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BUDGET NOTES

THE CITY OF NEW YORK

OFFICE OF THE COMPTROLLER

ALAN G. HEVESI, COMPTROLLER

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NEW YORK, NY 10007

First Half of FY 99 Highlights

- **Tax revenues are \$44.1 million above plan, and \$371.3 million over the same period in FY 98, before adjusting for temporary shortfall in property taxes.**
- **Major miscellaneous revenue collections are \$12.3 million above plan.**
- **Board of Education announces a surplus of \$80 million.**
- **The public assistance caseload is 18,470 below plan.**
- **Overtime spending is \$53.2 million above plan and \$39.7 million more than the first half of FY 98, led by the Police and Corrections Departments.**
- **The City's work force is 2,425 more than plan, led by hiring at the Board of Education and at the uniformed agencies.**
- **Debt-service savings of \$45 million are not yet recognized in**

the November Plan.

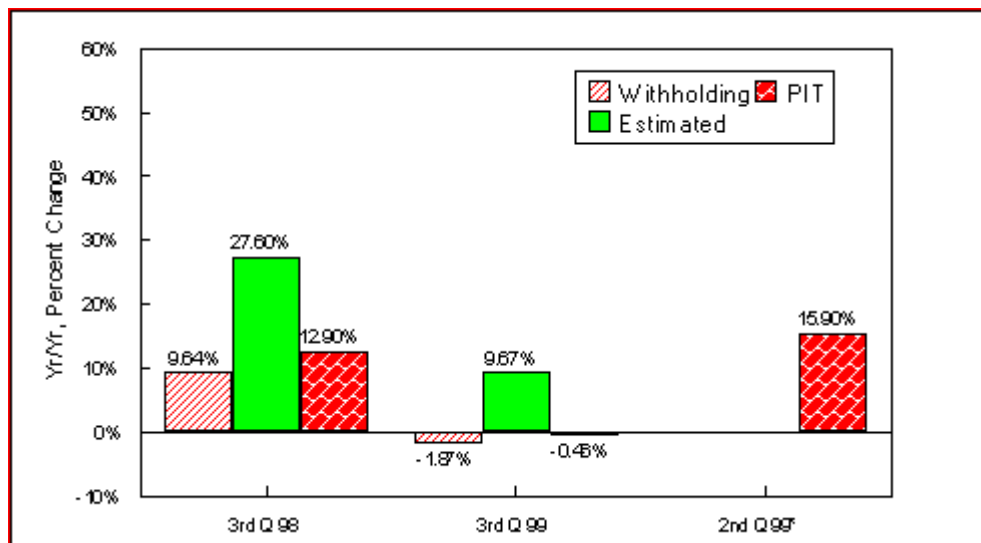
- **The Metropolitan Transit Authority (MTA) has recognized an operation surplus of \$379.2 million in 1998.**
- **The City files for a larger share of tobacco settlements.**

Tax Revenues Tax revenues for the first half of FY 99 totaled \$10.642 billion, excluding revenues from audits. This is \$44.1 million above the November Plan and \$371.3 million, or 3.6 percent, above collections during the first half of FY 98. An additional \$83.2 million was collected during the first half of FY 99 from tax lien sales.

Collections are understated because of a temporary shortfall in property taxes. The November Plan assumed that a two percent prepayment discount on property taxes would be offered in January, since it was offered in past years. The prepayment incentive was not offered this year because of the City's strong cash position. Also, there was a delay in mailing tax bills as a result of the budget standoff between the Mayor and the City Council. Because of these two factors, property tax revenues for January 1999 were \$189.8 million below plan. But these revenues are simple deferred and will instead show up in February and March.

If property tax collections are excluded from total tax revenue collections for the first six months of FY 99, then revenues are \$234.4 million above the November Plan, and 8.4 percent above the same period last year. If the stock market and the economy remain on track for the rest of FY 99, revenues are likely to surpass the forecasts of both the Comptroller's Office and the City. (See Figure 1.) The Comptroller's Office will continue to monitor developments that impact the City's economy and revenues, such as Brazil's decision to float its currency, and will adjust its forecasts if necessary.

Figure 1. *Difference between Actual and Projected Tax Revenues, 1st Half FY 99, \$ millions*



Note: Total excl. prop. is the sum of non-property tax revenues excluding audits.

PIT=personal income tax, GCT=general corporation tax, Bank=banking corporation tax,
UBT=unincorporated business tax, CRT=commercial rent tax, RPTT=real property transfer
tax, MRT=mortgage recording tax.

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

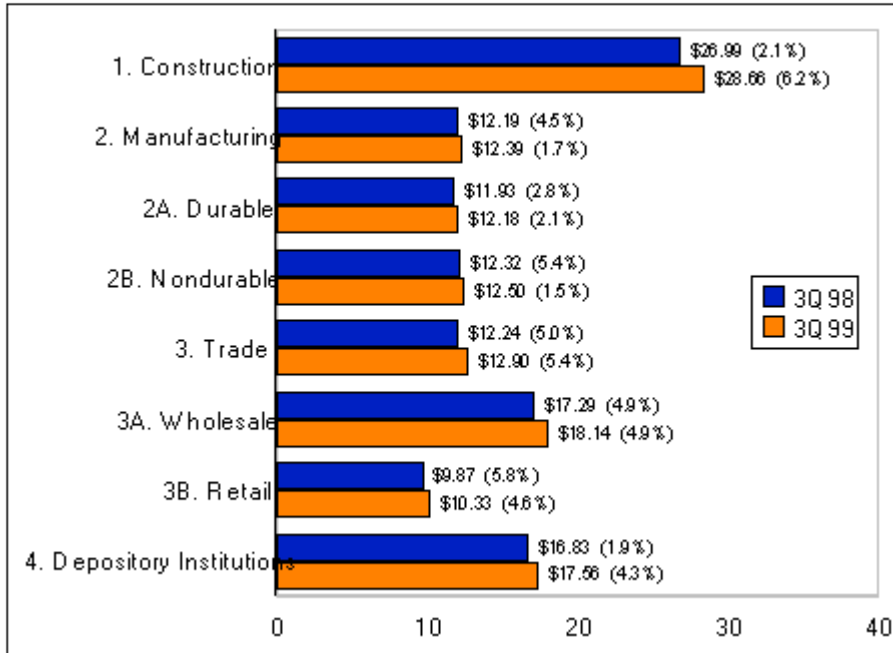
The personal income tax was \$100.1 million above plan for the first half of FY 99, representing growth of 11.7 percent over FY 98. This tax has continued to perform well despite fears of a slowing in the local economy. The November Plan estimated personal income tax revenues would decline by 1.1 percent over FY 98, after accounting for the \$201 million loss from the elimination of the 12.5 percent surcharge. Although bonus payments are expected to be about one-quarter less than last year's level, revenues are unlikely to exhibit the lows predicted in the November Plan and FY 99 will likely be another year of extra tax revenues, generated primarily from this tax.

The general corporation tax was \$79.3 million above plan during the first half of FY 99 and 6.2 percent above FY 98 collections, despite third-quarter losses in the financial sector. The banking corporation tax was \$32.6 million above plan, although revenues are 37.5 percent below FY 98 collections. The unincorporated business tax was \$5.6 million below plan and is 10.5 percent below FY 98 collections. The sales tax was \$5.4 million below plan for the first half of FY 99, but is 6.5 percent above FY 98 collections. The commercial rent tax is \$1.1 million above plan while the utility tax is \$0.4 million below plan. The two real-estate-transaction taxes, mortgage recording and real property transfer, are \$29.7 million above plan and 80.2 percent above FY 98 collections because of the strong local real estate market. Audit revenues are \$338,000 above plan.

Major FY 99 Miscellaneous Revenue Initiatives The City has budgeted \$2.532 billion in the November Plan from non-tax miscellaneous revenues in FY 99, a net increase of \$29 million since the FY 99 Adopted Budget. About \$1.128 billion or 45 percent of the projected collections will be generated from major revenue initiatives, which include fees from parking-violation fines (\$377 million), earnings from overnight investment of treasury cash (\$93 million) and parking meter fines (\$68 million). The remaining revenues, \$1.404 billion, consist mainly of water and sewer payments (\$831 million), City University tuition and fees (\$134 million), and payments from the Health and Hospitals Corporation (\$114 million) and other revenue sources (\$325 million), such as fingerprinting and taxi inspection fees.

For the first six months of FY 99, the City collected \$570 million from the major revenue initiatives, about 2 percent or \$12 million 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 cable-television franchises. The increase was offset by shortfalls in revenue generated from initiatives such as affirmative claims pursued by the City, residential rents from City-foreclosed buildings and violation-tow fines (Table 1).

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



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

As in FY 98, the City continues to benefit from higher-than-projected earnings on overnight investments of idle cash in its treasury. As a result, the City increased the projection of FY 99 interest earnings by \$15.5 million to \$93 million in the November Plan. Despite this adjustment, interest earned on idle cash balances through December 1998 was \$13 million more than the budgeted amount of \$52 million. If this trend persists, earnings on overnight investments could be between \$15 million and \$20 million more than budgeted. 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 December 1998 is about \$6 million more than the budgeted amount of \$180 million as a result of the successful collection of fines. Through December 1998, parking fines issued have declined compared with last fiscal year (4.311 million in FY 99 versus 4.485 million in FY 98). Nonetheless, the City anticipates revenues totaling \$377 million from parking-violation fines in FY 99, the same as in FY 98.

The City also collected higher revenues than projected from initiatives such as sales of City-foreclosed buildings, fees from cable-television franchises, park-facility privileges and Environmental Control Board (ECB) fines. Collections from the sale of City-foreclosed buildings were \$5.6 million. Cable-television franchises and park-facility privileges yielded \$28.7 million and \$16.3 million, respectively. ECB fines were \$15.7 million.

Collections for several initiatives have been lower than budgeted for the first six months of FY 99. The City has collected \$9.9 million for pursuing affirmative claims, about \$5 million lower than the budgeted amount of \$15.0 million. Other initiatives for which revenues generated were lower than budgeted are residential rents from City foreclosed buildings, violation tow and all-

other-initiatives category. Most of the shortfall in the all-other-initiatives category resulted from a lag in the payment of terminal market rents of \$1.8 million and a shortfall of \$2.4 million from the Department of Social Services miscellaneous revenue collections.

Board of Education In its December Financial Status Report dated January 7th, BOE has revealed a FY 99 surplus of \$80 million based on its November 24, 1998 financial condition. BOE has earmarked the surplus to cover a \$63 million State aid shortfall in Teacher Support aid and provide \$11 million to the community school districts for instructional spending in FY 00. This is the earliest that BOE has shown a budget surplus in any fiscal year. Prior to this, the earliest that BOE has revealed a surplus was in FY 98 when it showed a \$50 million surplus on January 28th as part of the City's January Financial Plan. Also, there is early indication that enrollment growth in FY 99 will be lower than expected, thus setting the tone for a larger surplus in coming months. Preliminary BOE enrollment figures are expected to be available by the end of January. BOE had projected a growth of about 13,000 pupils for FY 99.

Public Assistance The City's public assistance caseload resumed its decline in the past two months, after a brief interruption in October when the caseload rose by 920 recipients. In November and December 1998, the welfare caseload fell by a total of 20,982 recipients to 715,733 from the October level of 736,715. According to caseload data compiled by the Department of Social Services, the 2.8 percent caseload decline is comprised of 11,643 recipients in the Temporary Assistance to Needy Families (TANF) category and 5,330 recipients in the Safety Net Assistance (SNA) category. Since March 1995, when the welfare caseload peaked at an all-time high of 1,160,593, the number of welfare recipients has fallen by about 38 percent. Monthly grant expenditures have shown a similar decline of about 40 percent over the same period, falling to \$147.5 million in November 1998 from \$247.8 million in March 1995.

Compared with the City's caseload projection, actual welfare caseload was 18,470 recipients below plan for December 1998. This variance breaks down to 10,658 recipients in the TANF category and 7,812 recipients in the SNA category. If this variance is maintained for the remainder of FY 99, it could provide annualized savings of about \$17 million to the City.

Overtime Overtime spending is approaching record levels in FY 99. The City paid \$248.9 million for overtime through the first six months of FY 99, about \$53.2 million (or 27 percent) more than budgeted and \$39.7 million (or 19 percent) more than the first half of last year. If this pattern continues, the City could spend \$550 million, \$131.7 million more than budgeted. In the past five fiscal years overtime expenditures through December have accounted for 45.8 percent of annual overtime expenditures. (See Table 2.) With the continuation of the anti-drug initiatives and other major initiatives, such as recycling and higher average prison populations at City jails, overtime spending should remain under pressure for the rest of the fiscal year.

Table 2. *Overtime Spending through December, Compared with Total Expenditures, FYs 94-98, \$ millions*

		Total	
	Overtime Spending	Expenditures	

Fiscal Year	through December	for year	Percentage
1994	\$209	\$490	42.7%
1995	219	423	51.8%
1996	184	436	42.2%
1997	218	449	48.6%
1998	209	469	44.6%
Average	\$207.8	\$453.4	45.8%

Source: City of New York, Financial Information Services Agency, Integrated Financial Information System, and Office of the Comptroller, *Comprehensive Annual Financial Report*, FYs 94-98.

In the past, the City has used under-budgeting as a practice to try to control overtime costs. Over the past few years, this practice has had little, if any, success. Actual expenditures have, on average, been 47 percent more than the Adopted Budget forecast. (See Table 3.)

Table 3. *Adopted Budget Forecasts vs. Actual Expenditures, FYs 94–99, \$ millions*

	Adopted	Total	Actual
	Budget	Expenditures	As percentage of
Fiscal Year	Forecasts	For Year	Adopted Forecasts
1994	\$248	\$490	197.6%
1995	261	423	162.1%
1996	354	436	123.2%
1997	296	449	151.7%
1998	384	469	122.1%
Average	\$308.6	\$453.4	146.9%

Sources: City of New York, Office of the Comptroller, *Comprehensive Annual Financial Report*, FYs 94-98.

Overtime spending in the first six months of FY 99 was mainly driven by increased spending in uniformed agencies, most notably the Police, Correction and Sanitation Departments. The Police Department consumed 32.7 percent of the overtime spending in the first half of the year, up from 31.4 percent in the same period FY 98. The Fire Department accounted for 21.5 percent, down from 24.6 percent in FY 98. Correction's share of overtime spending went up to 12.1 percent, from 9.8 percent in FY 98. Sanitation's share rose to 11.7 percent, up from 10.2 percent. The Department of Transportation consumed about the same share of overtime spending in FY 99 (4.5 percent) as in FY 98 (4.4 percent).

The increase in the Police Department's overtime spending is the result of: (1) expanded anti-drug initiatives throughout the City, which have resulted in more arrests; (2) increased anti-

terrorism measures; (3) numerous visits by dignitaries, such as the President and Vice President; (4) a scaffolding accident that occurred in July 1998 that required a large area of Times Square to be cordoned off for an extended period; and (5) other events such as parades and demonstrations. The increased spending in the Department of Correction is attributable to higher prison populations.

Transportation spent \$11.4 million for overtime for the first six months of the year, \$2 million more than the same period in FY 98. The increased spending is the result of increased security measures, in particular barricading government offices, to guard against potential terrorist strikes.

Table 4. Projected Overtime Compared with Actual Spending, \$ millions

	Actual	Actual				
	First Half	First Half		FY 99	FY 99	
Agency	FY 99	FY 98	Change	Budget	Projection	Risk
Uniform						
Police	\$81.4	\$65.7	\$15.7	\$110.8	\$170.2	(\$59.4)
Fire	53.6	51.4	2.2	101.4	118.6	(17.2)
Correction	30.2	20.6	9.6	60.7	66.8	(6.1)
Sanitation	29.1	21.4	7.7	56.8	73.2	(16.4)
Total Uniform	\$194.3	\$159.1	\$35.2	\$329.7	\$428.8	\$(99.1)
Civilian						
Transportation	\$11.3	\$9.2	\$2.1	\$18.5	\$25.0	\$(6.5)
Social Services	5.6	6.3	(0.7)	9.3	12.5	(3.2)
All Other Civilian	37.7	34.6	3.1	60.4	83.3	(22.9)
Total Civilian	\$54.6	\$50.1	\$4.5	\$88.2	\$120.8	\$(32.6)
Total City	\$248.9	\$209.2	\$39.7	\$417.9	\$549.6	\$(131.7)

Sources: City of New York, Financial Information Services Agency, Integrated Financial Management System, and Office of Management and Budget, November Financial Plan, FY 1999.

Work Force As of December 31, the City had a work force of 247,119 employees, 2,425 more than planned and 4,633 more than the same time last year. The 2,425 employees over the planned work-force level for December are a product of: higher-than-anticipated hiring of teachers at the Board of Education (3,883), City University of New York (65) and in the uniformed agencies (190). These were partly offset by a net of 1,648 vacancies in civilian agencies. Also, the November Plan does not reflect Federal funding for approximately 900 civilian positions in the Police Department.

Table 5. Work Force, Actual Compared with Plan

	December 98	December 98	More/(Less)	December 97	Year-over- Year
Agency	Work Force (Preliminary)	Plan	Than Plan	Work Force	Changes
Uniformed					
Police	39,676	39,540	136	38,593	1,083
Fire	11,363	11,252	111	11,156	207
Corrections	11,253	11,311	(58)	11,570	(317)
Sanitation	7,154	7,153	1	7,164	(10)
Total Uniformed	69,446	69,256	190	68,483	963
Civilian					
Police	8,709	7,771	938	8,710	(1)
Admin for Child Svcs	7,151	7,637	(486)	7,195	(44)
Social Services	13,448	13,757	(309)	13,894	(446)
Homeless Services	2,020	2,136	(116)	2,169	(149)
HPD	2,574	2,768	(194)	2,721	(147)
DEP	5,553	5,907	(354)	5,512	41
All Other	46,088	47,215	(1,127)	46,318	(230)
Total Civilian	85,543	87,191	(1,648)	86,519	(976)
Pedagogical					
Board of Education	89,872	86,054	3,818	85,265	4,607
City University*	2,258	2,193	65	2,219	39
Total Peds	92,130	88,247	3,883	87,484	4,646
Total City	247,119	244,694	2,425	242,486	4,633

Sources: City of New York, Financial Information Services Agency, Integrated Financial Management System, and Office of Management and Budget, November Financial Plan, FY 1999.

* Community Colleges.

The year-over-year increase in the City work force is largely the result of approximately 4,607 additional teachers and 1,083 additional police officers, partly offset by a decrease of 976 civilian employees as a product of the continuation of the 75 percent hiring freeze initiated in FY 98. The additional teachers were hired for programmatic purposes such as Project Read, the expansion of pre-kindergarten programs and rising student population. The increase in the number of Police officers over last year reflects additional officers paid for by Federal funds. As of December, teachers and the uniformed police force account for approximately 52 percent of the City work force.

Debt Service In the first half of FY 99, the City has realized approximately \$45 million in debt-service savings not yet reflected in the November Plan. In its FY 99 General Obligation Series A & B, C & D and E bond sales, the City completed \$892.7 million refunding transactions with gross savings of \$67.5 million and with budget savings of \$28.8 million in FY 99 and \$36.5

million in FY 00. These transactions follow the criteria stipulated by the Comptroller in FY 95 that bond refundings produce budget savings in every year of the transaction. Also in the first half of FY 99, the Comptroller's Office, together with the City's Office of Management and Budget, renegotiated letter of credit and liquidity facility agreements on some of its outstanding variable rate debt. As a result of these amended agreements, the City will save \$3.9 million in lower debt-service costs in FY 00.

The actual amount of General Obligation (G.O.) borrowing incurred in the first half of FY 99 was \$400 million compared with \$300 million in the City's Financing Plan. This increased level of borrowing offset debt-service savings that accrued from lower interest rates than anticipated in the Financial Plan. The Transitional Finance Authority (TFA) borrowed \$900 million (\$400 million fixed rate bonds and \$500 million variable rate bonds) in the first half of FY 99, \$250 million more than anticipated, at an estimated cost of \$20.2 million in FY 99. Debt Service appropriated for TFA debt issued in FY 99 is \$27 million. The TFA is scheduled to borrow \$950 million in the second half of FY 99. In order for the City to adhere to its Financing Plan and also not exceed the debt-service appropriations for TFA borrowing in FY 99, debt-service payments on future TFA bond sales completed in FY 99 must begin in November 1999.

MTA Adopts Its 1999 Budget The MTA adopted its FY 99 budget for the New York City Transit Authority (NYCTA) on December 17, 1998. In doing so, the MTA recognized an operating surplus of \$379.2 million for the NYCTA in 1998. According to the MTA, the \$379.2 million surplus materialized from three major factors: (1) \$157.6 million in higher-than-anticipated farebox collections; (2) \$158.8 million in higher-than-anticipated subsidy payments from City, State, and Federal governments; and 3) \$62.8 million lower-than-planned expenditures and "cash transactions". Of the 1998 surplus, \$266.2 million will be used to finance FY 99 expenses and \$113 million will be used to create a "reserve" in the NYCTA's expense budget. For FY 99 the NYCTA projects expenses of \$4.232 billion and revenues and reimbursements of \$3.928 billion, resulting in a projected operating deficit of \$303.7 million (referred to as nonreimbursable balance by NYCTA). This deficit will be offset by \$266.2 million of the FY 98 surplus and \$37.5 million in resources available from adjustments to the NYCTA's cash flow.

The highlights of service enhancements in the 1999 NYCTA budget include: the planned purchase of 200 new subway cars for \$161 million; \$42 million for increases in bus service and support; \$36 million in increases in subway service and support; \$11 million in increases for paratransit service; and \$5 million for customer service improvements. In addition, \$57 million in new maintenance investments are scheduled including \$22 million for improved subway car maintenance, \$4 million for car-floor replacements, \$19 million for a car propulsion system upgrade program, and \$12 million for miscellaneous improvements consisting primarily of enhanced bus fleet maintenance.

Tobacco Settlement In November, the tobacco companies finalized their settlement with a consortium of States. Subsequently, New York State determined its statewide allocation to its localities, whereby the City would receive about 26.7 percent of the statewide settlement proceeds based on a blended formula of population and Medicaid spending. It is estimated that the City would receive an initial payment of about \$260 million beginning in FY 00, with

subsequent annual payments in perpetuity adjusted by a minimum of 3 percent for inflation. In December, the City requested that the State Supreme Court reconsider the State's allocation proposal on the basis that it is being under compensated according to the State's allocation methodology. The City believes that it should be entitled to a 36 percent share of the proceeds based on its Medicaid spending and its health insurance contributions for active and retired City workers. A 36 percent share would amount to an annual allocation of about \$360 million. It is important for the City to set aside some portion of these funds for health-related needs, anti-tobacco-related education, and construction or rehabilitation of schools. Although the Court struck down the City's request, the City is currently in the process of filing an appeal of the court's decision. The Comptroller's Office is analyzing both the City's and the State's allocation methodologies, and plans to issue its findings in the near future.

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