion over FYs 2007-2010. Projects such as an ultraviolet light water disinfection facility along with trunk and distribution main replacements make up a significant portion of this category. Water-pollution-control-related projects are expected to total \$4.96 billion. The \$2 billion upgrade to the Newtown Creek water pollution control plant and \$500 million in Combined Sewer Overflow mitigation projects comprise about one-half of this project type.

Other areas of capital work include sewer upgrades and replacements with \$978 million, DEP equipment with \$963 million, and water supply projects with \$454 million.

Education

The Department of Education (DOE) and CUNY account for 25.7 percent of the January Capital Plan with \$12.08 billion in estimated capital commitments over FYs 2007-2010. This represents a \$1.26 billion increase from the September 2006 Capital Plan. The first three years of the Citywide January Capital Commitment Plan comprise the latter three years of the DOE's FY 2005-2009 \$13.1 billion capital plan. Amended in February 2007, the capital plan produced by the DOE dedicates \$4.5 billion to build 105 new schools and 66,000 seats citywide. As of the February amendment, 47,000 seats were in design, construction, or already completed.

With \$4.2 billion already committed in FYs 2005 and 2006, the latter three years of DOE's capital plan sum to just below \$9 billion, in the City's January Plan, which include new capacity projects, as well as school restructuring projects, and capital maintenance of the system's existing infrastructure.

The January Plan also contains \$317 million for various capital projects at the City's community colleges.

Department of Transportation and Mass Transit

The Department of Transportation (DOT) is responsible for the City's un-tolled highways, bridges, streets, select sidewalks, traffic signal and ferries. In addition, the City provides a capital subsidy to the MTA for New York City Transit projects.

The January Plan contains \$5.65 billion over FYs 2007-2010 for DOT projects. This is \$391 million less than the September 2006 Capital Plan.

The plan contains \$2.84 billion in estimated commitments for waterway and highway bridges throughout the City along with \$1.77 billion for highway and street reconstruction projects. The plan also contains \$410 million for traffic signal replacements, and \$191 million for ferry boat purchases and refurbishments.

The January Plan contains \$352 million for New York City Transit projects primarily for core projects such as track and signal maintenance and \$21 million for the MTA Bus Company.

Housing and Economic Development

HPD continues its efforts to assist private owners through low interest loans to spur development of low and moderate income housing. In-rental disposition efforts continue as well as the development of middle income housing such as Queens West in Long Island City.

The January Plan contains \$4.33 billion for Housing and Economic Development projects over FYs 2007-2010 period. The Housing portion consists of \$2.01 billion for the Housing Preservation and Development (HPD) agency and \$180 million for the NYC Housing Authority. Economic Development, administered by the Economic

Development Agency (EDC), has capital commitments totaling \$2.14 billion over FYs 2007-2010.

Notably, \$1.46 billion, or 68 percent of the economic development capital commitment plan for FYs 2007-2010 is forecast for FY 2007. Economic development initiatives include such items as the \$350 million Javits Convention Center expansion, \$155 million for the Brooklyn Navy Yard, \$100 million for the Atlantic Yards project in Brooklyn, \$104 million for Coney Island strategic planning, \$184 million for cruise development citywide, \$103 million for Governors Island Redevelopment, and \$28 million for the South Bronx Greenway.

Administration of Justice

The Administration of Justice program area includes the Department of Correction, Courts Administration, and the NYC Police Department capital projects. The January Capital plan contains \$1.06 billion for courts projects citywide, \$450 million for the Department of Correction, and \$544 million for the Police Department.

Highlights of the courts capital program include the \$628 million for the already-completed 330 Jay Street Criminal and Civil Court building in downtown Brooklyn. Police Department highlights include \$107 million for ultra high-frequency radios, and \$112 million for computer equipment purchases.

Parks and Recreation

The January Commitment Plan totals \$1.84 billion for Parks and Recreation projects citywide. The capital plan for FYs 2007-2010 includes such items as \$181 million for Ancillary Park improvements related to the new Yankee Stadium, \$78.4 million for various improvements related to Citi Field in Queens, \$136 million for Fresh Kills Park in Staten Island, and \$67 million for the Hudson River Trust in Manhattan.

Hospitals

The January Plan contains \$702 million in capital commitments over FYs 2007-2010 for Health and Hospitals Corporation (HHC) projects. Major projects include the renovation and modernization of Gouverneur Hospital in the Bronx along with the modernization of Harlem Hospital.

Other City Operations

The January Plan contains \$7.79 billion for other City operations. Other City Operations include capital needs in such agencies as cultural institutions, libraries, the Department of Sanitation, the Fire Department, public buildings, and citywide equipment and computer equipment purchases.

Highlights of this category include \$1.65 billion for citywide general equipment purchases, followed by \$1.55 billion for the Department of Sanitation's capital needs, and

\$1.54 billion of citywide computer and network development costs. In addition, the capital plan provides for \$776 million in anticipated capital commitments for a variety of projects for cultural institutions, \$250 million for library system projects, \$513 million for Fire department projects, and \$698 million for projects at various public buildings throughout the City.

Ten-Year Capital Strategy

Every odd calendar year the Mayor is required, under section 215 of the City Charter, to publish a Preliminary Ten-Year Capital Strategy (PTYCS) in January for a variety of capital projects across a cross-section of city agencies. The PTYCS for FYs 2008-2017 totals \$77.28 billion in all funds and \$59.88 billion in City funds. This compares with \$62.41 billion in the Ten-Year Capital Strategy (TYCS) released in May 2005, or an increase in total funds of \$14.87 billion. Of the non-city funded portion of \$17.4 billion in the January 2007 PTYCS, \$14.98 billion, or 86 percent, is assumed State support for education capital projects which also accounts for most of the increment from the May 2005 TYCS.

Major Program Comparisons

The program areas garnering the highest share of the PTYCS are education capital projects at \$28.42 billion, or 36.8 percent of the total, followed by DEP capital projects at \$19.51 billion, or 25.2 percent, the Department of Transportation capital projects at \$8.96 billion, or 11.6 percent, and Housing and Economic Development capital projects at \$5.54 billion, or 7.2 percent of the total. These four major program areas constitute 81 percent of the PTYCS.

Table 24. Ten-Year Capital Strategy, FYs 2008-2017, January 2007

(\$ in millions)

	January 2007 City Funds	January 2007 All Funds	All Funds Percent of Total
Education	\$13,396	\$28,417	36.8%
Dept. of Transportation	7,444	8,961	11.6%
Environmental Protection	19,399	19,512	25.2%
Housing & Economic Development	4,895	5,540	7.2%
Administration of Justice	3,797	3,800	4.9%
Sanitation	2,785	2,785	3.6%
Mass Transit	767	767	1.0%
Other City Services	7,395	7,500	9.7%
Total	\$59,878	\$77,282	100.0%

SOURCE: Preliminary Ten-Year Capital Strategy, FYs 2008-2017, January 2007.

Education

As shown in Table 24, capital projects for education, with \$28.42 billion of planned commitments, reflect \$28.18 billion of DOE capital projects and \$232 million for CUNY capital projects. The PTYCS for DOE contains \$8.38 billion for the rehabilitation of school components, \$6.84 billion for educational enhancements, \$4.71 billion for

system expansion, \$1.5 billion for safety and security, and \$1.96 billion for emergency and miscellaneous projects. The rehabilitation of school components includes such items as roof and parapet replacements, new windows and lighting fixtures, floor replacements, on-property playground reconstruction, and lead paint and asbestos removal projects. Educational enhancements include science lab construction and/or renovation, educational software, upgrading networks, desktop and lap-top computer purchases. CUNY's capital projects reflect the City's investment in community colleges throughout the City. Three new building additions in Manhattan, Brooklyn, and Queens are included in the Plan.

Department of Environmental Protection

DEP's capital program of \$19.51 billion is largely driven by Federal and State mandates and includes \$8.72 billion for water pollution control projects, \$5.43 billion for water mains, \$2.48 billion for sewers, \$1.61 billion for water supply projects, and \$1.27 billion for equipment purchases.

Capital commitments for water pollution control projects include \$2.4 billion for the Newtown Creek water pollution control plant upgrade and other consent-decree compliance projects, \$3 billion for waste water treatment plant component stabilization projects, and \$1.4 billion for water quality improvements including combined sewer overflow (CSO) projects.

Water mains capital commitments include such items as \$2.2 billion for water quality preservation initiatives, \$1.1 billion for a UV light water disinfection facility, \$791 million for the upstate dam safety program, \$311 million for the investigation of the Delaware Aqueduct water leak, and \$1.54 billion of trunk and main replacements throughout the system.

Sewer related projects include \$1.23 billion for the replacement or augmentation of existing systems, \$499 million for extensions to the system, and \$732 million for replacement of chronically failing components.

Water supply projects include \$773 million for water conveyance which will research and develop alternative water supplies for the City during times of drought and temporary shut-offs due to tunnel repairs and inspections. The PTYCS also includes \$484 million for the continuation of the City Tunnel No. 3 project allotting \$261 million for stage 1 and \$223 million for stage 2.¹⁹

The DEP equipment category includes \$368 million for conservation efforts through new meters for commercial and residential properties along with the planned implementation of an automatic meter reading process to improve billing and collection

¹⁹ The City Water Tunnel No. 3, or the third water tunnel, has been in construction for over two decades. Upon completion of Stage 2 scheduled in FY 2012, it will eventually give the DEP the flexibility of inspecting, repairing, and otherwise improving tunnel No. 1.

efforts. \$404 million is allocated for the City's cost sharing agreement to fund 51 percent of gas utility relocation work that arises as part of water and sewer capital projects.

Department of Transportation

The Department of Transportation (DOT) is the City agency responsible for street and select sidewalk reconstruction, highways, bridges, municipal parking facilities, municipal ferry system, and street lighting and traffic signals installation and maintenance. In total, the TYCS contains \$8.96 billion for DOT capital requirements. This includes \$4.5 billion for bridges, \$3.61 billion for highways and streets, \$602 million for traffic signal and lampposts, \$177 million for ferries, and \$72 million for transportation equipment and vehicles.

Housing and Economic Development

Housing and economic development is overseen and managed by the Housing, Preservation and Development (HPD) agency, the Housing Authority (NYCHA) and the Department of Business Services, which houses the Economic Development Corporation (EDC). The PTYCS includes \$5.54 billion of capital commitments for these areas, including \$4.2 billion for HPD, \$229 million for NYCHA, and \$1.11 billion for EDC.

The PTYCS commits \$1.87 billion to HPD for assistance to private owners through various loan and grant programs, assisting in the rehabilitation and preservation of approximately 34,000 units in privately owned multiple dwelling and one to four unit homes as well. The PTYCS also allocates \$1.36 billion for new housing construction to build about 26,000 affordable units for low and middle income homeowners and renters through existing programs such as Partnership, New Foundations, and the Multifamily New Construction program.

The PTYCS provides \$228.5 million for various projects throughout the NYCHA system. The NYCHA is primarily funded by the Federal government and serves over 413,000 tenants citywide. The City's capital contribution provides such capital items as heating and plumbing work, door and entrance replacements, roof and window replacements, fencing and lighting upgrades and community center improvements.

The PTYCS includes \$1.11 billion for the EDC. The EDC administers the City's economic development projects, which include such program areas as commercial development (\$345 million), port development (\$262 million), industrial development (\$152 million), waterfront development (\$133 million), and neighborhood commercial revitalization (\$93 million). Major initiatives include Downtown Brooklyn redevelopment, Coney Island redevelopment, the development of Governors Island, and infrastructure projects to accommodate cruise ships.

Hudson Yards

Although the Hudson Yards Development Corporation (HYDC) is responsible for awarding design, construction, and land acquisition contracts and is generally outside the scope of the City's capital plan, there are certain ancillary projects related to this

\$3 billion development on the Westside of Manhattan that are included in the City's capital strategy.²⁰ The PTYCS contains about \$440 million of projects that the City and Federal government are funding which include, but are not limited to, projects within the DOT, DEP, and the Department of Sanitation (DOS).²¹ These projects include certain street reconstruction and viaduct work by DOT, sewer and water main work by DEP, and the relocation of a sanitation garage by DOS.

²⁰ The Hudson Yards Infrastructure Corporation (HYIC) is responsible for issuing the bonds necessary to finance construction.

²¹ Approximately \$360 million will be City funded along with \$80 million in Federal funding

Appendix – Revenue and Expenditure Details

Table A1. FY 2007 Preliminary Budget Revenue Detail

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2007-11	
						Percent	Dollar
Taxes:							
Real Property	\$13,106	\$13,381	\$14,471	\$15,542	\$16,446	25.5%	\$3,340
Personal Income Tax	\$8,512	\$8,564	\$8,663	\$9,033	\$9,496	11.6%	\$984
General Corporation Tax	\$2,773	\$2,767	\$2,679	\$2,824	\$2,992	7.9%	\$219
Banking Corporation Tax	\$811	\$813	\$658	\$693	\$729	(10.1%)	(\$82)
Unincorporated Business Tax	\$1,445	\$1,418	\$1,400	\$1,459	\$1,548	7.1%	\$103
Sale and Use	\$4,538	\$4,534	\$4,619	\$4,833	\$5,092	12.2%	\$554
Commercial Rent	\$512	\$550	\$566	\$583	\$601	17.4%	\$89
Real Property Transfer	\$1,483	\$1,264	\$1,163	\$1,178	\$1,207	(18.6%)	(\$276)
Mortgage Recording Tax	\$1,391	\$1,189	\$1,118	\$1,132	\$1,159	(16.7%)	(\$232)
Utility	\$356	\$363	\$378	\$393	\$409	14.9%	\$53
Cigarette	\$120	\$117	\$113	\$111	\$109	(9.2%)	(\$11)
Hotel	\$332	\$332	\$338	\$350	\$362	9.0%	\$30
All Other	\$439	\$391	\$390	\$397	\$397	(9.6%)	(\$42)
Tax Audit Revenue	\$859	\$559	\$559	\$560	\$560	(34.8%)	(\$299)
Total Taxes	\$36,677	\$36,242	\$37,115	\$39,088	\$41,107	12.1%	\$4,430
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	\$428	\$397	\$403	\$406	\$411	(4.0%)	(\$17)
Interest Income	\$409	\$192	\$137	\$144	\$144	(64.8%)	(\$265)
Charges for Services	\$574	\$536	\$535	\$534	\$534	(7.0%)	(\$40)
Water and Sewer Charges	\$1,112	\$1,109	\$1,120	\$1,135	\$1,152	3.6%	\$40
Rental Income	\$191	\$173	\$172	\$171	\$171	(10.5%)	(\$20)
Fines and Forfeitures	\$709	\$736	\$734	\$735	\$734	3.5%	\$25
Miscellaneous	\$582	\$960	\$373	\$374	\$376	(35.4%)	(\$206)
Intra-City Revenue	\$1,417	\$1,337	\$1,344	\$1,345	\$1,345	(5.1%)	(\$72)
Total Miscellaneous	\$5,422	\$5,440	\$4,818	\$4,844	\$4,867	(10.2%)	(\$555)
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	\$327	\$327	\$327	\$327	\$327	0.0%	\$0
Other Federal and State Aid	\$13	\$13	\$13	\$13	\$13	0.0%	\$0
Total Unrestricted Intergovernmental Aid	\$340	\$340	\$340	\$340	\$340	0.0%	\$0
Other Categorical Grants	\$1,061	\$991	\$1,003	\$1,009	\$1,004	(5.4%)	(\$57)
Inter Fund Agreements	\$416	\$406	\$388	\$387	\$386	(7.2%)	(\$30)
Reserve for Disallowance of Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	0.0%	\$0
Less: Intra-City Revenue	(\$1,417)	(\$1,337)	(\$1,344)	(\$1,345)	(\$1,345)	(5.1%)	\$72
TOTAL CITY FUNDS	\$42,484	\$42,067	\$42,305	\$44,308	\$46,344	9.1%	\$3,860

Table A1 (Con't.). FY 2007 Preliminary Revenue Detail

(\$ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2007-11	
						Percent	Dollar
Federal Categorical Grants:							
Community Development	\$268	\$255	\$249	\$247	\$248	(7.5%)	(\$20)
Welfare	\$2,417	\$2,307	\$2,309	\$2,311	\$2,311	(4.4%)	(\$106)
Education	\$1,818	\$1,847	\$1,894	\$1,895	\$1,896	4.3%	\$78
Other	\$1,187	\$809	\$796	\$797	\$800	(32.6%)	(\$387)
Total Federal Grants	\$5,690	\$5,218	\$5,248	\$5,250	\$5,255	(7.6%)	(\$435)
State Categorical Grants							
Social Services	\$1,806	\$1,817	\$1,807	\$1,807	\$1,807	0.1%	\$1
Education	\$7,086	\$7,809	\$8,562	\$9,342	\$9,389	32.5%	\$2,303
Higher Education	\$188	\$188	\$188	\$188	\$188	0.0%	\$0
Department of Health and Mental Hygiene	\$462	\$434	\$438	\$435	\$438	(5.2%)	(\$24)
Other	\$439	\$340	\$340	\$340	\$339	(22.8%)	(\$100)
Total State Grants	\$9,981	\$10,588	\$11,335	\$12,112	\$12,161	21.8%	\$2,180
TOTAL REVENUES	\$58,155	\$57,873	\$58,888	\$61,670	\$63,760	9.6%	\$5,605

Table A2. FY 2007 Preliminary Budget Expenditure Detail

(\$ in thousands)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2007 - 11	
						Percent	Dollar
Mayoralty	\$86,097	\$83,540	\$83,180	\$82,850	\$82,865	(3.8%)	(\$3,232)
Board of Elections	\$82,768	\$80,983	\$80,783	\$73,733	\$73,733	(10.9%)	(\$9,035)
Campaign Finance Board	\$14,044	\$8,394	\$8,394	\$8,394	\$8,394	(40.2%)	(\$5,650)
Office of the Actuary	\$5,655	\$5,849	\$5,849	\$5,849	\$5,849	3.4%	\$194
President, Borough of Manh.	\$5,329	\$3,458	\$3,458	\$3,458	\$3,458	(35.1%)	(\$1,871)
President, Borough of Bronx	\$6,803	\$4,959	\$4,959	\$4,959	\$4,959	(27.1%)	(\$1,844)
President, Borough of Bklyn.	\$6,108	\$4,369	\$4,369	\$4,369	\$4,369	(28.5%)	(\$1,739)
President, Borough of Queens	\$5,523	\$3,987	\$3,987	\$3,987	\$3,987	(27.8%)	(\$1,536)
President, Borough of S.I.	\$4,384	\$3,464	\$3,464	\$3,464	\$3,464	(21.0%)	(\$920)
Office of the Comptroller	\$65,257	\$75,317	\$75,024	\$73,699	\$73,699	12.9%	\$8,442
Dept. of Emergency Mgt.	\$27,645	\$7,838	\$7,838	\$7,838	\$7,838	(71.6%)	(\$19,807)
Tax Commission	\$2,656	\$2,609	\$2,609	\$2,609	\$2,609	(1.8%)	(\$47)
Law Dept.	\$123,630	\$121,409	\$119,456	\$119,277	\$119,277	(3.5%)	(\$4,353)
Dept. of City Planning	\$32,683	\$24,683	\$23,418	\$23,418	\$23,418	(28.3%)	(\$9,265)
Dept. of Investigation	\$19,022	\$18,894	\$18,894	\$18,895	\$18,785	(1.2%)	(\$237)
NY Public Library – Research	\$20,409	\$5,906	\$20,062	\$20,062	\$20,062	(1.7%)	(\$347)
New York Public Library	\$106,563	\$20,946	\$105,704	\$105,704	\$105,704	(0.8%)	(\$859)
Brooklyn Public Library	\$78,200	\$13,393	\$77,431	\$77,431	\$77,431	(1.0%)	(\$769)
Queens Borough Public Library	\$75,913	\$13,379	\$75,226	\$75,226	\$75,226	(0.9%)	(\$687)
Dept. of Education	\$15,735,057	\$16,666,335	\$17,792,672	\$18,932,913	\$19,454,820	23.6%	\$3,719,763
City University	\$593,759	\$569,194	\$554,971	\$555,039	\$555,095	(6.5%)	(\$38,664)
Civilian Complaint Review Bd.	\$10,871	\$11,240	\$11,240	\$11,240	\$11,240	3.4%	\$369
Police Dept.	\$3,822,611	\$3,692,760	\$3,666,374	\$3,643,946	\$3,641,775	(4.7%)	(\$180,836)
Fire Dept.	\$1,472,157	\$1,404,912	\$1,378,831	\$1,374,243	\$1,374,527	(6.6%)	(\$97,630)
Admin. for Children Serv.	\$2,710,558	\$2,631,577	\$2,640,883	\$2,640,883	\$2,640,883	(2.6%)	(\$69,675)
Dept. of Social Services	\$7,222,406	\$8,215,295	\$8,051,217	\$8,205,071	\$8,364,740	15.8%	\$1,142,334
Dept. of Homeless Serv.	\$700,462	\$653,477	\$647,352	\$646,572	\$646,572	(7.7%)	(\$53,890)
Dept. of Correction	\$952,293	\$910,899	\$903,741	\$899,164	\$899,160	(5.6%)	(\$53,133)
Board of Correction	\$950	\$925	\$925	\$925	\$925	(2.6%)	(\$25)
Dept. of Employment	\$0	\$0	\$0	\$0	\$0	0.0%	\$0
Citywide Pension Contribution.	\$4,730,098	\$5,439,390	\$6,015,094	\$6,072,280	\$6,072,280	28.4%	\$1,342,182
Miscellaneous	\$6,651,754	\$6,712,493	\$7,110,916	\$7,825,887	\$8,600,494	29.3%	\$1,948,740
Debt Service	\$3,792,206	\$1,927,269	\$2,915,522	\$4,651,856	\$5,039,731	32.9%	\$1,247,525
MAC Debt Service	\$10,000	\$10,000	\$0	\$0	\$0	(100.0%)	(\$10,000)
NYCTFA Debt Serv. ^a	\$947,320	\$1,116,410	\$1,154,220	\$1,153,120	\$1,158,600	22.3%	\$211,280
Public Advocate	\$3,087	\$2,191	\$2,191	\$2,191	\$2,191	(29.0%)	(\$896)
City Council	\$50,799	\$47,424	\$47,424	\$47,424	\$47,424	(6.6%)	(\$3,375)
City Clerk	\$3,943	\$3,936	\$3,936	\$3,936	\$3,936	(0.2%)	(\$7)
Dept. for the Aging	\$273,916	\$229,771	\$229,668	\$229,668	\$229,668	(16.2%)	(\$44,248)
Dept. of Cultural Affairs	\$159,041	\$159,556	\$157,056	\$157,056	\$157,056	(1.2%)	(\$1,985)
Financial Info. Serv. Agency	\$54,773	\$54,477	\$46,346	\$46,346	\$46,346	(15.4%)	(\$8,427)
Dept. of Juvenile Justice	\$127,519	\$121,745	\$121,219	\$121,219	\$121,219	(4.9%)	(\$6,300)
Office of Payroll Admin.	\$13,361	\$11,654	\$11,429	\$11,429	\$11,429	(14.5%)	(\$1,932)
Independent Budget Office	\$3,083	\$3,101	\$3,101	\$3,074	\$3,074	(0.3%)	(\$9)
Equal Employment Practices Comm.	\$866	\$771	\$771	\$771	\$771	(11.0%)	(\$95)

^a FY 2007 NYCTFA debt service is net of a \$200 million transfer in FY 2005 for FY 2007 NYCTFA debt service and a \$13 million interest savings from a \$350 million defeasance in FY 2006 of NYCTFA FY 2008 maturing in FY 2008. FY 2008 NYCTFA debt service is net of the \$350 million defeasance in FY 2006.

Table A2 (Con't). FY 2007 Preliminary Budget Expenditure Detail

(\$ in thousands)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Changes FYs 2007 - 11	
						Percent	Dollar
Civil Service Commission	\$586	\$636	\$636	\$636	\$636	8.5%	\$50
Landmarks Preservation Comm.	\$4,956	\$4,320	\$4,320	\$4,320	\$4,320	(12.8%)	(\$636)
Taxi & Limousine Commission	\$28,044	\$29,904	\$27,287	\$27,287	\$27,287	(2.7%)	(\$757)
Commission on Human Rights	\$7,180	\$7,206	\$7,206	\$7,206	\$7,206	0.4%	\$26
Youth & Community Developm't.	\$302,787	\$273,927	\$262,099	\$262,099	\$262,099	(13.4%)	(\$40,688)
Conflicts of Interest Bd.	\$1,876	\$1,831	\$1,831	\$1,831	\$1,831	(2.4%)	(\$45)
Office of Collective Bargain	\$1,823	\$1,850	\$1,850	\$1,850	\$1,850	1.5%	\$27
Community Boards (All)	\$14,041	\$14,083	\$14,083	\$14,083	\$14,083	0.3%	\$42
Dept. of Probation	\$81,107	\$80,687	\$80,687	\$80,687	\$80,687	(0.5%)	(\$420)
Dept. Small Business Serv.	\$138,668	\$135,768	\$111,121	\$92,958	\$92,924	(33.0%)	(\$45,744)
Housing Preservat'n & Developm't	\$584,193	\$490,720	\$479,868	\$476,855	\$478,413	(18.1%)	(\$105,780)
Dept. of Buildings	\$90,164	\$82,399	\$81,744	\$81,640	\$81,387	(9.7%)	(\$8,777)
Dept. of Health & Mental Hygiene	\$1,678,194	\$1,559,428	\$1,582,341	\$1,585,314	\$1,591,484	(5.2%)	(\$86,710)
Health and Hospitals Corp.	\$763,271	\$25,567	\$130,437	\$132,324	\$141,937	(81.4%)	(\$621,334)
Dept. of Environmental Protection	\$910,003	\$882,769	\$874,135	\$871,618	\$870,345	(4.4%)	(\$39,658)
Dept. of Sanitation	\$1,228,431	\$1,248,754	\$1,278,397	\$1,303,893	\$1,359,703	10.7%	\$131,272
Business Integrity Commission	\$5,577	\$5,630	\$5,630	\$5,630	\$5,630	1.0%	\$53
Dept. of Finance	\$207,284	\$212,940	\$211,439	\$210,409	\$210,409	1.5%	\$3,125
Dept. of Transportation	\$633,813	\$563,588	\$559,731	\$559,675	\$559,675	(11.7%)	(\$74,138)
Dept. of Parks and Recreation	\$295,214	\$285,101	\$281,595	\$280,521	\$276,911	(6.2%)	(\$18,303)
Dept. of Design & Construction	\$105,845	\$100,803	\$94,803	\$94,803	\$94,803	(10.4%)	(\$11,042)
Dept. of Citywide Admin. Serv.	\$334,937	\$308,010	\$305,124	\$305,124	\$305,124	(8.9%)	(\$29,813)
D.O.I.T.T.	\$201,133	\$201,104	\$214,872	\$214,922	\$215,255	7.0%	\$14,122
Dept. of Record & Info. Serv.	\$5,033	\$4,260	\$4,245	\$4,245	\$4,245	(15.7%)	(\$788)
Dept. of Consumer Affairs	\$16,549	\$18,003	\$15,523	\$15,406	\$15,406	(6.9%)	(\$1,143)
District Attorney – N.Y.	\$86,918	\$71,484	\$71,484	\$71,484	\$71,484	(17.8%)	(\$15,434)
District Attorney – Bronx	\$46,379	\$41,977	\$41,977	\$41,977	\$41,977	(9.5%)	(\$4,402)
District Attorney – Kings	\$77,568	\$70,867	\$70,867	\$70,867	\$70,867	(8.6%)	(\$6,701)
District Attorney – Queens	\$43,214	\$37,969	\$42,042	\$42,042	\$42,042	(2.7%)	(\$1,172)
District Attorney – Richmond	\$7,246	\$6,606	\$6,606	\$6,606	\$6,606	(8.8%)	(\$640)
Office of Prosecut'n. & Spec. Narc.	\$16,816	\$15,348	\$15,348	\$15,348	\$15,348	(8.7%)	(\$1,468)
Public Administrator - N.Y.	\$1,186	\$1,145	\$1,145	\$1,145	\$1,145	(3.5%)	(\$41)
Public Administrator – Bronx	\$461	\$439	\$427	\$427	\$427	(7.4%)	(\$34)
Public Administrator - Brooklyn	\$552	\$528	\$528	\$528	\$528	(4.3%)	(\$24)
Public Administrator - Queens	\$445	\$402	\$402	\$402	\$402	(9.7%)	(\$43)
Public Administrator - Richmond	\$357	\$313	\$313	\$313	\$313	(12.3%)	(\$44)
Prior Payable Adjustment	(\$400,000)	\$0	\$0	\$0	\$0	(100.0%)	\$400,000
General Reserve	\$100,000	\$300,000	\$300,000	\$300,000	\$300,000	200.0%	\$200,000
Energy Adjustment	(\$66,027)	(\$36,360)	(\$15,012)	(\$8,865)	(\$7,866)	(88.1%)	\$58,161
Lease Adjustment	\$0	\$18,148	\$36,841	\$56,095	\$113,873	N/A	\$113,873
OTPS Inflation Adjustment	\$0	\$54,165	\$109,684	\$165,203	\$220,722	N/A	\$220,722
City-Wide Total	\$58,154,403	\$57,872,498	\$61,504,860	\$65,350,383	\$67,380,601	15.9%	\$9,226,198

Glossary of Acronyms

ACS	Administration for Children Services
BARB	Building Aid Revenue Bond
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
CFE	Campaign for Fiscal Equity
CUNY	City University of New York
DEP	Department of Environmental Protection
DOC	Department of Corrections
DOE	Department of Education
DOHMH	Department of Health and Mental Hygiene
DOS	Department of Sanitation
DOT	Department of Transportation
EAN	Entry Age Normal
EDC	Economic Development Corporation
EFC	Environmental Facilities Corporation
FIL	Frozen Initial Liability

FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HYIC	Hudson Yards Infrastructure Corporation
J&C	Judgments and Claims
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYS	New York State
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association

PERB	Public Employment Relations Board
PIT	Personal Income Tax
PTYCS	Preliminary Ten-Year Capital Strategy
PS	Personal Services
RHBT	Retiree Health Benefits Trust
STAR	School Tax Relief Program
TA	Transit Authority
TSASC	Tobacco Settlement Asset Securitization Corporation
TYCS	Ten-Year Capital Strategy
UBT	Unincorporated Business Tax
UFT	United Federation of Teachers