BUDGET NOTES

Office of the New York City Comptroller
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FIRST-HALF FY 02

- **Tax-revenue collections for the first half of FY 02, after adjusting for delayed property-tax payments, were lower than tax revenues for the same period in FY 01, but above the December Plan.**
- **Major miscellaneous revenue collections were below FY 01 levels, but ahead of Plan.**
- **As of December 31, 2001, the City had 2,610 fewer employees than planned and 3,172 fewer than at the end of 2000, which could potentially save the City up to $90 million in FY 02.**
- **Overtime spending in the first half of FY 02 was 98.9 percent above the same period in FY 01. When adjusted for the overtime spending related to the attack on the World Trade Center, overtime in the first half of FY 02 was 5.3 percent higher than the same period in FY 01.**
- **Judgments and claims expenditures for the first half of FY 02 are on pace with FY 01.**
- **The public-assistance caseload declined to 462,595 recipients in December, down 34,518 recipients from June 2001.**
- **The Board of Education projects a budget gap of $137 million in FY 02, and expects to cut spending by $600 million in FY 03.**
- **Lower interest rates may save the City up to $49 million on servicing its outstanding Variable Rate Demand Bonds.**
- **Continued stock-market weakness may raise the City's pension expenditures.**
- **As a result of higher-than-projected revenues, the City updated the December 4 Financial Plan ("December Plan") on December 31, 2001, raising the projected FY 02 surplus from $375 million to $697 million and reducing out-year budget gaps by $618 million.**

Tax Revenues Tax collections for the first six months of FY 02 are $10.934 billion, excluding audits and the School Tax Relief Program (STAR). This is $390.2 million, or 3.4 percent, less than expected in the December Plan and $597.1 million, or 5.2 percent, less than collections were in the first half of FY 01. The lower figures reflect both the impact on incomes of the recession and the timing of property-tax payments. Excluding property taxes, tax revenues are 2.8 percent more than planned, but are 9.7 percent below FY 01 collections. (See Chart 1.)

Property Taxes. Taxes on real property for the first six months were $545.7 million, or 9.3 percent, below the December Plan forecast (since first-half of FY 02 data were unchanged, the comparisons are valid with both the December 4 and December 31 Plans), but ahead of FY 01 by a small 0.2 percent. The shortfall in projected collections reflects timing issues, rather than delinquency, because so far no evidence of a higher delinquency rate has appeared, according to the Department of Finance. Much of the anticipated December collections came in between January 1 and 5, and collections as of January 5 are only $70 million below Plan, well below the $545.7 million shortfall at the end of December.

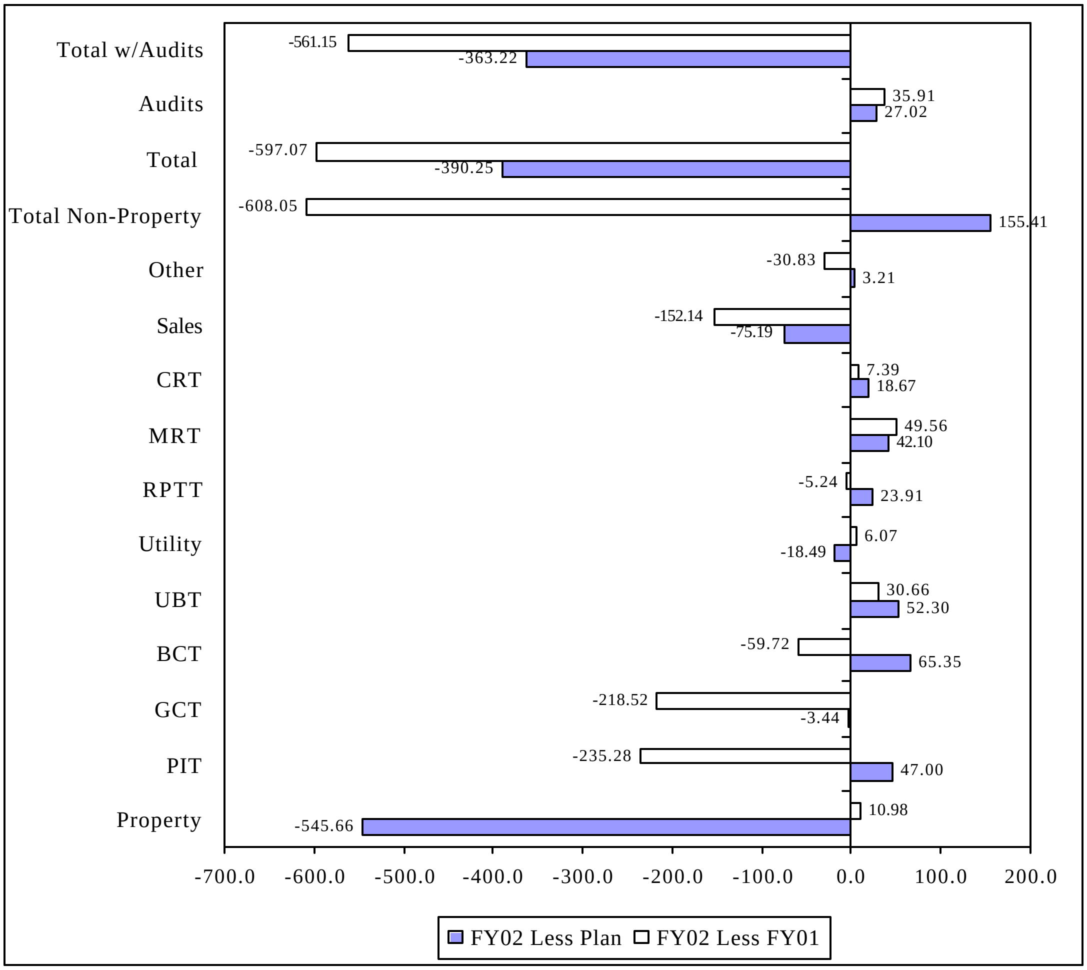
A plausible explanation for this is the link between timing payments and income-tax liability for large property owners. Real estate taxes are paid quarterly or semi-annually. Single-family homeowners, small Co-ops and small businesses pay on a quarterly basis. Owners of rental buildings and class 4 properties pay semi-annually. Both quarterly and semi-annual payments are due in January. Companies may choose to pre-pay in December or hold payments until January depending on which month of payment minimized income-tax liability after deducting expenses from income. With the drop in business, and higher expenses, after September 11, many firms may expect lower net incomes for 2001 and hence lower income-tax payments. With better times forecast for the second half of 2002, companies may have chosen to pay real-estate taxes in January to take the expense deduction against 2002 income instead of 2001 income.

Non-Property Taxes. Revenues from non-property taxes have fallen, largely as a result of the recession. The deadlines for delayed payments resulting from the September 11 attack for both the City and State were in December, so the interruptions to payment flows from these extensions should be nearing an end. Some lingering effects may persist since the IRS granted extensions of up to 120 days. The adjusted gross income used in computing State and City personal income tax (PIT) depends on the federal adjusted gross income. Cumulative figures for the first six months of FY 02 should now be fairly representative of actual cash flows. Though 2.8 percent above planned estimates, non-property-tax revenues are 9.7 percent below FY 01 revenues for the same period. Of the decline, about 39 percent results from the personal income tax, 36 percent from the GCT, and 25 percent from the sales tax. Excluding utility and sales taxes, all non-property-tax category declines exceed planned estimates.

Property-Related Taxes. Real-property-transfer tax (RPTT), the mortgage recording tax (MRT) and the commercial rent tax (CRT) are all above both the December Plan figures. Eleven interest-rate cuts in 2001 reduced rates to the lowest level in 30 years, affecting the housing market favorably despite rising unemployment. Refinancing has kept MRT strong, 23 percent above Plan and 28 percent above FY 01. RPTT is higher than the Plan figures by 14 percent but lower than FY 01 by 2.6 percent. CRT collections stand at 11.2 percent above Plan and 4.1 percent above FY 01.

Personal Income Tax (PIT). PIT is 2.3 percent above the December Plan, but 10 percent below FY 01 for the first six months of FY 02. PIT accounts for $235 million, or 39 percent, of the $608 million drop in non-property-tax revenues below FY 01. Year-over-year returns increased 29 percent in November and 72 percent in December as people sought to meet the State's December 10 extended deadlines.

Chart 1. *Actual Taxes Collected Less December Plan, FY 02, and FY 02 Less Actual FY 01, First Six Months, $ millions*



Source: OMB, December Plan FY 02 and actual collections FY 02, and actual FY 01; differences computed by the NYC Comptroller's Office. CRT=Commercial Rent Tax. MRT=Mortgage Recording Tax. RPTT=Real Property Transfer Tax. PIT=Personal Income Tax. GCT=General Corporation Tax. BCT=Banking Corporation Tax. UBT=Unincorporated Business Tax. Audits=revenues from tax audits of prior years' returns. The tax forecasts through 2001 December 4 were unchanged in the December 31 Plan; the December 31 update did not affect the tax revenue numbers through the first half of FY 02.

Withholdings continue to be below FY 01. Some of the negative year-over-year trend results from adjustments to the withholding tables to account for tax cuts effective July 2001. The negative trend began in FY 01, before adjustments to the tax tables. Withholdings were below the Plan forecast by about $25 million in November and $45 million in December.

Year-over-year estimated payments from October to December are up, but probably reflect efforts to satisfy extension deadlines rather than higher non-wage income growth. Dividends, interest and rents do not explain the higher installment payments, given that the stock market in 2001 was below last year's performance and interest rates are very low. Installment payments for November were below Plan estimates by $41.7

million, or 39 percent but exceed Plan estimates for December by $66 million, or 11 percent.

Business Taxes. The general corporation tax (GCT), banking corporation tax (BCT) and unincorporated business tax (UBT) are $114.2 million higher than planned but $247.6 million less than FY 01 collections for the first six months. Business taxes account for 41 percent of the drop in non-property taxes. Extensions granted by the City expired December 17 so collections on a cumulative basis to December should provide a fair picture of these revenues.

The cumulative first six months' collection for UBT is 15.2 percent above FY 01 and 29.1 percent higher than planned. UBT, after being $39 million below FY 01 in September, is up $4 million in October, $2.8 million in November and $62.8 million in December. Much of the improvement in December may be due to timing of payments. The Federal PIT tax rate was reduced in January 2002 making deductions worth less in 2002. Sole proprietors and partnerships may have accelerated January 2002 payments to December 2001 when deductions were worth more. GCT and BCT remain below FY 01, GCT by 28 percent and BCT by 26.3 percent. GCT is below Plan by 0.6 percent but BCT exceeds Plan by 64.3 percent.

Sales and Use Taxes. Sales-tax extensions granted by the State expired December 10, 2001. Cumulative collections are 4.4 percent below Plan and 8.6 percent below FY 01. December collections are weak, $113 million less than planned and $106.7 million less than December FY 01. The State also reports that receipts for the City from major vendors are down in FY 01 from FY 00. Some of the decline is also due to timing and processing issues. Some December payments were delayed to January. Collections to date for January are high. Some of the shortfall may also be the result of delays in the mail and back-processing issues associated with the holidays and returns. Other taxes are 1.4 percent above Plan but 11.9 percent below FY 01.

Revised City Forecasts. The City's first modification to its FY 02 June Plan was released on December 4, 2001. With September 11 compounding the slowing economy, the City significantly lowered its forecast for many of the City's economic indicators and for some national indicators. Forecasts for non-property taxes were decreased accordingly. As of December 31, the City raised its second-half of FY 02 forecasts for non-property taxes above its December 4 forecasts. But these improved forecasts are still below the June Plan forecasts. (See Table 1.)

Table 1. *City's Revised Forecasts for Non-Property Taxes, $ billions*

	Row	FY 02	FY 03	FY 04	FY 05
June Plan	1	$13.06	$13.68	$14.32	$15.06
December Plan	2	11.99	12.02	12.81	13.49
(Less June Plan)	3=2-1	(-1.07)	(-1.66)	(-1.51)	(-1.57)
Year-End Forecast	4	12.3	12.42	13.19	13.89
(Less December Plan)	5=4-2	(0.322)	(0.398)	(0.370)	(0.390)

Source: OMB, Forecast Documentation for June, December 4, and December 31, 2001.
Forecasts are for non-property taxes excluding the STAR and TFA.
June Plan = June 2001 Financial Plan and Adopted Budget. December Plan = December 4 Modification.
Year-End Forecast = December 31 Forecasts (which are changed only in the second half of FY 02 and thereafter).

The reasons for the raised December 31 forecasts are legislative and economic. A cut in the PIT surcharge that expired December 31 has not been renewed by the City Council. This has had the effect of extending the surcharge, yielding potentially higher revenues to the City of $169 million in FY 02, $172 million in FY 03, $188 in FY 04, and $203 million in FY 05 based on the 2002 tax program figures in documentation for the December 4 Plan. The City has also raised its economic expectations for the City's FIRE sector profits for 2002, from $5 billion in the December 4 Plan, to $8.5 billion in the December 31 Plan. These changes affect the City's forecasts for PIT, GCT, UBT, MRT, RPTT and sales taxes. (See Table 2.)

Table 2. *City Revenue Forecasts, December 31 Plan Less December 4 Plan, $ millions, and Percent*

	FY 02		FY 03		FY04		FY05	
	Increase	Percent	Increase	Percent	Increase	Percent	Increase	Percent
PIT	$223	4.7	$371	7.7	$370	7.1	$390	7.1
GCT	46	3.4	5	0.4				
UBT	15	2.0	5	0.6				
Sales	32	0.9	12	0.3				
MRT	3	0.9	2	0.6				
RPTT	3	0.9	3	0.8				
Total Non-Property Tax Increase	$322	2.6	$398	3.1	$370	2.7	$390	2.7
Total Tax Increase	$322	1.5	$398	1.8	$370	1.6	$390	1.6

Source: OMB, Forecast Documentation, December 31, 2001. Figures exclude STAR and TFA.
December 4 Plan = Scheduled December Plan. December 31 Plan = Unscheduled December Plan Update.

The most significant revision is to PIT, because of legislative and economic effects. PIT accounts for 69 percent of the forecast increase in FY 02, 93 percent in FY 02, and all of the increase in FYs 04-05. The revised forecasts for FY 02 are expected to affect monthly planned cash flows for January to July.

<u>Miscellaneous Revenues</u> The December Plan projects FY 02 non-tax miscellaneous revenues of $3.087 billion. Of that projection, the City expects to collect $1.279 billion from major miscellaneous-revenue initiatives. The remaining $1.808 billion in revenues consists of the following: payments reimbursing the City for operations, maintenance, and rental of the water and sewer system from the Water Board ($865 million); net proceeds from the tobacco settlement above the amounts pledged to securitize debt service of TSASC, Inc. bonds ($225 million); proceeds from TSASC, Inc. bonds to offset the costs associated with the closure of landfills ($150 million); tuition and fees from the City University's Senior and Community Colleges ($127 million); and other revenue sources ($441 million), including fingerprinting, recreation-facility permits, and taxi-inspection fees.

For the first half of FY 02, the City collected $517.3 million from major-revenue initiatives, which is $6.8 million more than budgeted in the December Plan.[1] This resulted mainly from: (1) higher collection of rental revenues for JFK and LaGuardia airports ($4.8 million); (2) greater-than-budgeted collections for Environmental Control Board fines ($3.5 million); (3) additional revenues from the sales of City-foreclosed properties ($6.2 million); and (4) higher fees collected for using parks facilities ($2.2 million). These higher collections were partly offset by lower fees from parking meters, parking violation and other motor vehicle fines; and a reduction in fees collected for construction permits. (See Table 3.)

The City has collected rent of $9.6 million from the Port Authority (PA) during the first half of FY 02 for JFK and LaGuardia airports. However, the City may not receive any more rental payments from the PA through the end of FY 02. The City has therefore lowered its projection of rental revenues for FY 02 to $9.6 million from an original projection of $15 million in the FY 02 Adopted Budget. Following the WTC attack and after airports were reopened, airline flights were reduced at the City's municipal airports as the reduced number of travelers declined nationwide. The PA estimates that passenger traffic at the JFK, LaGuardia, and Newark airports declined to about 80 million in 2001 down from 92.5 million in 2000, a decline of approximately 13.5 percent.[2] This will lower the amount of revenue collected by the PA and rental paid to the City for CY 2001 and CY 2002, since the amount of rent paid to the City is largely based on revenues collected by the PA for the airports. The PA notified the City that it may have overpaid the City for rents during FY 02. As passenger traffic has declined in the forth quarter of 2001, the PA warned the City it may request a credit against future rental payments should revenues collected from the airports continue to decline.

[1] Year-to-date revenue collections may be understated because of a delay in posting cash receipts in the City's accounting system for December 21 through December 31, 2001.
[2] New York Daily News, online edition, *Region's Airport Hurting, Traffic dips 13.5% in '01*, Saturday, January 5, 2002.

Table 3. *Major Miscellaneous-Revenue Initiatives, FY 02 and FY 01, First Half, $ thousands*

	(1) FY 02 Plan	(2) Actual First Half FY 02	(3) Actual First Half FY 01	(2-1) Better/(Worse) than FY 02 Plan	(2-3) Better/(Worse) than FY 01 Actual
Parking, Moving Violation and Parking Meters	$218,965	$214,833	$235,240	($4,132)	($20,407)
Interest Income	30,306	30,815	48,633	509	(17,818)
Cable-Television Franchises	40,780	42,245	39,126	1,465	3,119
Con Ed/Lilco Payments	26,113	26,418	25,470	305	948
Construction Permits	23,514	20,921	24,955	(2,593)	(4,034)
Park Facility Privileges	16,549	18,705	20,092	2,156	(1,387)
Environmental Control Board	16,414	19,886	21,748	3,472	(1,862)
Fire Inspection Fees	16,676	16,285	15,629	(391)	656
Telephone Commission Fees	7,499	6,930	10,143	(569)	(3,213)
City Register Fees	9,600	10,047	8,334	447	1,713
Taxi Licenses	8,618	8,313	8,210	(305)	103
Airport Rental Revenues	4,776	9,600	16,550	4,824	(6,950)
Street Openings/Utility Permits	6,911	7,060	6,884	149	176
Garages and Long-Term Parking	5,296	4,836	6,504	(460)	(1,668)
Worker Compensation	5,457	7,498	8,149	2,041	(651)
Rents from City-Foreclosed Buildings	3,828	3,093	5,646	(735)	(2,553)
Affirmative Litigation	9,347	7,828	7,076	(1,519)	752
Birth and Death Certificates	5,200	4,776	5,226	(424)	(450)
Insurance Company Fees	2,750	3,547	3,057	797	490
Uncl. Cash & Property Sales	4,250	3,971	4,321	(279)	(350)
Sheriff Desk Fees	1,403	1,475	2,722	72	(1,247)
Building Inspection Fees	2,304	1,536	3,660	(768)	(2,124)
Bus Stops and Advertisements	6,177	6,134	5,169	(43)	965
City-Foreclosed Property Sales	2,617	8,836	1,738	6,219	7,098
Consumer Affairs Licenses	3,516	3,397	2,862	(119)	535
Pest Control Fees	1,450	2,130	1,856	680	274
School Lunch Fees	5,779	6,856	6,141	1,077	715
Terminal Market Rents	1,759	0	7,036	(1,759)	(7,036)
All Other Major Initiatives	22,584	19,313	27,441	(3,271)	(8,128)
TOTAL	**$510,438**	**$517,284**	**$579,618**	**$6,846**	**($62,334)**

Source: NYC Comptroller's Office, Financial Management System (FMS), and Office of Management and Budget.

Included in the December Plan is the receipt of claims against the PA of back-rental revenues and an increase in annual rent for JFK and LaGuardia airports of $185 million in FY 03, $330 million in FY 04, and $295 million in FY 05. The issue of back-rental claims and the renegotiations of new leases for the airports are currently before an arbitration panel. The City's projections are based on the inclusion of passenger-facility charges (PFCs) as revenues when calculating rent. The PA realizes net revenues of approximately $120 million annually from PFCs and dedicates this revenue to improvements at the airports. The City has argued that historically the rent payments it receives are too low based on the amount of revenues the airports generate for the PA. In an effort to resolve the dispute, the PA offered in 1994 to raise the rent it pays the City in return for an extension of the lease for the airports for 50 years, to 2065. The extension would have guaranteed the City annual rental payments of between $45 million and $65 million. Under the current lease, which expires in 2015, the City receives a rent of about $20 million a year, with a guaranteed minimum of $3.5 million annually. A negotiated agreement with the PA to extend the lease of the airports with the City could result in $300 million in back-rental claims in FY 02 and additional rental revenues going forward of $30 million a year (for a total rental of $50 million a year).

Collections from parking, moving-violations, parking meters, and other motor-vehicle-related fines are $4.1 million lower than projected in the December Plan for the first half of FY 02. The shortfall mainly resulted from the collections of lower-than-projected revenues of $3.8 million for parking meters in September, following the WTC attack. The suspension of parking rules, the drop in summonses and tickets issued, and the closure of certain parts of lower Manhattan resulted in lower revenue collections for parking meters, parking-violation fines and other motor-vehicle fines for September and October. Subsequently, the annual FY 02 revenue projections for parking-violation fines were reduced by the City in the December Plan to $343.1 million, $22.5 million lower than projected in the FY 02 Adopted Budget. The City issued 3,809,748 parking-violations summonses during the first half of FY 02 compared with 4,113,490 issued during the first half of FY 01, representing a decline of 7.4 percent. Following the WTC attack, weekly summons issuance declined when compared with the same period in FY 01, ranging from 47 percent to 36 percent. However, parking-violation summonses rose 22.2 percent for the weeks of December 23 and December 30, 2001 above the same period in 2000. (See Table 4.)

Table 4. *Parking Violations Summons Issuances*

Week of 2001	**Summons Issuance (2)**	**Week of 2000 (3)**	**Summons Issuance (4)**	**2001-2000 Change (5) =(4-2) /2**
11/18	138,736	11/19	150,806	-8.00%
11/25	185,628	11/26	172,798	7.42%
12/02	173,540	12/03	173,305	0.14%
12/09	174,004	12/10	162,411	7.14%
12/16	150,466	12/17	150,813	-0.23%
12/23	127,627	12/24	116,000	10.02%
12/30	127,608	12/31	92,800	37.51%
Total	**1,077,609**		**1,018,933**	**5.76%**

Source: NYC, Department of Finance.

Revenue collections from the applications for construction permits were $2.6 million lower than projected during the first half of FY 02. Most of the shortfall from this revenue source also occurred in September and October following the WTC attack. In November and December, collections have been more or less equal to the amount planned for these months.

Work Force As of December 31, 2001, the City's work force was 249,592, representing the lowest level in 18 months and a net decline of 3,172 employees below the same period in FY 01. (See Table 5.) The work force level on December 31, 2001 was 2,610 positions below plan. The City expects the work force to reach 255,350 employees on June 30, 2002, but since December 2000, work force levels have not been above 252,277 employees. This pattern of leaving budgeted positions unfilled began in the middle of FY 01. Between January and June 2001, work force levels have averaged 5,057 below Plan. On July 1, 2001, personal-service costs were predicated on a work force level of 257,093 positions. However, the City's work force was 7,269 positions lower than planned at the start of the FY 02. If the trend in the systemic under-filling of budgeted positions in the first half of FY 02 continues through the rest of the fiscal year, personal-service costs are likely to be as much as $90 million below the December Plan projections.

The decline in the work force is primarily attributable to an early-retirement program implemented by the City in the second quarter of FY 01 (October-December 2000), and the subsequent attrition of vacant positions at certain City agencies. The City required agencies that participated in the program to eliminate one position for every two employees that accepted early retirement. All such reductions became effective on December 29, 2000. Since 955 employees accepted the early-retirement program, work-force levels declined to an average of 250,542, reaching a peak of 252,277 employees on October 31, 2001.

In addition, the Police Department has been operating below its planned work force targets. Despite enhanced recruitment efforts by the Police Department, work force levels have been below projections by an average of 803 uniformed personnel during the first half of FY 2002.

As of December 31, 2001, the City's work force declined by 3,172 employees over a year earlier. Uniformed personnel declined by a net of 2,270 employees. The decline in uniformed personnel reflects 1,831 fewer police officers, 81 percent of the total decline. The civilian portion of the work force declined by a net of 652 employees, with the Department of Social Services accounting for almost 97 percent of the net decline. Subsequent to the WTC attack, froze most agencies' spending by 15 percent, which may have contributed to the decline in civilian portion of the work force.

Table 5. *Actual Work Force, December 2001 Less December 2000, and the December Plan Forecast for June 2002*

Agency	12/31/01 Actual Workforce (1)	12/31/00 Workforce (2)	Higher/ (Lower) Than Last Year (3)=(1-2)	Forecast For 6/30/02 (4)	Higher/ (Lower) Than Forecast (5)=(1-4)
Police-Uniformed	38,426	40,257	(1,831)	40,710	(2,284)
Fire-Uniformed	11,120	11,336	(216)	11,092	28
Corrections-Uniformed	10,617	10,611	6	10,846	(229)
Sanitation-Uniformed	7,957	8,186	(229)	8,076	(119)
Subtotal, Uniformed	**68,120**	**70,390**	**(2,270)**	**70,724**	**(2,604)**
BOE, Instructional	94,595	94,861	(266)	95,306	(711)
CUNY, Instructional	2,263	2,247	16	2,302	(39)
Subtotal, Pedagogical	**96,858**	**97,108**	**(250)**	**97,608**	**(750)**
Civilian:					0
Police-Civilian	9,242	9,020	222	8,554	688
Fire-Civilian	4,418	4,351	67	4,527	(109)
Corrections-Civilian	1,563	1,506	57	1,821	(258)
Sanitation-Civilian	2,216	2,212	4	2,147	69
BOE, Non-Instructional	8,118	8,106	12	7,869	249
CUNY, Non-Instructional	1,567	1,562	5	1,362	205
Juvenile Justice	750	790	(40)	815	(65)
Environmental Protection	5,369	5,482	(113)	6,064	(695)
Transportation	3,967	3,899	68	3,970	(3)
Parks & Recreation	1,907	2,011	(104)	1,991	(84)
General Services	1,549	1,432	117	1,700	(151)
Child Services	7,306	7,238	68	7,346	(40)
Social Services	12,409	13,044	(635)	12,976	(567)
All Other Civilians	24,233	24,613	(380)	25,876	(1,643)
Subtotal, Civilian	**84,614**	**85,266**	**(652)**	**87,018**	**(2,404)**
Totals	**249,592**	**252,764**	**(3,172)**	**255,350**	**(5,758)**

Source: NYC Comptroller's Office and OMB.

Overtime The City spent $674 million for overtime in the first half of FY 02, approximately $335 million, or 98.9 percent more than the same period in FY 01. (See Table 6.) However, of the total amount spent on overtime, 47 percent or $317 million is directly attributable to the WTC attack. In the December Plan, the City assumed it would be fully reimbursed by the Federal Government for all overtime spending related to the WTC attack. With the heightened security measures implemented after the attack and the enormous effort extended in the recovery and clean-up of the WTC site, overtime expenditures related to the attack should continue to rise during the second half of FY 02.

Excluding the impact on overtime spending from the WTC attack, overtime spending for the first half of FY 02 was $17.3 million, or 5.3 percent above the $339 million spent during the same period in FY 01. For all of FY 01, the City spent $737 million on overtime, the highest level ever recorded. The City has appropriated $501 million in the FY 02 budget for overtime. If the spending trend in overtime continues throughout the rest of the year, overtime spending will surpass the amount appropriated in the budget by $200 million even after adjusting for WTC-related overtime.

The majority of overtime spending occurs in the Police Department (NYPD) for uniformed personnel. The NYPD uniformed personnel accounted for 46.6 percent of all non-WTC-related overtime in the first half of FY 02. The NYPD spent $144.7 million on overtime for uniformed personnel, $13.6 million, or 8.6 percent less than in the same period in FY 01. Overtime for uniformed personnel at the NYPD declined in FY 02, but from a high level of spending in FY 01. Overtime spending for uniformed police personnel in FY 01 was $317 million, $96 million or 43 percent higher than in FY 00. The NYPD funds one of its major anti-crime programs through its overtime budget, namely the narcotics initiative called “Operation Condor”. The City’s efforts to reduce crime by doubling patrol strength through the use of overtime for Operation Condor accounted for most of the large increase in overtime during FY 01. However, given the City's large budget gaps, the Police Commissioner has stated he would reduce spending on Operation Condor over the next six months from current levels by halving the program’s patrol strength. The goal of this reduction is to force the NYPD to maintain its overtime spending within budget for FY 02.

Uniformed personnel spent $534 million in overtime through the first six months of FY 02 (July through December), of which $290 million was attributable to the WTC's rescue and clean up efforts. After accounting for the WTC-related overtime, uniformed personnel overtime increased by $6.2 million above the same period in FY 01. While the Police and Sanitation Departments actually decreased their overtime outlays, overtime for the Fire Department increased by $16 million. This increase primarily reflects the additional hours used in the rescue and cleanup efforts in WTC and the additional hours needed by the remaining firefighters to provide adequate staffing at fire stations.

Table 6. *Overtime Spending, FY 02 vs. FY 01, First Half, Including Adjustment for FY 02 WTC Overtime*

	Fiscal Year-to-Date Through December FY 02 (1)	Overtime Directly related to WTC Attack FYTD Dec. FY 02 (2)	December FY 02 Adjusted for World Trade Center (3)=(1-2)	Fiscal Year-to-Date Through December FY 01 (4)	Fiscal Year-to-Date FY 02 vs. FY 01 Better/ (Worse) (5)=(3-4)
Agency					
Uniformed:					
Police	$ 360,370,604	$ 215,622,329	$ 144,748,275	$ 158,302,898	$ 13,554,623
Fire	$ 106,473,073	$ 49,870,112	$ 56,602,961	$ 40,252,352	$ (16,350,609)
Correction	$ 31,252,137	$ 2,426,801	$ 28,825,336	$ 20,978,038	$ (7,847,298)
Sanitation	$ 36,344,106	$ 21,784,245	$ 14,559,861	$ 19,049,102	$ 4,489,241
Subtotal	$ 534,439,920	$ 289,703,487	$ 244,736,433	$ 238,582,390	$ (6,154,043)
Civilian:					
Police	$ 20,824,054	$ 6,565,851	$ 14,258,203	$ 13,665,149	$ (593,054)
Fire	$ 16,134,634	$ 4,195,794	$ 11,938,840	$ 10,122,015	$ (1,816,825)
Correction	$ 2,290,688	$ 23,655	$ 2,267,033	$ 2,177,367	$ (89,666)
Sanitation	$ 5,583,790	$ 4,266,591	$ 1,317,199	$ 2,075,492	$ 758,293
Board of Education	$ 4,489,088	---	$ 4,489,088	$ 5,963,593	$ 1,474,505
Juvenile Justice	$ 1,883,257	---	$ 1,883,257	$ 2,049,413	$ 166,156
Env. Protection	$ 12,635,749	$ 1,490,548	$ 11,145,201	$ 10,519,629	$ (625,572)
Transportation	$ 20,558,610	$ 4,756,942	$ 15,801,668	$ 14,063,322	$ (1,738,346)
Parks & Recreation	$ 2,370,508	$ 201,954	$ 2,168,554	$ 2,109,121	$ (59,433)
General Services	$ 3,415,546	$ 1,142,669	$ 2,272,877	$ 2,030,457	$ (242,420)
Child Services	$ 14,008,671	---	$ 14,008,671	$ 11,049,400	$ (2,959,271)
Social Services	$ 12,143,654	$ 123,500	$ 12,020,154	$ 9,672,905	$ (2,347,249)
All Other Civilians	$ 23,202,146	$ 5,008,392	$ 18,193,754	$ 15,145,908	$ (3,047,846)
Subtotal	$ 139,540,395	$ 27,775,896	$ 111,764,499	$ 100,643,771	$ (11,120,728)
Total	**$ 673,980,315**	**$ 317,479,383**	**$ 356,500,932**	**$ 339,226,161**	**$ (17,274,771)**
Attributable to WTC Attack	$ (317,479,383)				
Total Adjusted	**$ 356,500,932**			$ 339,226,161	$ (17,274,771)

Source: NYC Comptroller's Office.

Judgments and Claims The City's FY 02 judgments and claims (J&C) expenditures are projected to cost $464 million. The City and the Health and Hospital Corporation (HHC) reached an agreement that beginning in FY 02 the City will fund debt-service costs related to the construction and rehabilitation of HHC facilities, in return for HHC's indemnifying the City for all J&C costs incurred at its facilities. As a result, the City expects HHC's claims to cost $154 million and all other claims to cost $310 million.

During the first half of FY 02, the City settled 4,168 tort (personal-injury and property-damage) claims, about 25.5 percent fewer than the same period in FY 01 and

19.1 percent fewer than in FY 00. The cost to resolve these claims was $214.7 million, an average cost per claim of $51,518. This cost is 16.9 percent above the first half of FY 01 and 21.3 percent above the same period in FY 00. (See Table 7.) More than one-third of these claims were attributable to HHC's medical malpractice claims. If the costs of claims settled in the first half of FYs 02 and 01 were adjusted for medical malpractice claims arising from activities at HHC, the cost of resolving all other claims would be $122.2 million in FY 02, slightly below FY 01 spending of $122.6 million.

Table 7. *NYC Tort-Claims Cases and Expenditures, First-Half, FYs 98-02*

	FY 02	FY 01*	FY 00	FY 99	FY 98
First-Half Tort-Claims Expenditures, $ mil.	**$214.7**	**$183.6**	**$177.1**	**$142.9**	**$136.4**
Personal-Injury Cases	$210.2	$179.7	$171.2	$140.6	$133.5
Property-Damage Cases	$4.5	$3.9	$5.9	$2.3	$2.9
First-Half Cases Settled	4,168	5,594	5,150	4,671	4,771
Personal-Injury Cases Settled	2,937	4,161	3,811	3,219	2,823
Property-Damage Cases Settled	1,231	1,433	1,339	1,452	1,948
Average Cost per Claim, $ '000	**$51.5**	**$32.8**	**$34.4**	**$30.6**	**$28.6**
Personal-Injury Cases Settled, $ '000	$71.6	$43.2	$44.9	$43.7	$47.3
Property-Damage Cases Settled, $ '000	$3.7	$2.8	$4.3	$1.6	$1.5
Total Cases Settled in Fiscal Year	**N/A**	**12,871**	**11,884**	**11,112**	**10,840**

*The figure for FY 01 total cases settled is preliminary.
Source: NYC Office of the Comptroller, Bureau of Claims and Adjudications, and Office of Management and Budget.

The continued growth in J&C costs for FY 02 resulted mainly from the increase in the average cost to resolve personal injury (PI) claims. The City resolved 2,937 PI cases during the first half of FY 02, 29.4 percent below the 4,161 cases resolved during the first half of FY 01. The cost to resolve these PI cases was $210.2 million, 17 percent more than the same period in FY 01 and 22.8 percent more than the same period in FY 00. The average cost to resolve PI claims, therefore, rose to $71,575 in FY 02 from $43,176 in FY 01. This increase in the cost per claim resulted mainly from a growth of almost 65 percent in the cost of claims of $1 million or more over the same period in FY 01. During the first half of FY 02, 33 claims for $1 million or more were resolved at a cost of $92.5 million, up from 30 cases in FY 01 costing of $61 million.

Public Assistance The City's public assistance caseload fell by about 7 percent in the first half of FY 02. According to statistics compiled by the Department of Social Services, welfare caseload fell to 462,595 in December, reflecting a decline of 34,518 recipients from the June 2001 caseload of 497,113. The City's public assistance caseload, in general, remains in a downward trend since FY 95. Despite caseload increases totaling 5,539 recipients during October and November, immediately following the WTC attack, the downward trend in welfare caseload resumed in December with a decline of 6,547 recipients from November. Since reaching a historical peak caseload of 1,160,593 in March 1995, the City's welfare rolls have fallen by about 60 percent. Similarly, monthly grant expenditures have fallen by about 59 percent to $101.2 million in December 2001 from $247.8 million in March 1995.

The welfare caseload decline in the first half of FY 02 comprises decreases of 112,904 recipients in the Federally mandated Family Assistance (FA) program and 3,125 recipients in the State-mandated Safety Net Assistance (SNA) program. These declines are offset by an increase of 81,511 recipients in the SNA-5 Year category. The City has created the SNA-5 Year category to track recipients who enter the SNA program after reaching a five-year lifetime limit in the FA program, as stipulated by the Federal Welfare Reform Act of 1996. The first set of FA recipients left the program in December 2001 because of this mandated time limit, with 81,511 of these recipients joining the SNA-5 Year category, as reported by the City.

The City incurs additional costs from the transfers of FA recipients to the SNA program because of the higher City funding share for the SNA program. City funds support 50 percent of SNA program costs and 25 percent of FA program costs. The additional costs resulting from these transfers can be counted toward the maintenance of effort (MOE) for Federal Temporary Assistance to Needy Families (TANF) Block Grant.[3] This allows the City to indirectly use the TANF Block Grant to finance some of these costs because the TANF funding would lower City funding for the FA program. According to the City, these savings can be used to address the additional costs associated with the influx of new SNA-5 Year recipients from the FA program.

Moreover, because caseload for the first half of FY 02 averaged about 30,907 recipients below plan each month, the public assistance budget has a potential annualized surplus of about $20 million for FY 02. However, the City cannot recognize this surplus because of the MOE funding requirement for the TANF Block Grant, which requires the City to allocate a certain level of funding on eligible welfare and transitional programs. The City has indicated, however, that the potential surplus can also be used to support its costs for SNA-5 Year recipients.

Board of Education In its mid-year financial plan update presented to the City and its financial monitors, the Board of Education (BOE) projects a budget gap of about $137 million for FY 02. The update shows a gross deficit of $197 million, which includes funds currently allocated by the City for privatization of low-performing schools ($80 million), funds committed to districts for the roll of FY 01 budget surplus ($69 million), and unrealized savings from its procurement initiatives ($40 million). The BOE's projected deficit is partly offset by $60 million in proposed savings, mainly from lower average teacher salaries and reduced funding for certain mayoral initiatives (freezing expansion of after-school programs such as Project English and Project Science), that brings the adjusted budget gap to $137 million.

[3] NY State receives about $2.4 billion annually as part of the Federal TANF Block Grant allocations. The MOE provision for these grants requires the State to spend at least 75 percent of this sum on eligible welfare and transitional programs. The City, with about 70 percent of the FA recipient population statewide, represents a large portion of statewide spending for these programs. To satisfy the MOE requirement, the City may need to reinvest the potential surplus in its public assistance budget on programs that are eligible under the MOE.

Further, the BOE has identified potential resources totaling $123 million that would bring the FY 02 budget gap to a manageable level of $14 million, if fully realized. These resources are largely contingent upon the reinstatement to the BOE budget of $80 million earmarked for school privatization that is currently withheld by the City, $23 million in anticipated State grants for teacher recruitment and $20 million in savings from a vendor purchasing program.

Since the Adopted Budget, the BOE has implemented initiatives to deal with a funding shortfall of $291 million in FY 02, made up of baseline budget needs of $120 million and State education aid shortfall of $171 million. In addressing this shortfall, the Chancellor announced two rounds of internal budget cuts in August affecting a number of areas, including central administration staffing, district allocations, and after-school programs. In addition, to help close a citywide budget gap of $1.3 billion in the December Plan for FY 02, largely a result of tax revenues losses following the WTC attack, the BOE had to absorb a cut of $97 million in its budget. Given the reported magnitude of its funding shortfall and the subsequent cut to its budget, the BOE's projected deficit appears manageable if the proposed resources in its mid-year financial plan update can be realized before the end of FY 02.

Looking ahead, the BOE will likely face greater financial difficulties beyond FY 02. The City has released a broad outline of citywide spending reduction targets for the formulation of its FY 03 Preliminary Budget. The City has requested that the BOE submit reduction programs that comprise 5 percent and 10 percent of the City-funded portion of its budget for FY 03. In response to the City's request, the Chancellor has reportedly outlined a reduction program of about $600 million. The BOE has already absorbed a reduction of $97 million in City funds in FY 02 below the amount appropriated in the Adopted Budget.

Interest Rates and Costs on Variable Rate Debt Are Below Budget The City will likely experience significant savings in FY 02 from lower interest costs on its $3.34 billion of outstanding variable-rate-debt bonds (VRDB). Both tax-exempt and taxable VRDB interest rates and costs have been considerably less than budgeted. Daily and weekly interest rates on tax-exempt VRDBs have averaged about 1.9 percent from July through December compared with a budgeted rate of three percent. Interest rates and costs on taxable VRDBs have also been below budgeted, averaging about three percent in the first six months of FY 02 compared with a budgeted rate of 4.5 percent. The December Plan included recommended appropriations of $118.2 million for VRDB interest costs for FY 02, implying budgeted costs of $69.1 million in the first-half of the fiscal year. With actual VRDB interest costs of $34.3 million in the first six months of FY 02, the City has already saved $24.8 million compared with budget. If interest rates on the City's VRDBs continue at roughly the same level in the second half of FY 02, the City could save upwards of $49 million.

Pensions In the December Plan, the City's contributions to the five actuarial pension funds were projected to increase from $1.544 billion in FY 02, to $1.922 billion in FY 03, to $2.208 billion in FY 04, to $2.511 billion in FY 05 and to $2.958 billion in FY 06. These projections may be understated, however, for the following reasons:

1. The FYs 03 to 06 projections assume that City employees will not receive any contractual wage increase beyond the current contract pattern until FY 06.[4]

2. Of great concern to the FYs 03 to 06 projections is pension fund investment returns in FY 02 and in the out-years. The City's pension cost projections are based on the actuarial investment return assumption (AIRA) that pension funds will earn 8.0 percent each fiscal year. If investment returns are higher than the 8.0 percent in any fiscal year, then the City's future pension costs will be lower. But, if investment returns are lower, then the City's future pension costs will be higher. For example, the 8.3 percent FY 01 investment loss, which was 16.3 percent below the AIRA, increased the City's FYs 02 - 06 pension expenses by approximately $2.8 billion. (See Table 9.) The FY 02 Adopted Budget and June Plan has been modified to include the resulting increases.

If FY 02 investment returns are below the AIRA, budget gaps projected in the out-years could worsen. For the first six months of FY 02, pension fund investments lost about 2.9 percent. If FY 02 performance remains at this level on June 30, 2002, which would translate to a performance of 10.9 percent below the AIRA, then FYs 03 to 06 City contributions will increase by over a billion dollars. (See Table 8.) Note that this is a hypothetical scenario to demonstrate the significant impact of investment returns. It is still possible that FY 02 investment returns will exceed the AIRA, in which case the City's FYs 03 to 06 contributions to the pension funds would decrease.

Table 8. *Impact of Pension Investment Performance on City's Estimated Pension Cost, FYs 01-02, $ millions*

Pension Investment Performance	**Increases in City Contributions to the Pension Funds**					
	FY 02	**FY 03**	**FY 04**	**FY 05**	**FY 06**	**Total**
FY 01 Loss (-8.3%) – Actual*	$ 69	$ 234	$ 477	$ 800	$ 1,184	$ 2,764
FY 02 Loss (-2.9%) – Hypothetical	N/A	70	176	317	493	1,056
Hypothetical Combined 2-Year Loss	$ 69	$ 304	$ 653	$ 1,117	$ 1,677	$ 3,820

* The impact of FY 01 Investment Losses is already included in the City's FY 02 Adopted Budget and June Plan.
Source: NYC, Office of the Comptroller.

3. The City's future pension costs may also increase as a result of WTC attack casualties and recovery operations. Besides already projected fatalities, injuries sustained by police and fire personnel may lead to future increases in accidental disability

[4] While any contractual wage increase will result in higher City contributions, it is not a major concern because it is expected that the additional contribution will be funded from the City's Labor Reserve simultaneously with the funding of the wage increase.

retirements. In addition, the abnormal increase in overtime spending related to the WTC attack may increase pension benefits for personnel who had already planned to retire. The additional overtime earnings may also prompt some other workers to retire early, as the higher earnings will result in higher pension benefits. Finally, higher disability and death benefits will have to be paid to certain civilian City employees who were hurt or killed in the attack, if proposed legislation becomes law.

The Chief Actuary of the City's pension systems is in the process of estimating the possible impact to the City's pension costs. It is anticipated, however, that the Federal Government will pay the City for all costs resulting from the attack.

December Plan Update On December 31, 2001, the City submitted to the Financial Control Board a modification to the December Plan it had issued on December 4, 2001. The December 31 modification raised the projected FY 02 budget surplus to $697 million from $375 million. The City also reduced the average projected out-year budget gaps by $618 million, to $3.321 billion.

The December 31 update raises tax-revenue forecasts of $150 million in the second half of FY 02 and by $49 million in FY 03. It also reflects the roll back of the planned cut to the personal-income-tax surcharge, which will provide the City $172 million in additional resources in FY 02, growing to $390 million by FY 05. (See Table 9.)

Table 9. *December Plan Update, $ millions*

	FY 02	FY 03	FY 04	FY 05
Budget Surplus/(Gap), December 4 Plan	**$375**	**($3,954)**	**($3,964)**	**($3,899)**
Tax Revenue	150	49	0	0
PIT Surcharge	172	349	370	390
FY 02 Budget Surplus, December 31	697	0	0	0
Use of FY 02 Surplus to Close FY 03 Budget GAP	(697)	697	0	0
Budget Gaps, December 31 Plan	**$0**	**($2,859)**	**($3,594)**	**($3,509)**

Source: NYC, Comptroller's Office and OMB, December 2001 Financial Plans.

A major risk to the FY 02 projection is the outcome of negotiations between the City and the unions representing police, firefighters, and teachers. Together, these unions represent 40 percent of the City's work force, and they are not satisfied with the wage settlements agreed to by the City, District Council 37, and the Uniformed Forces Coalition. Any agreement that includes a higher wage increase would reduce the FY 02 projected budget surplus and raise the out-year gaps. Each percentage-point increase above the agreement stipulated in the contract between the City and DC 37 would result in additional costs of $56 million for teachers, $19 million for police officers, and $6 million for firefighters.

Still, with a general reserve of $200 million and $697 million in the Budget Stabilization Account, the City should be able to end FY 02 in balance without extraordinary measures.

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