BUDGET NOTES

THE CITY OF NEW YORK
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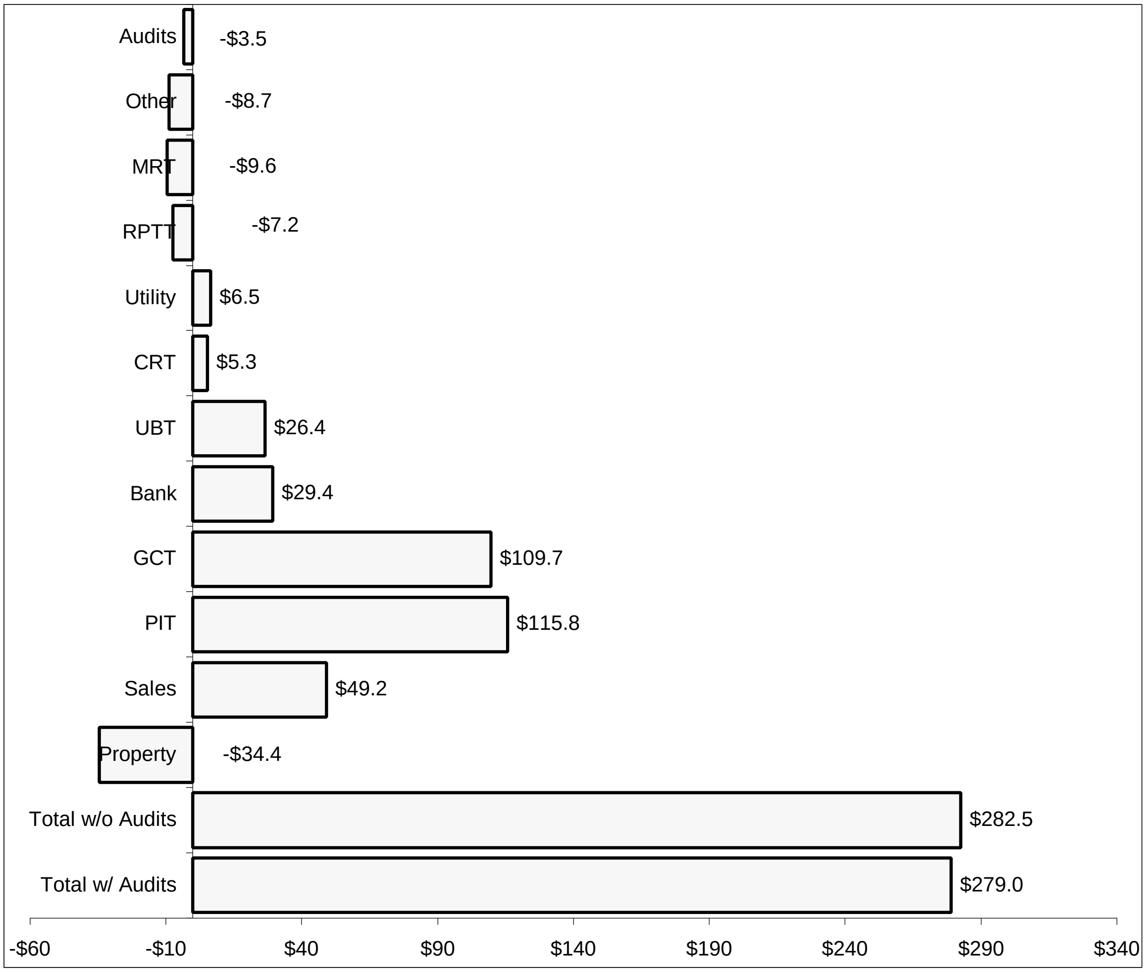
FY 01 FIRST QUARTER ASSESSMENT

- **Tax revenues, excluding audits, for the first quarter of FY 01 were $282 million above the Adopted Budget and 5.3 percent over tax revenues for the same period in FY 00.**
- **Major miscellaneous revenue collections were $5.6 million above the Adopted Budget. However, revenues from parking and other related motor vehicle fines were $6.7 million lower than planned.**
- **The City has issued a Request for Proposal for the sale of the franchise and operations of the NYC Off-Track Betting Corporation (OTB).**
- **The public-assistance caseload declined by 16,785 to 556,087 recipients from the June 2000 caseload.**
- **As of September 30, 2000, the City had 4,116 fewer employees than planned, but 1.6 percent over the same date in 1999.**
- **Overtime spending in the first quarter was $43.6 million above plan and 23.8 percent above the spending in the same period in FY 00.**
- **Retirees will receive an average increase of $233 per month from the new permanent Cost of Living Allowance (COLA) Program.**
- **The Health and Hospitals Corporation projects a surplus of $265 million in FY 01.**
- **The City completed a bond sale worth $588 million that includes a refunding with a $15 million equity contribution from the City's operating budget.**
- **The NYC Transit Authority has a surplus as of August of $178.2 million, which is $98.7 million, or 124 percent, above plan.**

<u>Tax Revenues</u> Tax revenues, especially the business taxes, the sales tax, and the personal income tax (PIT), have so far in FY 01 been performing well, reflecting the continuing strength of the New York City (NYC) economy. However, real-estate-related taxes are not as strong as expected. Without audits, for the first quarter of FY 01 (through September 2000), tax collections are $6.974 billion, which is 5.3 percent, or $354.1 million, higher than year-to-date FY 00 collections. Tax revenues are $282.5 million, or 4.2 percent, above the Adopted Budget projection, excluding audits. (See Chart 1.) This increase has occurred despite the elimination of the PIT surcharge and the ending of the sales tax for clothing less than $110. The Adopted Budget underestimated the growth of the economy. Tax revenues in the last month of the first quarter FY 01, especially the business taxes were much higher than expected.

Chart 1. *NYC Tax Collections Less Adopted Budget, First Quarter, FY 01, $ mil.*



Note: 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. Audits=revenue from taxpayer audits.
Source: NYC Office of the Comptroller, October 2000, based on data from OMB.

Relative to tax forecasts in the Adopted Budget, the strongest feature of NYC tax collections for the first three months of FY 01 is the additional revenue from business taxes. General corporation tax (GCT) collections were $388.3 million at the end of the first quarter of FY 01, 31.3 percent above FY 00 first-quarter collections, and 39.4 percent above the Adopted Budget. Banking corporation tax (BCT) revenue for the first quarter of FY 01 is $142.7 million, or 76 percent, higher than the same period of FY 00. First-quarter BCT collections are also 25.9 percent above the Adopted Budget. First-quarter FY 01 commercial rent tax (CRT) collections are $87.1 million, which is 13.3 percent above year-to-date FY 00 CRT collections and 6.5 percent above the revenue expected in the Adopted Budget. Unincorporated business tax (UBT) revenue for the first-quarter of FY 01 totaled $154.4 million. This is 16 percent higher than first-quarter UBT tax revenue in FY 00, and 20.7 percent higher than projected in the Adopted Budget.

FY 01 first-quarter personal income tax (PIT) collections outperformed the Adopted

Budget estimate by $115.8 million. At $1.126 billion for year-to-date FY 01, PIT collections are also $45.8 million above first-quarter FY 00 collections. PIT performance is especially noteworthy given the loss of PIT revenue from the expiration of the 12.5 percent surcharge and the commuter tax. Sales-tax collections in the first quarter of FY 01 are 4.2 percent higher than the same period in FY 00. Sales-tax collections totaled $838 million, which is $49.2 million, or 6.2 percent, above the estimate in the Adopted Budget. Utility-tax revenues for the first quarter of FY 01 were $6.5 million above the Adopted Budget estimate, but $2 million below year-to-date FY 00.

In contrast, the real-estate-related taxes were less than planned. Property-tax collections (including lien sales) for the first quarter of FY 01 were $3.9 billion, which outperformed same period FY 00 collections by 3.3 percent, or $123.2 million. But property-tax revenue is $34.4 million below the Adopted Budget forecast. July collections are $1.1 million lower than estimated in the Adopted Budget, although $189.5 million higher than in July 1999. In August, property-tax revenue was $16.7 million above the Adopted Budget estimate and $8.4 million above August 1999 collections. September was a slow month, as property-tax revenue fell short of Adopted Budget expectations by $50 million, and was $74.8 million below September 1999 collections.

Year-to-date mortgage-recording-tax (MRT) revenues for FY 01 are $15.1 million lower than FY 00 year-to-date collections, and $9.6 million below what is expected in the Adopted Budget. Real-property-transfer tax (RPTT) revenues for the first quarter of FY 01 are $9.5 million below FY 00 collections and $7.2 million below the Adopted Budget. The other tax revenues for FY 01 are $7.7 million below FY 00 and the Adopted Budget on a year-to-date basis.

Miscellaneous Revenues At the end of the first-quarter FY 01, the City's major revenue initiatives produced $267 million, about 2 percent, or $5.6 million, more than planned. This resulted mainly from higher earnings from the overnight investments of cash in the central treasury, additional rental income for JFK and LaGuardia airports, higher fees from cable television franchises, affirmative litigation and Environmental Control Board fines. These higher revenues were partly offset by lower collections from parking fines and meters, fire inspection fees, and building inspection fees. (See Table 1.)

The FY 01 Adopted Budget projects miscellaneous revenues of $3.096 billion, a net increase of $59 million over the amount anticipated to be collected in FY 00. However, excluding a major one-time item – the sale of the NY Coliseum for $345 million in FY 01– the level of the miscellaneous budget is anticipated to decline over FY 00. Of the amount of miscellaneous revenue included in the Adopted Budget, $1.145 billion, or almost 37 percent, will be generated from major revenue initiatives, including parking and moving violation fines, rental revenues for JFK and LaGuardia airports, and the overnight investment of treasury cash. The remaining $1.951 billion of revenues consist mainly of water and sewer payments reimbursing the City for operations, maintenance and rental of the water and sewer system from the Water Board ($843 million), sale of the New York City Coliseum ($345 million), net proceeds resulting from the tobacco settlement not securitizing debt service of TSASC, Inc bonds ($139 million), tuition and fees from the City University Senior and Community Colleges ($128 million), payments from the Health and Hospitals Corporation ($113 million), and other revenue sources ($383 million) such as fingerprinting, recreation-facility permits, and taxi-inspection fees.

The miscellaneous revenue budget also includes a projection for proceeds of $30 million from the proposed sale of City-owned assets, which include the Board of Education (BOE) headquarters. In fact, the City will benefit from the sale of a single building in Battery Park City for approximately $40 million. The City is still reviewing the viability of selling the BOE headquarters.

Table 1. *Major Miscellaneous-Revenue Initiatives FY 01 and FY 00, First Quarter, $ thousands*

	(1) FY 01 Plan	**(2) Actual First Quarter FY 01**	**(3) Actual First Quarter FY 00**	**(2-1) Better/ (Worse) Than FY 01 Plan**	**(2-3) Better/ (Worse) Than FY 00 Actual**
Parking and Moving Violation and Related Fines	$106,293	$99,554	$93,952	($6,739)	$5,602
Interest Income from the Overnight Investments of Treasury Cash	27,526	30,610	30,755	3,084	(145)
Cable-Television Franchises	17,116	19,668	16,736	2,552	2,932
Parking Meters	18,080	16,968	18,360	(1,112)	(1,392)
Construction Permits	10,618	11,137	10,393	519	744
Park Facility Privileges	9,037	10,135	9,675	1,098	460
Environmental Control Board Fines	8,129	9,997	8,982	1,868	1,015
Fire Inspection Fees	7,169	6,040	7,338	(1,129)	(1,298)
Telephone Commission Fees	4,650	5,384	3,631	734	1,753
City Register Fees	4,800	3,725	5,354	(1,075)	(1,629)
Taxi Licenses	3,887	3,379	7,871	(508)	(4,492)
Airport Rental Revenues	3,738	7,475	875	3,737	6,600
Street Openings/Utility Permits	3,677	3,331	3,348	(346)	(17)
Garages and Long-Term Parking	2,975	3,076	2,961	101	115
Rents from City-Foreclosed Buildings	2,820	2,855	3,573	35	(718)
Affirmative Litigation	2,750	3,920	3,412	1,170	508
Birth and Death Certificates	2,590	2,519	2,755	(71)	(236)
Sheriff Desk Fees	2,132	818	1,087	(1,314)	(269)
Building Inspection Fees	1,982	1,527	1,816	(455)	(289)
Bus Stops and Advertisements	1,859	2,452	2,019	593	433
City-Foreclosed Property Auction Sales	1,587	882	4,273	(705)	(3,391)
Consumer Affairs Licenses	791	822	1,663	31	(841)
Pest Control Fees	725	803	612	78	191
School Lunch Fees	415	1,969	1,349	1,554	620
All Other Major Initiatives	16,191	18,093	13,860	1,902	4,233
TOTAL	**$261,537**	**$267,139**	**$256,650**	**$5,602**	**$10,489**

Source: NYC Financial Management System.

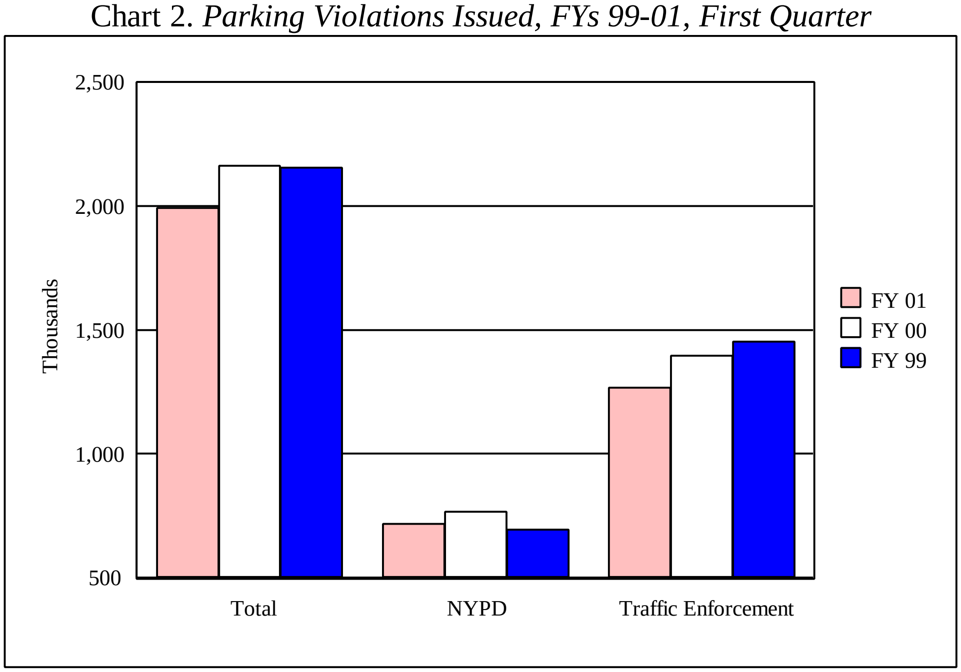
During the first quarter of FY 01, the City earned $30.6 million from the overnight investment of cash in its central treasury, approximately the same amount as earned during the same period in FY 00, and $3 million more than planned. As in recent fiscal years, the City is benefiting from the availability of higher cash balances. The City earned $140 million in interest earnings in FY 00, $60 million more than anticipated in the Adopted Budget for FY 00. Since the amount of revenues collected during the first quarter of FY 01 is equal to the level collected during the same period in FY 00, it is possible that the City may realize interest earnings of between $20 to $30 million more than the budgeted amount of $99 million.

The Port Authority (PA) paid the City rent of $7.5 million during the first quarter of FY 01 for JFK and LaGuardia Airports, $3.3 million more than the City anticipated and $4 million more than the same period in FY 00. This resulted mainly from an upward revision by the PA in July 2000 of projected rental payments to the City by $5 million as a result of an increase in the forecast of airport revenues to be collected by the PA for Calendar Year 2000. The FY 01 Adopted Budget anticipates $15 million from airport rentals for the entire fiscal year, so the additional rental income above plan will help the City realize more rental income than included in the budget. If the current trend in higher rental revenues from the PA for airports continues throughout FY 01, the City will realize at least $5 million more in rental income than currently projected in the Adopted Budget.

Other revenue sources that were higher than planned for the first quarter are fees from cable-television franchises ($2.6 million above plan), affirmative litigation ($1.2 million above plan), and Environmental Control Board fines ($1.9 million above plan).

On the other hand, fees from parking, moving-violations, and other motor-vehicle-related fines were $6.7 million lower than planned for the first quarter of FY 01, mainly from a drop in the issuance of parking violation vehicle fines. Approximately 1,998,600 parking-violation fines were issued during the first quarter of FY 01, a drop of 7.8 percent from the same period in FY 00. (See Chart 2.)

Chart 2. *Parking Violations Issued, FYs 99-01, First Quarter*



Source: NYC Department of Finance.

The main factors that account for the decline in parking-violation fines are a lower work force at the traffic enforcement units and a drop in the number of summonses issued by the Police Department. The City collected $88 million during the first quarter from the issuance of parking-violation fines, $4.8 million from moving-violation fines, $3.7 million from the towing of vehicles, and $2.8 million from moving violations at red lights. Should the trend in lower collections of parking and other moving-violation fines continue throughout the fiscal year, the City may face a risk to the budget of up to $30 million.

NYC Off-Track Betting Corporation (OTB) The City has recently issued a Request for Proposals (RFP) for the sale of the franchise and operations of the NYC Off-Track Betting Corporation (OTB). In July 2000, the City had issued a Request for Expressions of Interest. The Economic Development Corporation (EDC) has indicated that about ten organizations have expressed interest in purchasing OTB, including New York Racing Association, Penn National Gaming Incorporated, and Churchill Downs Incorporated. Based on strong evidence of interest, the RFP was issued, seeking proposals on the privatization of OTB.

Interested organizations have until November 10, 2000 to submit proposals. Since OTB was created under State law and also has a unionized work force, the RFP stipulates that all proposals must outline how the new entity will resolve union issues and OTB's relationship with the City and State.[1]

OTB, established in 1972, operates 68 betting parlors and 3 teletheaters throughout the City. The profitability of OTB in recent years and its potential to generate more revenues through Internet or interactive television makes OTB attractive to potential buyers. After declining to $743 million in FY 94, OTB's betting and other revenues increased to $1.005 billion in FY 00, $60 million more than FY 99. As a result, OTB's share of revenues distributed to the City has increased to $35.9 million in FY 00 from $24 million in FY 94.

Public Assistance The City's public-assistance caseload fell by approximately 3 percent to 556,087 recipients in the first quarter of FY 01. After showing a modest jump in August, the City's welfare caseload resumed its decline in September, with a drop of 7,159 recipients. For the first quarter of FY 01, the welfare rolls declined by 16,785 recipients, or 3 percent, from the June 2000 caseload of 572,872. The FY 01 year-to-date decline consisted of 14,240 recipients in the Federally mandated Family Assistance Program and 2,545 recipients in the State-mandated Safety Net Assistance Program. Since reaching a peak caseload of 1,160,593 in March 1995, the number of public-assistance recipients has dropped dramatically by 52 percent. Monthly grant expenditures have fallen in similar fashion to $114.8 million in September 2000 from $247.8 million in March 1995, a 54 percent drop.

Compared with the City's Adopted Budget projections, the September caseload is 17,087 recipients, or about 3 percent below the City's Financial Plan target of 573,174. If this

[1] New York City Office of the Mayor Request for Proposal for the Sale of OTB, released October 5, 2000.

variance is maintained throughout the year, the City could realize annualized savings of $11 million in its public-assistance spending for FY 01.

Work Force The City work force, which totaled 250,812 at the end of FY 00, grew by a net of 232 employees during the first quarter of FY 01, to 251,044. As of September 30, 2000, the City work force had 4,116 employees fewer than planned, but 4,052 more employees than the level registered a year ago. The levels of pedagogical and uniformed police personnel are expected to continue to increase throughout the remainder of FY 01. In September, the City announced an early-retirement incentive to civilian employees not in hard-to-recruit titles. Since this incentive was not anticipated when the FY 01 budget was adopted, it may reduce the level of the civilian work force to below plan over the course of FY 01.

Uniformed police officers are 1,775 below the planned level and show a net decline over last year. But a recruit class of approximately 1,200 cadets was not registered in the City's Financial Management System although it was scheduled to start on September 29. Adding the new recruit class to the police total, the Department remains 575 officers short of its first-quarter target.

Table 2. *NYC Full-Time Work Force, September 30, 2000*

	Actual 9/30/00 Work Force	Planned 9/30/00 Work Force	Difference Actual - Planned	Actual 9/30/99 Work Force	Difference 2000 - 1999
Uniformed:					
Police	39,646	41,421	(1,775)	39,904	(258)
Fire	11,318	11,333	(15)	11,424	(106)
Corrections	10,660	10,970	(310)	11,035	(375)
Sanitation	8,270	8,431	(161)	7,073	1,197
Subtotal	69,894	72,155	(2,261)	69,436	458
Pedagogical:					
Board of Education	93,158	95,039	(1,881)	90,035	3,123
City University	2,250	2,202	48	2,216	34
Subtotal	95,408	97,241	(1,833)	92,251	3,157
Civilian:					
Police	9,080	8,835	245	8,963	117
Admin for Child Svcs.	7,261	7,222	39	7,050	211
Social Services	13,231	12,835	396	13,229	2
All Other Civilians	56,170	56,872	(702)	56,063	107
Subtotal	85,742	85,764	(22)	85,305	437
Total City	251,044	255,160	(4,116)	246,992	4,052

Source: NYC Office of Management and Budget and Financial Management System.

The Department of Corrections as of September 30, 2000, is 310 officers below plan and 375 fewer officers than the same date in 1999. The roughly 3 percent decrease in officers correlates with decreasing average daily prisoner population in the City's jails. During FY 00, the average daily prisoner population decreased by 11.6 percent from the FY 99 level. In FY

99, the average daily prisoner population was 17,562 and in FY 00 the average daily prisoner population was 15,530. This downward trend is expected to continue during FY 01.

The Department of Sanitation as of September 30, 2000, is 161 uniformed employees below plan but has 1,197 more employees than at the same time last year. The overwhelming majority of the additional employees were hired for waste collection services in conjunction with waste export for Staten Island and Manhattan because of the closure of the City refuse landfill on Staten Island (Fresh Kills) scheduled for December 31, 2001.

As of September 30, 2000, the Board of Education (BOE) had 93,158 teachers. Although this total is 3,123 teachers more than on the same date last year, it is 1,881 below the planned target for September. BOE contends, however, that it has hired additional teachers that have not yet registered in the City's Financial Management System.

Overtime The City paid $162.2 million for overtime in the first quarter of FY 01, approximately $43.6 million, or 37 percent, more than planned and $31.2 million more than the same period in FY 00. The majority of the overspending in FY 01 and the year-over-year increase occurs in the Police Department. Police spent $80 million for uniformed personnel, $45.6 million, or 133 percent, more than planned and $41 million more than in the same period in FY 00. The other uniformed agencies, Fire, Corrections, and Sanitation, together spent $9.8 million, or 20 percent, less than planned during the first quarter of FY 01. Overtime spending for civilian employees is $7.8 million, or 22.1 percent, above plan for the first quarter, mainly as a result of the Department of Transportation and the Department of Social Services. The City has appropriated $480 million in the FY 01 Adopted Budget for overtime. If this spending trend continues throughout the rest of the year, overtime spending would surpass the amount appropriated in the Adopted Budget by $135 million.

Table 3. *Overtime Spending, 1st Qtr. FY 01 vs. Plan and vs. 1st Qtr. FY 00, $'000*

	1st Quarter FY 01			1st Qtr FY 00	
Agency	Actual	Planned	Variance	Actual*	Better/(Worse)
Police	$80,011	$34,386	$(45,625)	$39,012	$(40,999)
Fire	19,199	24,549	5,350	23,877	4,678
Corrections	10,521	12,094	1,573	11,487	966
Sanitation	9,350	12,271	2,921	15,144	5,794
Subtotal	$119,081	$83,300	$(35,781)	$89,520	$(29,561)
Admin for Child Svcs.	$4,429	$4,728	$299	$4,091	$(338)
Social Services	3,503	2,385	(1,118)	3,074	(429)
Transportation	6,567	4,856	(1,711)	4,927	(1,640)
All Other	28,571	23,285	(5,286)	29,351	780
Subtotal	$43,070	$35,254	$(7,816)	$41,443	$(1,627)
Total City	$162,151	$118,554	$(43,597)	$130,963	$(31,188)

*Adjusted to include 1st payday in 2nd Qtr. so that an equivalent number of paydays were compared in FY 01 and FY 00. 1st Qtr of FY 00 included 6 paydays while 1st Qtr of FY 01 included 7 paydays.
Source: NYC Office of Management and Budget and Financial Management System.

Uniformed police overtime has more than doubled over the same period last year and accounts for almost half of the City's overtime payments in FY 01. The City contends that events such as Fleet Week, the UN Millennium celebration, and increased police presence at City baseball stadiums have contributed to the high overtime spending among uniformed personnel.

The other three uniformed agencies have decreased their overtime spending below plan and over the same period last year for a number of reasons. Overtime spending for the Fire Department has declined mainly as a result of lower medical leave rates among uniformed employees. Uniformed staffing levels always have to be maintained; therefore, lower medical leave results in fewer extra shifts for uniformed employees. The Department of Corrections overtime spending has decreased based on a declining average daily prisoner population in the City's jails. The Department of Sanitation has been able to reduce overtime spending among uniformed employees because of the approximately 900 additional officers hired to handle waste export and the closing of Fresh Kills.

Pensions The City projected pension expenditures of $1.168 billion in FY 01, $1.11 billion in FY 02, $1.044 billion in FY 03, and $982 million in FY 04 when the FY 01 budget was adopted, assuming that pension fund investments would earn 8.0 percent during FY 00. The 9.5 percent actual investment return experienced during FY 00 will generate some savings, but these savings will be more than offset by the cost of new benefit enhancements. The Comptroller's Office estimates that the City's pension expenditures may be higher by $112 million in FY 01, $237 million in FY 02, $350 million in FY 03, and $443 million in FY 04.[2]

Most of the cost increase results from a new permanent Cost of Living Allowance (COLA) for retirees. The first phase of the COLA commenced in September 2000, granting retirees additional benefits according to a "Year 2000 Supplementation" schedule. About 175,600 out of 246,000 retirees and beneficiaries in the City's five pension systems have received increases averaging $233 per month. For those receiving the new benefit, monthly increases in NYCERS averaged $200, in TRS $226; in BERS $86; in Police $345; and in Fire $370. In the next phase, every year as of September, eligible retirees will receive automatic increases depending on their retirement allowance and inflation. Each increase will be limited to a maximum of $45 per month.

To reduce payroll expenses, the City has announced an early retirement incentive program for eligible titles. The program is targeted towards non-uniformed employees not in hard-to-recruit titles. Retirement system members who are at least 50 years of age and have at least 10 years of service may elect to participate in this program. Those electing to participate will receive an additional month of credit for each year of service, up to a maximum of 36 months, and must retire between October 16 and December 29, 2000. A reduction factor will apply to those members retiring before the normal retirement age of their respective plans. The program's net impact on the City's budget will depend on the number of employees who eventually retire under the incentive program and the number of positions the City fills to replace the retirees. Generally, if no replacements are hired, salaries would be saved from

[2] Details are provided in NYC Comptroller's Office Budget Notes, September 2000.

January 2001, but some of the savings will be offset by higher pension costs from July 2001. The City will pay to the pension funds (in equal installments over a period not exceeding five years, commencing from FY 02) the full cost of the additional pension benefit resulting from this incentive, as specified by the State Law authorizing this program.[3] The City has not released estimates of the number of employees eligible for, or expected to participate in, this program.

Health and Hospitals Corporation The Health and Hospitals Corporation (HHC) continues to be in sound financial shape in FY 01. Its final FY 00 cash flow report shows a year-end cash balance of $366 million. This is the highest closing cash balance in HHC's operating history.

The positive tone is expected to continue in FY 01, as HHC projects daily cash balances in the $400-$500 million range throughout much of the year. According to its September cash flow report for FY 01, HHC expects to finish the year with a $265 million cash balance, $21 million above the closing balance projected in the HHC's Financial Plan. The improvement stems from about $50 million more than projected in Medicaid revenue, probably because of slower-than-expected enrollment of Medicaid recipients in managed-care programs.

Last year, HHC enrolled significantly less Medicaid recipients into its managed-care programs than it originally anticipated. Generally, HHC collects higher Medicaid reimbursement rates from fee-for-service visits than managed care visits, because reimbursement is capitated under the managed-care program. In past years HHC has ended each year with higher-than-projected Medicaid revenues because the shift from fee-for-service to managed care either faced numerous delays or failed to meet enrollment targets. In FY 00, HHC anticipated the enrollment of 5 percent of its eligible Medicaid recipients in its managed care programs, but achieved only a 2.5 percent enrollment rate, or half of its target. HHC expects managed care enrollment of its eligible Medicaid recipients to reach 20 percent by the end of FY 01. Given this ambitious target, it is likely that managed-care enrollment will once again fall short of target and provide a boost to HHC's Medicaid revenue.

Debt Service On October 10, 2000, the City closed a deal worth $588 million of General Obligation (G.O.) bonds. This sale is comprised of $525 million of bonds to finance capital construction and rehabilitation of the City's infrastructure, otherwise known as new money bonds, and $63 million of refunding bonds. Of these amounts, $450 million of the new money bonds are tax-exempt and $75 million are taxable. The refunding series is composed of $53.1 million of tax-exempt refunding bonds, and $10.3 million in taxable refunding bonds.

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[3] The City would have to make payments to all five pension systems, including NYCERS, in spite of NYCERS' having created an asset cushion. The NYCERS asset cushion in excess of its actuarial liabilities emerged from new assumptions, methods, and a restart effective June 30, 1999. The asset cushion is subject to depletion from adverse investment experience, actuarial losses, or increases in liabilities resulting from new or enhanced benefits. As of June 30, 1999, NYCERS' asset cushion was around $7 billion (before incorporating any liability for benefit enhancements). This means that, if all assumptions are accurate, NYCERS can pay about $700 million in additional benefits annually without incurring any additional employer contributions.

The refunding transaction includes an equity contribution from the City's operating budget of $15 million.[4] No impact on the debt-service budget in FY 01 is likely from these transactions. The combined savings from lower interest rates on the new money bond sale, savings from the refunding, and anticipated interest savings from lower interest rates on outstanding variable rate bonds will be enough to cover the unbudgeted $15 million equity contribution used in the refunding.

Combined, the new money bonds have a True Interest Cost (TIC) of 5.51 percent with an average bond life of 12.6 years.[5] This compares favorably with the TIC of 6.75 percent assumed in the Adopted Budget. The lower TIC produces interest savings of $6.4 million. The City took advantage of lower interest rates and shorter coupon terms than anticipated in the budget to issue $675 million in G.O. bonds in the first half of FY 01, in lieu of $610 million in the Adopted Budget.

Savings from the refunding transaction, excluding the $15 million equity contribution, will be $1.9 million in FY 01, $7.4 million in FY 02, and $12.5 million in FY 02. In essence, the refunding transaction will provide the City with $21.8 million in cumulative savings over three fiscal years, offset by a $15 million equity contribution in FY 01. The overall transaction achieved present value savings of $3.9 million or 5.21 percent of the refunded and paid off ("defeased") bonds.

Transit Authority The New York City Transit Authority (NYCTA) through August experienced a surplus substantially above that anticipated in its budget. As of August 2000, the NYCTA reported a closing operating cash balance of $178.2 million, which is $98.7 million, or 124 percent, above the amount anticipated in the NYCTA plan.

The Calendar Year (CY) 2000 surplus is attributable primarily to a higher level of ridership. Ridership on New York City's buses and subways increased by 7.2 percent in the first eight months of 2000 over the same period in 1999. Through August 2000, ridership for the NYCTA is averaging 170.5 million passengers per month, up 7.2 percent from 159.2 million during the same period in 1999 and up 15.8 percent from 147.2 million over the same period in 1998. (See Chart 3.) Historically, ridership in the last four months of the year has been higher by 6 to 9 percent compared with the first eight months of the year. Consequently, the Comptroller's Office expects ridership to average about 174.1 million per month in FY 00, up 7.1 percent from 1999 and 15.1 percent from 1998. The average monthly ridership in CY 99 was 162.5 million and in CY 98 it was 151.3 million. Given the increases in ridership over both 1998 and 1999, passenger revenues are up approximately $9 million per month on average.

Based on this information, the Comptroller's Office projects the NYCTA to realize a year-end surplus as high as $345 million, $463 million higher than anticipated for CY 2000. The NYCTA has projected a budget deficit in CY 01 of approximately $466 million. The

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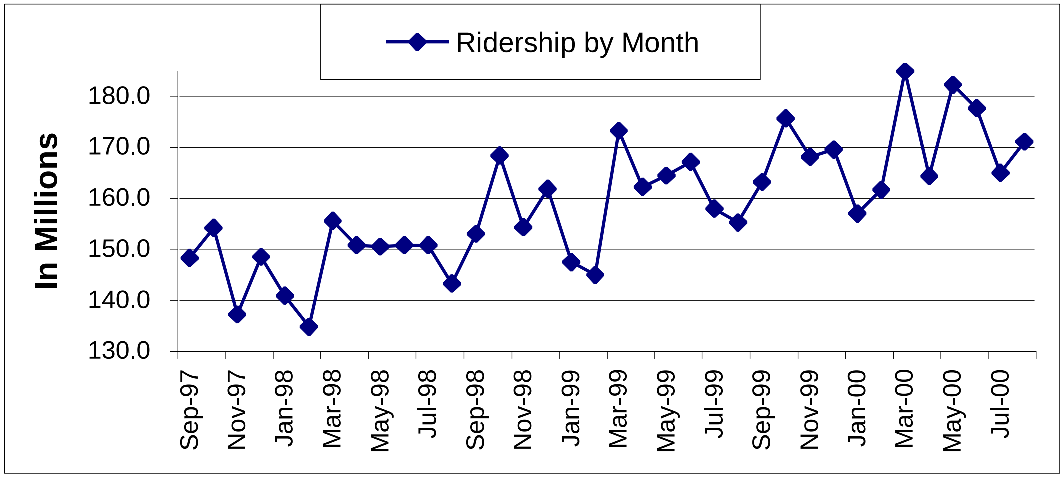
[4] An equity contribution is a payment made in a refunding transaction to pay off specific bonds.
[5] True Interest Cost (also called yield to maturity) refers to the discount rate used to render the future value cash flows equal to the present value of the target proceeds. Target proceeds are the purchase price of the bonds plus or minus any premium or discount, less underwriter's discount but excluding costs of issuance and bond insurance.

higher estimated surplus in CY 00 would go a long way to help close the CY 01 deficit, eliminating 74 percent of the projected CY 01 shortfall.

Chart 3. *New York City Transit Authority Ridership by Month, September 1997 through August 2000*



Source: MTA Report on Revenue Passengers and Vehicles, August 2000.

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