

APRIL 1999

BUDGET NOTES

THE CITY OF NEW YORK

OFFICE OF THE COMPTROLLER

ALAN G. HEVESI, COMPTROLLER

1 CENTRE STREET

NEW YORK, NY 10007

Third-Quarter FY 99 Highlights

- Tax revenues are \$140.4 million above plan, and \$497.1 million over the same period in FY 98.
- Major miscellaneous revenue collections are marginally above plan.
- Board of Education announces a surplus of \$162 million.
- The public assistance caseload declines to 712,746 in March.
- Overtime spending is \$40.6 million above plan and \$55.5 million more than the same period in FY 98, largely generated

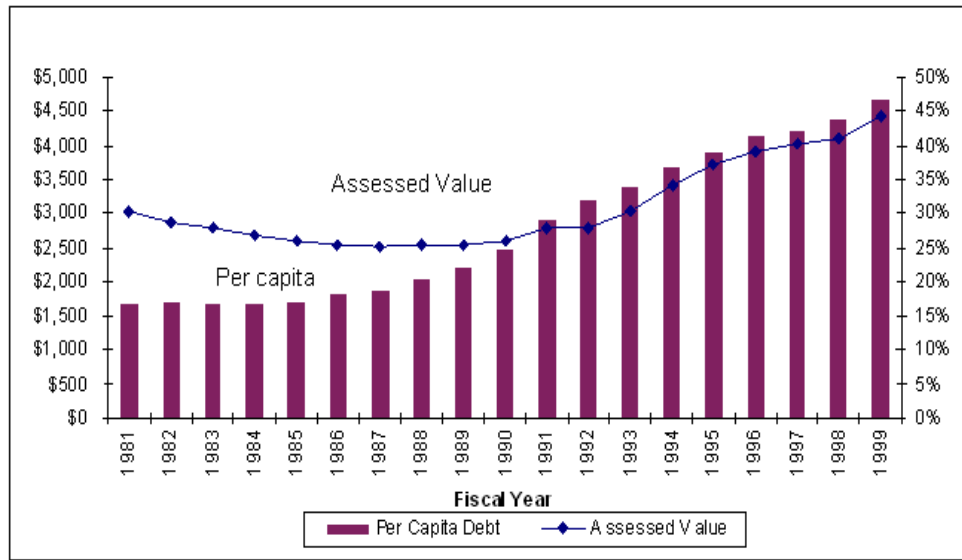
- **by the Police, Corrections and Transportation Departments.**
- **The City's work force as of March 31 is 545 lower than plan and 3,957 more than the same date last year, largely impacted by hiring at the Board of Education and at the uniformed agencies.**

Tax Revenues Tax-revenue collections for third-quarter FY 99 are \$108.4 million above the January Plan excluding audits, and are \$140.4 million above plan with audits included. (See Chart 1.) Year-to-date tax revenues total \$16.376 billion, excluding revenues from audits. This amount is \$497.1 million above the same period in FY 98, reflecting growth of 3.1 percent. Also during FY 99, \$98.2 million was collected in tax lien sales and \$116.8 million was received in state tax assessment relief (STAR) aid.

The personal income tax (PIT) accounts for most of the excess in tax revenues. Revenues for third-quarter FY 99 are \$185.5 million above the January Plan. Year-to-date PIT revenues are up by 9.0 percent or \$315.5 million. On a common-rate-and-base, PIT growth is much greater than 9.0 percent, since the PIT rate was actually reduced on December 31, 1998, when the 12.5 percent PIT surcharge expired. The exceptional performance of the PIT is attributable to the continued strength of the local economy. By February 1999, the City had recovered all of the private-sector jobs that were lost during the City's 1989-1992 recession. Moreover, the financial-services industry had a profitable fourth-quarter 1998, which meant that bonus payments, mostly paid to employees in the first few months of 1999, were greater than anticipated.

Total revenues from the three business taxes (general corporation, banking corporation, and unincorporated business) are slightly below plan during third-quarter FY 99, and on a year-to-date basis, considerably lag FY 98 revenues. For third quarter FY 99, the general corporation tax is \$3.7 million above plan but \$128.6 million below FY 98 collections on a year-to-date basis. This indicates that the plan number is an accurate estimate of the tendency for volatile business-tax revenues to shift into the mode of collecting overpayments after exceptional years, in this case FY 98. The banking corporation tax remained below plan estimates because of losses suffered last summer as a result of the international financial crisis; it is \$14.1 million below plan in third-quarter FY 99, but \$151.4 million below FY 98 collections for the first nine months. The unincorporated business tax is \$7.9 million below plan and \$55.2 million below FY 98. Given the continued growth of both the national and local economy, the Comptroller's Office expects revenues from these taxes to improve in the fourth quarter of FY 99.

Chart 1. *Actuals versus January Plan, Third Quarter FY 99*



Source: Office of the Comptroller, The City of New York, April 1999.

The sales tax is \$41.6 million below plan in third-quarter FY 99, yet revenues to date are 5.1 percent above FY 98, suggesting that plan estimates were perhaps too bullish. Property tax revenues are \$8.5 million above plan, and 2.3 percent above FY 98 collections. The real-estate-transaction taxes have continued their strong performance into the third quarter of FY 99. For third-quarter FY 99, they are \$25.4 million above plan, making the year-to-date collections an exceptional 67.2 percent above FY 98. Other taxes were below plan in March by \$40 million because the City did not receive a scheduled PILOT payment from Battery Park City. This payment is expected in May and will eradicate the \$42.8 million third-quarter FY 99 shortfall in "other" taxes. Audit revenues are \$32 million above plan.

Major FY 99 Miscellaneous Revenue Initiatives The January Financial Plan projects \$2.582 billion in miscellaneous revenues in FY 99, a net increase of \$79 million over the Adopted Budget. About \$1.142 billion or 44 percent of the projected revenues will be generated from major initiatives, which include fees from parking-violation fines (\$367 million), earnings from overnight investment of treasury cash (\$103 million) and parking meter fines (\$68 million). The remaining revenues, \$1.440 billion, consist mainly of payments from the water and sewer system for debt service and operation and maintenance of the water system by the Department of Environmental Protection (DEP) (\$834 million), tuition and fees from students of the City University (\$134 million), reimbursement to the City for services and debt service by the Health and Hospitals Corporation (\$114 million), and other revenue sources (\$358 million), such as fingerprinting and taxi inspection fees.

At the end of the third quarter, the City collected \$861 million from the major revenue initiatives, about \$356,000 more than budgeted. The higher-than-anticipated collections are mainly attributable to strong earnings on overnight investments of idle cash in the City's treasury, the sale of City-foreclosed buildings, and fees from parking-violation fines and parking meters. The increase was offset by shortfalls in revenue generated from initiatives such as affirmative claims

pursued by the City, violation-tow fines, and the delay in collection of FICA overpayments due from the Federal Government. (See Table 1.)

Table 1. *Major Miscellaneous Revenues Initiatives Collections, First Nine Months of FY 99, \$ millions*

	Plan	Actual	Better/(Worse)
Parking Violation Fines	\$265,280	\$279,210	\$13,930
Overnight Investments of Treasury Cash	77,200	90,832	13,632
Parking Meters	52,666	55,193	2,527
Cable Television Franchises	43,898	43,830	(68)
Construction Permits	29,490	29,248	(242)
Con Edison and LILCO Franchise Fees	24,033	23,894	(139)
Fire Inspection Fees	22,998	23,018	20
Park Facility Privileges	22,622	22,345	(277)
Environmental Control Board Fines	22,285	23,626	1,341
Affirmative Litigation	16,379	13,500	(2,879)
Taxi Licenses	14,393	13,569	(824)
Interest on Debt-Fund	14,350	16,057	1,707
City Register Fees	14,000	16,378	2,378
School Lunch Fees	12,787	13,282	495
Moving Violation Fines	12,600	12,394	(206)
Violation Tow	11,603	9,055	(2,548)
Rents from City-Foreclosed Buildings	11,421	11,956	535
Street Utility Permits	11,113	11,161	48
Economic Development Revenues	11,080	14,412	3,332
Worker Compensation	10,457	8,945	(1,512)
Telephone Commissions	10,431	11,832	1,401
Insurance Company Fees	10,129	10,575	446
Red Light Camera	9,846	9,020	(826)
Garages and Long-Term Parking	8,555	8,496	(59)
Police Dept. Unclaimed Cash & Property Sales	7,675	7,567	(108)
Birth and Death Certificates	7,950	8,126	176
City-Foreclosed Buildings Auction Sales	5,523	7,254	1,731
Airport Rental Revenues	4,020	4,178	158
All Other Major Initiatives	95,443	61,630	(33,813)
TOTAL	\$860,227	\$860,583	\$356

Source: City of New York, Office of Management and Budget and the Integrated Financial Management System (IFMS).

Interest earned on idle cash balances through March was \$90.8 million, \$13.6 million more than the budgeted amount of \$77 million. If this trend continues, earnings on overnight investments could be between \$10 million and \$15 million more than budgeted for FY 99. In FY 98, the City earned about \$161 million in interest from these investments, about \$84 million more than budgeted in the FY 98 Adopted Budget.

Revenue generated from parking-violation fines through March was about \$14 million more than the budgeted amount of \$265 million. Since the Adopted Budget, the City has lowered the annual projection of revenues from this initiative to \$367 million from \$387 million. Through March, 6.572 million parking fines were issued compared with 6.827 million for the same period in FY 98. In FY 98, an average of 761,914 summonses was issued monthly compared with an average of 730,241 so far in FY 99. The City collected \$377 million from parking violation fines in FY 98.

Revenues generated by parking meters were higher than anticipated through March. Collections from parking meters were \$55 million, about \$3 million more than budgeted, partly as a result of the implementation of improved efficiencies in parking-meter collections and maintenance.

The City also experienced higher collections than projected from initiatives such as revenues collected by the Economic Development Corporation, fees collected by the City Register, interest earned on debt-service funds and sales of City-foreclosed buildings. Through March, the Economic Development Corporation collected revenues of \$14 million and the Office of the City Register collected fees of \$16 million. Interest earned on debt-service funds was \$16 million and \$7 million was collected from the sale of City-foreclosed buildings.

Although revenue collections were lower than budgeted for some initiatives, most of the shortfall occurred in the all-other-initiatives category. This resulted from a delay in the collection of \$30 million in FICA overpayments from the Federal government for calendar years 1986 and 1991. The City has submitted claims requesting this refund and anticipates receiving the payment in June 1999.

Board of Education

a. Additional FY 99 Surplus. In its March Financial Status Report, the Board of Education (BOE) has disclosed a FY 99 surplus of \$162 million. This latest update increases the BOE surplus by about \$56 million compared with the \$106 million surplus that was reported in the January Financial Plan. The additional resources basically reflect lower-than-expected general education enrollment in both community school districts and high schools. The preliminary register results reveal a lower-than-anticipated enrollment of almost 6,000 students compared with an initial projection of 977,329 for general education. BOE ended FY 98 with a \$300 million surplus, including \$41 million in surplus categorical funding.

b. Potential Risk from Write-down of Prior-Year Aid. In FY 99, BOE still faces a risk of about \$39 million from the write-down of outstanding State education aid receivables dating back to

FY 90. The Comptroller's Office instituted a policy to begin writing down State education aid receivables that have been outstanding on the City's books for ten years or more. There are currently about \$643 million of unpaid State education aid receivables on the City's books covering FYs 90-97. Moreover, BOE estimates that additional unpaid education aid receivables of \$392 million are currently outstanding from the State but not yet accrued on the City's books.

c. State Education Aid Update. The Governor's proposed budget contains an increase of about \$269 million in statewide education aid for FY 00. On a net basis, BOE has already assumed much of the additional aid in its preliminary budget. As a result, BOE estimates that it will receive an increase of about \$76 million above the preliminary budget projections for FY 00, compared with the Governor's proposed increase of \$142 million for the City. In March, both the Senate and the Assembly proposed significantly greater increases in education aid than the Governor's proposal. The Assembly, based on BOE estimates, has called for a statewide education aid increase of about \$1.2 billion from the FY 99 level. Key highlights of the Assembly proposal include restorations and increases for the LADDER program (targeting mainly early education initiatives), full restoration of many categorical grants including the Teacher Support Aid, and new set-asides for school construction and local debt reduction. According to BOE, the Senate has proposed a more modest increase of about \$677 million in statewide education aid. If the Governor and the Legislature can reach a compromise, then BOE may receive a significantly higher level of education aid in FY 00 once the State adopts its budget.

Public Assistance The public-assistance caseload fell by about 1,637 recipients to 712,746 in March. According to preliminary statistics provided by the City, the public assistance caseload has fallen by about 2,987 recipients since December 1998. The rate of caseload decline has slowed considerably since the first half of the year, during which the City's welfare roll fell by 47,554 recipients. The reason for the slower decline may be two-fold. First, the caseload figures reported by the City do not reflect the true caseload level, because the City is in the midst of re-categorizing certain welfare recipients. As a result, certain recipients may be counted more than once until the transfers are completed. The City has indicated that it could take several months to complete the transition. Second, the Federal Court ordered the City to take actions to remedy cases where welfare applicants were unfairly denied benefits.

Despite these developments, the City's public assistance spending projection may still be on target because the re-categorization involves the transfer of Safety Net Assistance (SNA) recipients to the Family Assistance (FA) program. This will benefit the City because it contributes a significantly higher funding share for the State-mandated SNA program than the federally mandated FA program.

Overtime During the third quarter, overtime payments totaled \$112.4 million, about \$6.2 million above plan and \$16.1 million above third quarter 1998. (See Table 2.) Overtime spending for uniformed personnel aggregated just under budget because of the unexpended budget for snow removal related overtime. The Board of Education overspent its third quarter budget by \$2.6 million.

Table 2. *Third Quarter Overtime Payments*

	3 rd Qtr, FY 99		Actual vs. Budget	3 rd Qtr, FY 98	FY 99 vs.FY98
Agency	Actual	Budget	Better/(Worse)	Actual	Better/(Worse)
Police	\$32.0	\$30.7	(\$1.3)	\$28.4	(\$3.6)
Fire	24.6	20.9	(3.7)	23.1	(1.5)
Corrections	16.1	15.2	(0.9)	12.4	(3.7)
Sanitation	13.6	19.6	6.0	8.5	(5.1)
Total Uniform	\$86.3	\$86.4	\$0.1	\$72.4	(\$13.9)
Board of Education	3.3	0.7	(2.6)	1.4	(1.9)
Admin for Child Svcs.	4.9	4.3	(0.6)	6.8	1.9
Transportation	4.0	3.4	(0.6)	3.2	(0.8)
All Other Civilian	13.9	11.4	(2.5)	12.5	(1.4)
Total Civilian	\$26.1	\$19.8	(\$6.3)	\$23.9	(\$2.2)
Total City	\$112.4	\$106.2	(\$6.2)	\$96.3	(\$16.1)

Source: City of New York, Integrated Financial Management System, (IFMS), and the Office of Management and Budget.

During the first three quarters of FY 99 the City has overspent its overtime budget by \$40.6 million. Through March, the City has spent \$361.2 million on overtime, \$55.5 million above the same period in FY 98. In the past five years, overtime spending through March accounts for 68 percent of the City's total overtime budget. If overtime during the last quarter of FY 99 continues at its historical rate, the City will spend \$524 million on overtime for the year, exceeding the forecast in the Financial Plan by \$67 million. (See Table 3, next page.)

Most of the overtime spending occurred in the uniformed agencies – the Police, Fire, and Correction Departments. The Police Department paid \$113.3 million in overtime, about \$14.9 million, or 15.1 percent, more than the \$98.5 million anticipated by the City, and \$19.3 million, or 20.6 percent, more than in the same period last year. The City contends that the overspending results from new anti-terrorism measures and increased arrests from heightened anti-drug initiatives.

The Fire Department paid \$78.2 million for overtime through March, \$3.8 million, or 5.1 percent, more than anticipated and \$3.7 million, or 4.9 percent, more than the same period last year.

The Corrections Department paid \$46.3 million for overtime, about \$9.8 million more than the January Plan and \$13.3 million more than the same period in FY 98. The higher-than-planned spending through March is mainly attributable to the increase in prisoner population, resulting

from the anti-drug initiatives undertaken by the Police Department. Another contributing factor could be that the Department is operating with fewer officers than at the same time last year.

Table 3. *Actual Overtime Spending Compared with Budget and Projected Annual Spending, \$ millions*

	FY 99		Actual vs.	FY 98	FY 98 vs.			
	1st 3 Qtrs		Budget	1st 3 Qtrs	FY 99	FY 99		
Agency	Actual	Budget	Better/(Worse)	Actual	Better/(Worse)	Projection	Budget	Risk
Police	\$113.3	\$98.5	(\$14.8)	\$94.0	(\$19.3)	\$162.4	\$130.3	(\$32.1)
Fire	78.2	74.4	(3.8)	74.6	(3.6)	114.7	108.4	(6.3)
Corrections	46.3	36.5	(9.8)	33.0	(13.3)	67.9	65.0	(2.9)
Sanitation	42.7	52.3	9.6	29.9	(12.8)	60.2	64.9	4.7
Total Uniform	\$280.5	\$261.7	(\$18.8)	\$231.5	(\$49.0)	\$405.2	\$368.6	(\$36.6)
Board of Education	6.5	2.1	(4.4)	3.2	(3.3)	9.5	2.8	(6.7)
Admin for Child Svcs.	15.4	13.0	(2.4)	19.0	3.6	22.5	17.3	(5.2)
Transportation	15.3	8.5	(6.8)	12.4	(2.9)	22.4	18.6	(3.8)
All Other Civilian	43.7	35.5	(8.2)	39.5	(4.2)	34.0	49.7	15.7
Total Civilian	\$80.9	\$59.1	(\$21.8)	\$74.1	(\$6.8)	\$118.4	\$88.4	(\$30.0)
Total City	\$361.4	\$320.8	(\$40.6)	\$305.6	(\$55.8)	\$523.6	\$457.0	(\$66.6)

Source: City of New York, Integrated Financial Management System, (IFMS), and the Office of Management and Budget and Office of the Comptroller.

Meanwhile, the Department of Sanitation paid \$42.2 million for overtime, \$9.6 million less than budgeted in the January Plan but \$12.7 million more than the same period last year. The underspending in FY 99 appears to be savings from less-than-expected snowfall. According to the City, the year-over-year increase is mainly attributable to higher refuse-collection productivity levels and the implementation of citywide mixed paper recycling and the weekly recycling program in nine districts.

Other agencies that contributed significantly to the higher overtime are the Department of Transportation (DOT), the Board of Education (BOE) and the Administration for Children's Services (ACS).

The DOT spent \$15.3 million for overtime, about \$6.8 million more than planned and \$2.9 million more than the same period a year ago.

The BOE paid \$6.5 million for overtime, \$4.4 million more than budget and \$3.3 million more than the same period last year. Most of this overspending is attributable to additional shifts for school-safety officers during after school programs.

The ACS paid \$15.4 million for overtime during the first three quarters of FY 99. While this was \$2.4 million above Plan, it represented a reduction of \$3.6 million from the same period last year.

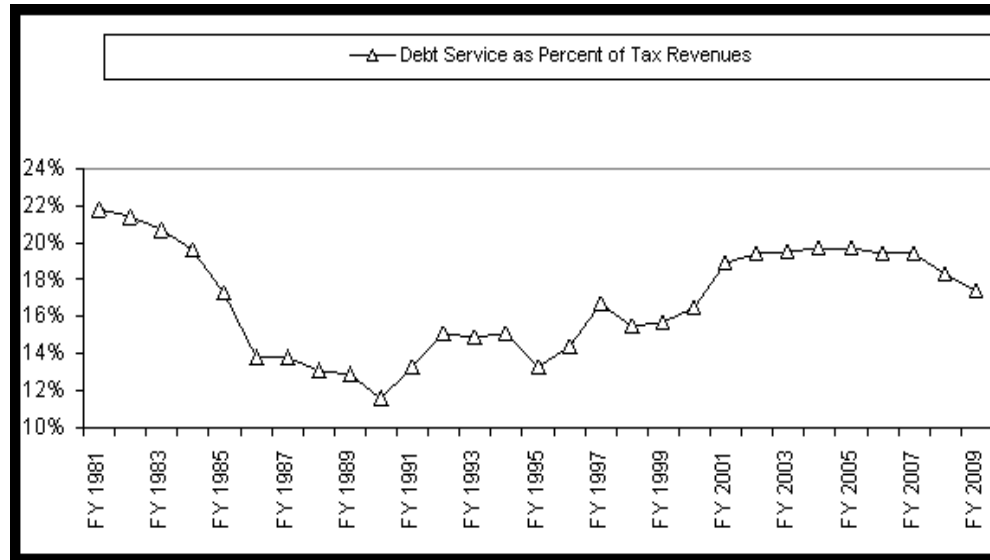
Work Force As of March 31, 1999, the City had a work force of 246,604 employees, 545 fewer than the planned 247,149 positions. Uniformed employees were 699 more than planned, followed by pedagogical employees, which were 170 more than planned. These were more than offset by civilian employees, which were 1,414 below plan. (See Table 4, next page.)

Table 4. *Full-Time Work Force*

							Higher/
		Financial	Higher/		Higher/	Target	(Lower)
	Actual	Plan	(Lower)	Actual	(Lower)	For	Than
	3/31/99	3/31/99	than Plan	3/31/98	than 1998	6/30/99	Target
Police	39,350	39,072	278	38,350	1,000	38,621	729
Fire	11,547	11,276	271	11,192	355	11,293	254
Corrections	11,190	11,253	(63)	11,440	(250)	11,437	(247)
Sanitation	7,275	7,062	213	7,165	110	7,237	38
Uniformed Total	69,362	68,663	699	68,147	1,215	68,588	774
Police	9,039	8,341	698	8,747	292	8,280	759
Admin for Child Svcs.	7,122	7,256	(134)	7,222	(100)	7,367	(245)
Social Services	13,268	13,740	(472)	13,775	(507)	13,478	(210)
Homeless Services	1,995	2,333	(338)	2,139	(144)	1,665	330
HPD	2,568	2,786	(218)	2,683	(115)	2,764	(196)
DEP	5,605	5,913	(308)	5,520	85	5,914	(309)
Other	46,310	46,952	(642)	46,254	56	46,811	(501)
Civilian Total	85,907	87,321	(1,414)	86,340	(433)	86,279	(372)
Board of Education	89,092	88,990	102	85,967	3,125	88,990	102
City University	2,243	2,175	68	2,193	50	2,202	41
Pedagogical Total	91,335	91,165	170	88,160	3,175	91,192	143
Total City	246,604	247,149	(545)	242,647	3,957	246,059	545

Source: City of New York, Integrated Financial Management System, (IFMS), and the Office of Management and Budget.

Chart 2. *Actual and Projected Full-time Work Force*



* Preliminary Data

** Target as per Financial Plan

Source: City of New York, Office of Management and Budget, and Integrated Financial Information System.

PREPARED BY

AMITABHA BASU, JANINE BERG, ROSA CHARLES, PETER FLYNN, CARL HEASTIE, FARID HEYDARPOUR, MANNY KWAN, KAREN McNEILL, MICHAEL ZHANG

PUBLISHED BY

THE CITY OF NEW YORK, OFFICE OF THE COMPTROLLER, FISCAL AND BUDGET STUDIES

ALAN G. HEVESI, COMPTROLLER

STEVE NEWMAN, FIRST DEPUTY COMPTROLLER

JACQUES JIHA, DEPUTY COMPTROLLER FOR BUDGET

JOHN TEPPER MARLIN, CHIEF ECONOMIST MICHAEL LEINWAND, BUDGET CHIEF

FOR MORE INFORMATION, CALL (212) 669-2507