BUDGET NOTES

THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
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OCTOBER 2001

FIRST QUARTER FY 02

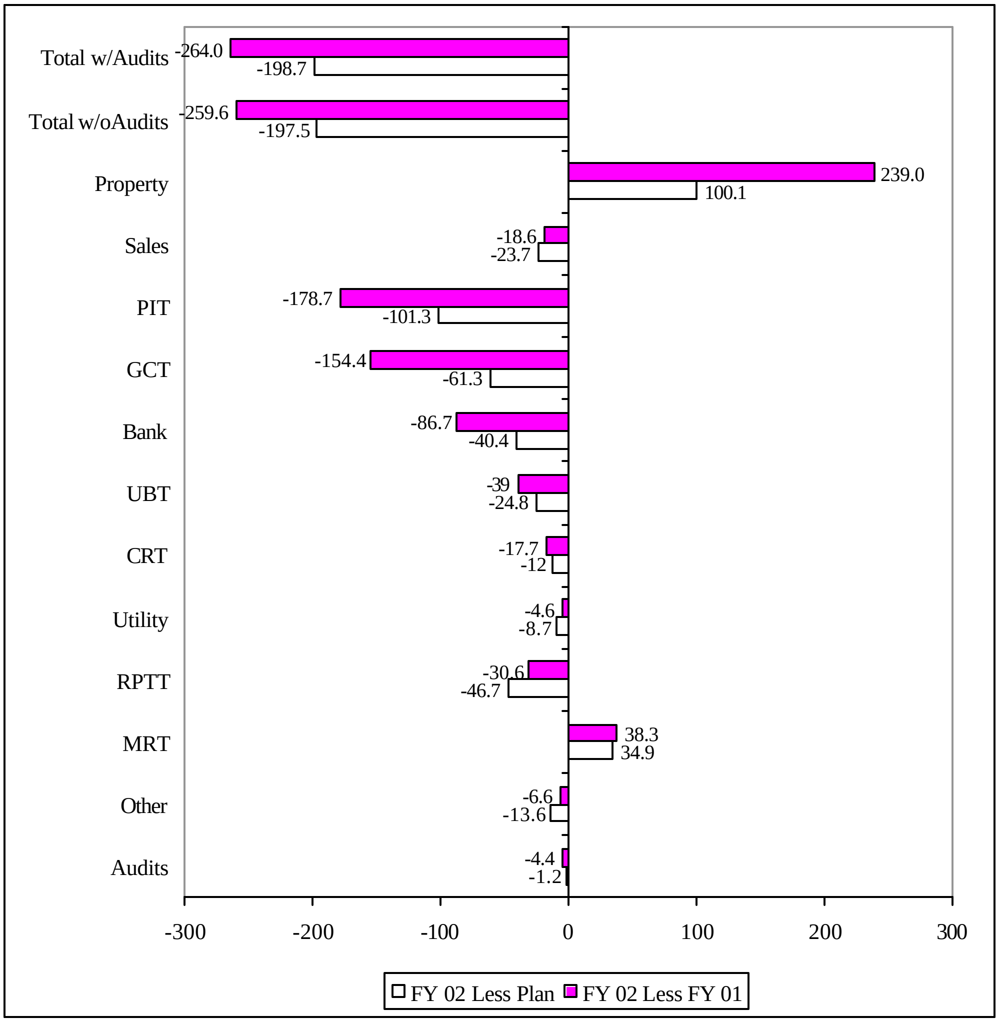
- **Tax revenues for the first quarter of FY 02 were $198 million below the June Plan and 3.7 percent below tax revenues for the same period in FY 01, largely the result of postponement of payments following the September 11 attack on the World Trade Center and delayed mail delivery.**
- **Major miscellaneous-revenue collections were $40.4 million below Plan estimate, largely because of lower collections of $9 million from parking-violation fines and $5 million for parking-meter fines.**
- **At the end of September 2001, the City had 1,266 more employees than at the same date in 2000.**
- **Overtime spending in the first quarter of FY 02 was $205.7 million, 27 percent above the same period in FY 01. However, $43.1 million of the spending in the first quarter was directly related to the attack on the World Trade Center.**
- **The public-assistance caseload declined to 463,603 recipients, 33,510 below June 2001.**
- **The Board of Education projects a deficit of $542 million.**
- **Between July 1, 2001 and September 30, 2001, the City's pension-fund investments lost 9.4 percent of their value.**
- **The City will realize savings of $22 million in FY 02 from lower interest costs on General Obligation Revenue Anticipation Notes.**

Tax Revenues Total tax-revenue collections for the first three months of FY 02 are below both the June Plan figures and FY 01 collections for the same period. Total collections, excluding audits and the School Tax Relief Program, are $6.703 billion. This is $197.5 million, or 2.9 percent, below the FY 02 June Plan estimate and $259.6 million, or 3.7 percent, below FY 01 collections for the first quarter. (See Chart 1.)

Tax Shortfalls Associated with the WTC Attack

Some of the shortfall in tax revenues may be attributed to the consequences of the September 11 terrorist attack on the World Trade Center, as mail delivery was delayed and both the City and the State are allowing for postponement of payments, filings, and extensions for those affected by the attack. Affected individuals include relief workers, those with homes or jobs in the World Trade Center area, those with records or tax preparers in the area, and those facing delivery problems caused by transportation or communications disruptions. Most tax categories are affected, including personal income tax (PIT), sales and use taxes, real estate transfer tax (RPTT), the general corporation tax (GCT), banking corporation tax (BCT), unincorporated business tax (BCT), commercial rent tax (CRT), utility tax, and some components of the category “other taxes,” including cigarette and hotel-room-occupancy taxes.

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



Source: OMB, June Plan FY 02 and actual collections; 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.

Property and Property-Related Taxes. Property and mortgage recording (MRT) taxes are above the June Plan projections and FY 01 collections for the first quarter. Property-tax revenues are $100.1 million, or 2.5 percent, ahead of the June Plan figures and $239 million, or 6.1 percent, above collections for the first three months of FY 01. MRT is 41 percent above the June Plan estimate and 47 percent above FY 01 revenues for the first quarter. Refinancing activities from lower interest rates improved MRT collections since March FY 01, and though FY 01 collections grew only 0.9 percent above FY 00 collections, collections for the first three months of FY 02 are 47 percent above FY 01 for the same period.

Tax-revenue intakes for the other nine tax groups are below both the June Plan projections and FY 01 collections for the first three months. September collections for RPTT are not available because of processing issues related to the attack. CRT revenues are 14.7 percent below the June Plan and 20.3 percent below FY 01 collections for the first three months. The City is allowing first quarterly returns due September 20, 2001 to be made by December 20, 2001, but interest will accrue from the original due date.

Business Taxes. September marks the first collections for the business taxes, GCT, UBT and BCT because of the "60-day rule" that allows July and August collections to be entered on the books as revenues for the previous fiscal year. The year-to-date June Plan projections for the three taxes are $531.8 million, but actual revenues are $405.3 million, or $126.5 million below Plan estimate. This compares with $685.4 million collected for the same period in FY 01. The $405.3 million collected so far is 24 percent below the June Plan and 41 percent below FY 01 figures. GCT collections are $233.9 million, which is $61.3 million, or 20.8 percent, below the June Plan, and $154.4 million, or 39.8 percent below FY 01. BCT intake is $40.4 million, which is $41.9 million below the June Plan and $86.7 million, or 60.7 percent, below the FY 01 figure. Collections from UBT are $115.4 million, which is $24.7 million, or 17.6 percent, below the June Plan and $39 million, or 25.2 percent below FY 01 collections. For those affected by the disaster, the City is allowing payments, returns, and extensions due September 17, October 15, or November 15, 2001 to be postponed until December 17, 2001. Extensions beyond December 17, 2001 may be granted. No late-filing or late-payment penalties will be incurred but interest must be paid from the original due date.

PIT. PIT is administered by NY State. For PIT, returns, payments, installments and extensions are extended to December 10, 2001 without incurring late filing and payment fees or interest for affected individuals. The State is anticipating that the effect on installment and extensions will not be significant but that withholding filings will be significantly delayed. The legislature is considering an additional 90-day extension, if necessary. First-quarter PIT revenues are $948.4 million, $101.3 million, or 9.7 percent, below the June Plan and $178.7 million, or 15.9 percent, below FY 01 first three-month collections. September collections are $73.1 million, or 16.9 percent, below the June Plan and $112.9 million, or 23.9 percent, below FY 01 figures for September. The September shortfall accounts for 72.2 percent of the three-month shortfall compared with the June Plan.

Sales and Use Taxes. Taxpayers affected by the attack and who are required to file reports or pay monthly or quarterly sales tax from September 11 to December 10, 2001 may do so on or before December 10 without incurring late-filing or payment fees or interest. Year-to-date sales-tax revenues are $808.5 million, which is $23.6 million, or 2.8 percent, below the June Plan and $18.6 million, or 2.3 percent, below FY 01 collections for the same period. September collections are $34 million, or 9.4 percent, below the June Plan and $31.2 million, or 8.7 percent, below the same month for FY 01. July and August collections were above the June Plan and FY 01 figures.

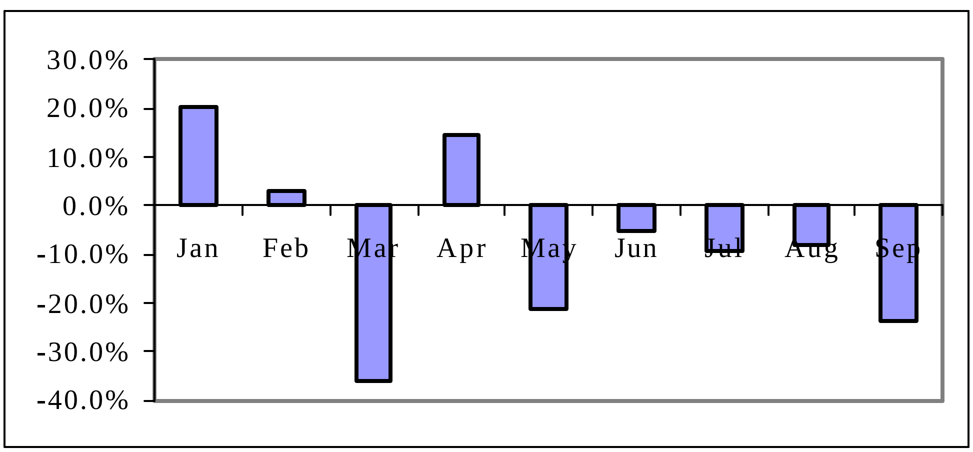
Utility and Other Taxes. Proceeds from the utility tax are $39.4 million, which is $8.7 million, or 18.2 percent below the June Plan and $4.6 million, or 10.5 percent below FY 01 figures. September collections are $12.4 million below the June Plan and $8 million below FY 01. The City will permit September, October, and December returns and payments to be delayed until December 26, 2001 without late fees and payments, but interest will accrue. Year-to-date collections from the category "other taxes" are $97 million, 12.3 percent, below the June Plan and 6.3 percent below FY 01 figures. September collections are $14.4 million, or 20 percent, below the June Plan estimate. The City is granting extensions on some components of this tax group, including cigarette and hotel-room-occupancy taxes. September shortfalls in the hotel-room-occupancy tax are 25 percent below what the June Plan projected for that month and account for $13.5 million of the $14.4 million September reduction in "other taxes". Some of the $13.5 million decline in September hotel-occupancy-tax collections is a result of the steep drop in hotel-occupancy rate to 30 percent after the attack.

Tax Shortfalls Associated with the Economic Slowdown

For the PIT, the negative year-to-date performance reflects more than legislated tax-deadline extensions or disruptions in the mailing system. It also reflects the economic slowdown that was already emerging prior to the World Trade Center attack.

At least some of the September PIT decline may be attributed to a definite downward trend before the World Trade Center attack. Total FY 01 collections grew only 1.9 percent over FY 00. Monthly total collections have been below year-over-year collections for six of the last seven months. (See Chart 2.) All components of PIT (returns, withholdings, estimated payments, assessments, and refunds) for September FY 02 are below September FY 01 collections by double digits. This is unusual compared with previous months, and reflects a combination of the economic slowdown, job losses after the attack, and postponement of payments. The reduction in the PIT 14-percent surcharge, effective January 2001, accounts for some of the decline in PIT collections. The cut should reduce revenues by about $15 million per month. After adjusting for this, PIT still exhibits a negative trend below FY 01 for the past few months.

Chart 2. *Monthly PIT Net Collections, Year-Over-Year Growth, 2001 Over 2000, Percent*



Source: NYS Department of Taxation and Finance, Office of Tax Policy.

Miscellaneous Revenues The FY 02 Adopted Budget projects non-tax miscellaneous revenues of $3.318 billion. Of that projection, the City expects to collect $1.272 billion in FY 02 from major miscellaneous-revenue initiatives. The remaining $2.046 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 ($864 million); payments from the Health and Hospitals Corporation ($320 million); net proceeds from the tobacco settlement above the amounts pledged to securitize debt service of TSASC, Inc. bonds ($220 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 ($586 million), including fingerprinting, recreation-facility permits, and taxi-inspection fees.

For the first quarter of FY 02, the City collected $259.5 million from major-revenue initiatives, which is $40.3 million, or 13.5 percent, lower than budgeted. This resulted mainly from: (1) a drop in the collections for parking, moving-violation and other motor-vehicle related fines; (2) lower fees from parking meters; (3) a delay in the sales of City-owned assets; (4) lower-than-projected interest income from the overnight investments of cash in the central treasury; and (5) a reduction in fees collected for construction permits. These lower collections were partially offset by higher revenues from rental income for JFK and LaGuardia airports, Environmental Control Board fines, sales of City-foreclosed properties, and fees collected from concessions and other usage of park facilities. (See Table 1.)

Collections from parking, moving-violations, parking meters, and other motor-vehicle-related fines are $16.8 million lower than projected in the Adopted Budget for the first quarter of FY 02. Most of the shortfall in these initiatives occurred in September, following the attack on the World Trade Center. The suspension of parking rules, the drop in summonses and tickets issued, and the closure of certain parts of lower Manhattan resulted in lower collections in September. (See Table 2.) The impact was mainly felt in summonses issued for parking violations. The City issued 725,322 parking-violations summonses between the weeks of August 26, 2001 and September 30, 2001, compared with 926,400 issued between the two corresponding weeks a year earlier, representing a 22 percent decline. Following the World Trade Center attack, weekly summons issuance declined when compared with the same period in FY 01. The decline ranged from 47 percent to 36 percent. (See Table 3.) Revenues for parking and motor-vehicle fines are likely to drop in the upcoming months as car pooling and certain parking restrictions have been instituted. The City could face a risk of $25 to $30 million if the decline in summons issued during the last several weeks continues in the remainder of FY 02.

Table 1. *Major Miscellaneous-Revenue Initiatives, FY 02 and FY 01, First Quarter, $ thousands*

	(1) FY 02 Plan	(2) Actual First Quarter FY 02	(3) Actual First Quarter FY 01	(2-1) Better/(Worse) than FY 02 Plan	(2-3) Better/(Worse) than FY 01 Actual
Parking and Moving-Violation Fines	$102,525	$90,612	$99,554	($11,913)	($8,942)
Parking Meters	17,173	12,319	16,968	(4,854)	(4,649)
Interest Income	33,284	23,376	30,610	(9,908)	(7,234)
Economic Development Corp Asset Sales	24,861	0	0	(24,861)	0
Cable-Television Franchises	18,753	20,447	19,668	1,694	779
Con Ed/Lilco Payments	55	0	0	(55)	0
Construction Permits	12,410	10,199	11,137	(2,211)	(938)
Park Facility Privileges	8,593	11,000	10,135	2,407	865
Environmental Control Board	8,437	11,609	9,997	3,172	1,612
Fire Inspection Fees	7,568	7,802	6,040	234	1,762
Telephone Commission Fees	4,650	4,123	5,384	(527)	(1,261)
City Register Fees	4,800	4,921	3,725	121	1,196
Taxi Licenses	4,452	4,327	3,379	(125)	948
Airport Rental Revenues	3,738	9,600	7,475	5,862	2,125
Street Openings/Utility Permits	3,450	3,598	3,331	148	267
Garages and Long-Term Parking	3,121	2,407	3,076	(714)	(669)
Worker Compensation	3,500	4,683	3,392	1,183	1,291
Rents from City-Foreclosed Buildings	1,914	1,736	2,855	(178)	(1,119)
Affirmative Litigation	6,863	7,027	3,920	164	3,107
Birth and Death Certificates	2,550	2,271	2,519	(279)	(248)
Insurance Company Fees	2,724	3,546	4,880	822	(1,334)
Unclaimed Cash & Property Sales	2,175	2,239	1,909	64	330
Sheriff Desk Fees	1,395	805	818	(590)	(13)
Building Inspection Fees	753	735	1,527	(18)	(792)
Bus Stops and Advertisements	2,951	3,437	2,452	486	985
City-Foreclosed Property Sales	1,316	4,164	882	2,848	3,282
Consumer Affairs Licenses	1,397	1,399	822	2	577
Pest Control Fees	725	790	803	65	(13)
School Lunch Fees	415	2,386	1,969	1,971	417
All Other Major Initiatives	13,377	7,987	12,058	(5,390)	(4,071)
TOTAL	**$299,925**	**$259,545**	**$271,285**	**($40,380)**	**($11,740)**

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

Table 2. *First Quarter and September Revenue* Collections *for Parking Violations, Parking Meters, and other Motor Vehicle Related fines, $ thousands*

		(1) FY 02 Plan	(2) FY 02 Actual	(3) FY 01 Actual	(2-1) Better/Worse than FY 02 Plan	(2-3) Better/Worse than FY 01 Actual
PVB Fines	First Quarter	$91,290	$82,514	$88,277	($8,776)	($5,763)
	September	$27,481	$19,259	$29,370	($8,222)	($10,111)
Parking Meters	First Quarter	$17,173	$12,319	$16,968	($4,854)	($4,649)
	September	$5,253	$1,442	$5,601	($3,811)	($4,159)
Moving	First Quarter	$4,500	$2,366	$4,766	($2,134)	($2,400)
	September	$1,500	$0	$2,896	($1,500)	($2,896)
Violation Tow	First Quarter	$3,735	$3,393	$3,700	($342)	($307)
	September	$1,183	$608	$1,236	($575)	($628)
Red Light	First Quarter	$3,000	$2,339	$2,811	($661)	($472)
	September	$1,000	$628	$937	($372)	($309)
Total	**First Quarter**	**$119,698**	**$102,931**	**$116,522**	**($16,767)**	**($13,591)**
	September	**$36,417**	**$21,937**	**$40,040**	**($14,480)**	**($18,103)**

Source: NYC, Financial Management System.

Table 3. *Parking Violations Summons Issuances*

Week of 2001	Summons Issuance	Week of 2000	Summons Issuance	2001-2000 Inc./(Dec)
8/26	206,826	8/27	149,770	38.10%
9/02	139,201	9/03	127,617	9.08%
9/09	91,711	9/10	150,814	-39.19%
9/16	103,270	9/17	162,423	-36.42%
9/23	91,562	9/24	173,361	-47.18%
9/30	92,752	10/01	162,415	-42.89%
Total	**725,322**		**926,400**	**-21.71%**

Source: NYC, Financial Management System.

The City experienced a delay in the sales of City-owned assets valued at $25 million that were to be completed in first quarter of FY 02. Furthermore, the FY 02 Adopted Budget projected interest income of $115 million in FY 02. The City, which had benefited in the last several years from higher-than-projected cash balances, experienced a drop in cash balances in the first quarter of FY 02. In the first quarter of FY 02, the City's cash balances have averaged $2.7 billion compared with cash balances of between $3 and $4 billion in the latter part of FY 01. This has resulted in interest income being $9.9 million lower than projected and $7.2 million lower than collected in the first quarter of FY 01.

The City also collected lower fees than projected from the application for construction permits. Collections were $10.2 million during the first quarter, $2.2 million lower than projected.

These losses were partially offset by higher collections from initiatives such as rental income for JFK and LaGuardia airports ($9.6 million); Environmental Control Board fines ($11 million); sales of City-foreclosed properties ($4.2 million); and fees collected for using parks facilities ($11 million).

For FY 02, the Adopted Budget projects rental income of $15 million to be collected from the Port Authority (PA) for JFK and LaGuardia airports. The City has collected rent of $9.6 million through September 2001. However, it is likely that the City may not receive any more rental payments from the PA through the end of CY 2001 and in CY 2002. Following the attack on the World Trade Center, airline flights were reduced as the number of travelers declined nationwide. This will lower the amount of revenue collected by the PA for CY 2001 and CY 2002. The amount of rent paid to the City is affected by revenues collected by the PA for the airports.

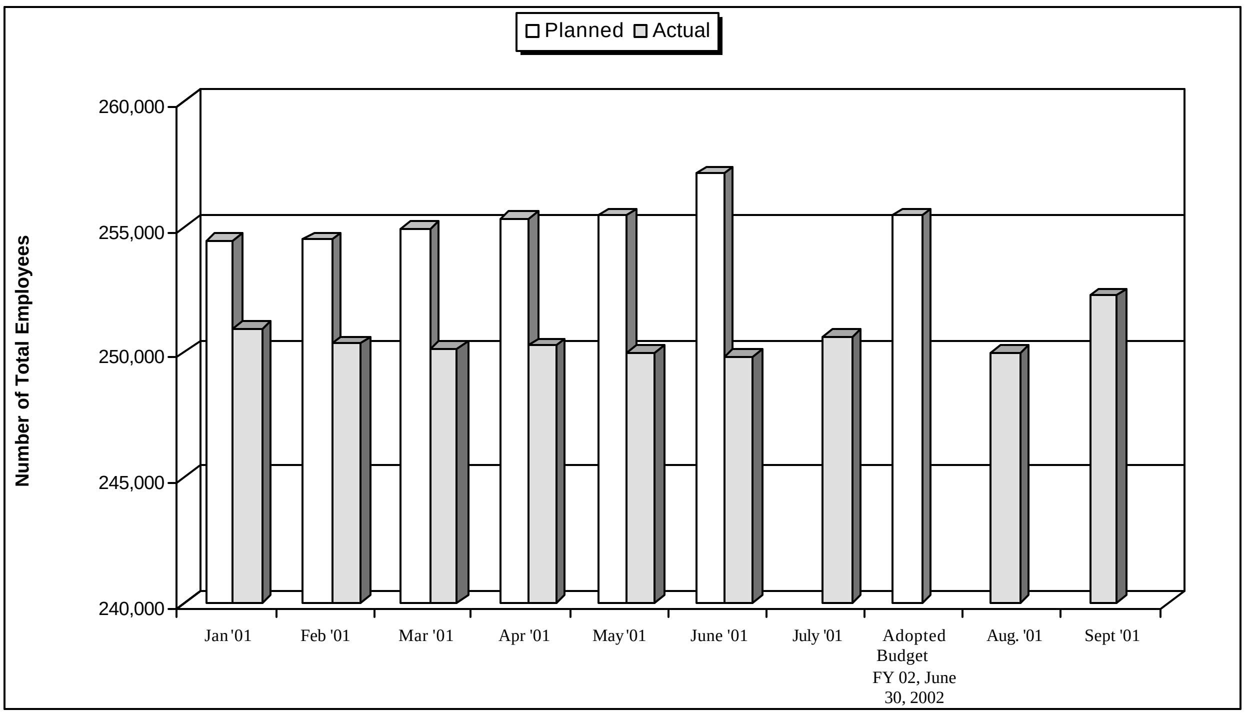
In its FY 02 Adopted Budget, the City projected $250 million from the privatization of the management of operations of OTB. On August 2, 2001 the City selected a potential candidate to acquire OTB. The Mayor announced that GMR-NY, LLC has won the bid to buy OTB for a purchase price of $389 million in net present value dollars. This transaction is pending approval by the State. The City has indicated that it may not obtain the State's approval in FY 02. OTB has experienced an increase in its betting and other revenues (gross wagers) in recent years. Annual gross wagers are approximately $1 billion presently compared with $743 million in FY 94. As a result, OTB's share of revenues distributed to the City increased to $35.9 million in FY 00 from $24 million in FY 94. The City collected $34.4 million from OTB in FY 01.

Impact of State Budget Compared with the City's Adopted Budget, the appropriations contained in the State Budget failed to restore the stock-transfer incentive fund, and fell significantly short of the expected level of education aid, costing the City about $285 million. The State's elimination of the stock-transfer incentive fund will cost the City $114 million in revenue in FY 02. This revenue loss is a major hit to the City's baseline revenues given that the City has received payments from this fund from the State since the fiscal crisis in the mid-70's. Over this period, the City received annual payments from the State of between $56 million and $328 million.

Appropriations in the State Budget increased unrestricted education aid by about $82 million to the City in FY 02 from the FY 01 level. The City's FY 02 Adopted Budget projected an increase of $253 million in education aid for FY 02, resulting in a shortfall of $171 million in the BOE budget. In response to this shortfall, the BOE has already announced reductions in district expenditures, curtailing spending mostly for after-school/weekend instructional programs and instructional supplies. Supplemental appropriations to the State budget were approved by the Legislature in late October. Among the items approved is additional aid to schools. Although the City would receive more aid than included in the State's Adopted Budget, the expected aid increase is still significantly less than projected by the City and the BOE.

Work Force As of September 30, 2001, the City's work force was 252,266, representing a net increase of 1,266 employees compared with the same period in FY 01. Although the June Plan projects work force levels of 257,093 on June 30, 2001 and 255,477 on June 30, 2002, the work force has not been above 252,266 employees since December 2000. The work force levels in September 2001 are also lower than planned by the City. This pattern of unfilled budgeted positions began in the middle of FY 01. Between January and June 2001, work force levels have averaged 5,057 below the City's plan. Compared with the work force target in June 30, 2001 plan of 257,093, the Adopted Budget for FY 02 projects that total workforce will decline to 255,477 by June 30, 2002. (See Chart 3.) Personal Service costs in the FY 02 Adopted Budget are predicated on a work force level of 257,093 on July 1, 2001. However, the City's work force was 7,269 positions lower than planned at the start of the FY 02. Personal-service costs projected in the FY 02 Adopted Budget will be lower than anticipated, because of vacant budgeted positions in the second half of FY 01 and the first quarter of FY 02.

Chart 3. *City Work Force, Planned and Actual, January-September 2001*



Source: NYC, Comptroller's Office and Office of Management and Budget.

The work force level in September would have declined by 1,308 employees compared with the same period in FY 01, if not for an increase of 2,574 pedagogical employees at the Board of Education. The City's work force of 252,266 in September is 3,211 employees below the target in the FY 02 Adopted Budget for June 30, 2002. (See Table 4.)

Table 4. *NYC Actual Work Force, September 30, 2001 vs. September 30, 2000 and FY 02 Adopted Budget*

Agency	**9/30/01 Work Force (1)**	**9/30/00 Work Force (2)**	**Higher/ (Lower) (3)=(1-2)**	**6/30/02 Work Force Plan Adopted Budget (4)**	**Higher/ (Lower) (5)=(1-4)**
Uniformed:					
Police	39,597	39,646	(49)	40,710	(1,113)
Fire	11,300	11,318	(18)	11,092	208
Correction	10,464	10,660	(196)	10,846	(382)
Sanitation	8,015	8,270	(255)	8,076	(61)
Subtotal	69,376	69,894	(518)	70,724	(1,348)
Pedagogical:					
Board of Education	95,732	93,158	2,574	95,306	426
City University	2,252	2,250	2	2,302	(50)
Subtotal	97,984	95,408	2,576	97,608	376
Civilian:					
Police	9,198	9,080	118	8,586	612
Fire	4,377	4,464	(87)	4,923	(546)
Homeless Services	1,547	1,668	(121)	1,570	(23)
Environmental Protection	5,418	5,539	(121)	6,064	(646)
Health	2,912	3,005	(93)	3,294	(382)
Housing Preservation	2,383	2,444	(61)	2,711	(328)
Admin for Child Svcs.	7,281	7,262	19	7,619	(338)
Social Services	12,514	13,231	(717)	12,976	(462)
Transportation	4,014	3,931	83	3,972	42
Parks & Recreation	1,943	2,034	(91)	2,042	(99)
All Other Civilian	33,319	33,040	279	33,388	(69)
Subtotal	84,906	85,698	(792)	87,145	(2,239)
Total	252,266	251,000	1,266	255,477	(3,211)

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

The uniformed personnel declined by a net of 518 employees from the same period last year. Most of the decline in uniformed personnel reflects 255 fewer employees at the Department of Sanitation (DOS) and 196 fewer employees at the Department of Correction (DOC). The recent decline in the DOS work force reflects higher than-planned attrition rates. The DOC uniformed officers dropped by 2 percent as prison population continues to decline. Since FY 96, average daily prison population declined by 25 percent. Some of the decline in prison population is attributable to the expedited transfer of prisoners to State correctional facilities. By law, these "state-ready" prisoners must be transferred within 48 hours to State correctional facilities from local jails. The number of prisoners housed in City jails, but awaiting transfer to State correctional facilities has declined by 44 percent since FY 96 and by 4.4 percent in FY 01. In past years the State's delay in transferring these prisoners on a timely basis raised the prisoners' length of stay at City jails and resulted in higher City correctional costs.

The civilian portion of the work force declined by a net of 792 employees, with the Department of Social Services accounting for almost 91 percent of the net decline. The decline in the civilian work force is primarily attributable to an early retirement program implemented by the City in the second quarter of FY 01. The City required agencies that participate in the program to eliminate one position for every two employees that accepted the early-retirement incentive. All reductions to vacant positions became effective on December 29, 2000. The early-retirement incentive was accepted by 955 employees. After the completion of the early-retirement program, work-force levels have remained relatively stable, ranging from a low of 249,824 on June 30, 2001 to a high of 252,266 on September 30, 2001.

Overtime The City spent $205.7 million for overtime in the first quarter of FY 02, approximately $43.6 million, or 26.9 percent, more than the same period in FY 01. However, of the total amount spent on overtime, $43.1 million is directly attributable to the World Trade Center attack.[1] The City expects to be fully reimbursed by the Federal Government for all overtime spending relating to the attack on the World Trade Center. Given the heightened security measures implemented after the attack and the enormous effort extended in the rescue, recovery and clean-up of the World Trade Center site, overtime expenditures relating to the attack will be greater in coming months of the fiscal year. (See Table 5.)

Excluding the impact on overtime spending from the attack on the World Trade Center, overtime spending for the first quarter of FY 02 is marginally, $500,000, above the $162.1 million spent during the same period in FY 01. In FY 01, the City spent $737 million on overtime; this is the highest level ever recorded. The City has appropriated $543 million in the FY 02 Adopted Budget for overtime. If the spending trend in overtime continues throughout the rest of the year, even if adjusted for overtime associated with the World Trade Center, overtime spending will surpass the amount appropriated in the Adopted Budget by $190 million.

After excluding the overtime expenditures caused by the World Trade Center attack, the majority of spending, 43.4 percent, in the first quarter of FY 02 occurs in the Police Department (NYPD) for uniformed personnel. The NYPD spent $70.4 million on overtime for uniformed personnel, $9.6 million, or 12 percent less than in the same period in FY 01. Although overtime for uniformed personnel at the NYPD has declined in FY 02, this decline must be put into context against the high level of spending in FY 01. Overtime spending for uniformed police personnel in FY 01 is $317 million, $96 million or 43 percent higher than in FY 00. The NYPD funds one of its major anti-crime programs, the narcotics initiative program “Operation Condor,” through its overtime budget. The City’s efforts to reduce crime by doubling patrol strength through the use of overtime for Operation Condor have accounted for most of the large increase in overtime during FY 01.

The growth in overtime for uniformed police personnel began in FY 98. Since then it has consumed, on average, a larger share of the City’s overtime budget. Between FY 98 and FY 01, overtime spending on uniformed police personnel averaged $207 million per year, an increase of 97 percent compared with $105 million averaged between FY 92 and FY 97. Also, it did not vary much over that period, from a low of $93 million in FY 95 to a high of $110.8 million in FY 97. However, between FY 98 and FY 01, overtime has steadily increased and

[1] According to a report generated by the City's Financial Management System (FMS) that shows spending as coded directly from activities resulting from the attack on the World Trade Center. The overtime figures represent only 7 days of a 14-day pay cycle covering 9/9/01 to 9/15/01 that was paid to employees on 9/28/01. Overtime spending resulting from the attack on the World Trade Center will be substantially higher in future months, since overtime spending in September did not include two full payroll cycles subsequent to the attack on the World Trade Center.

ranged from $139 million in FY 98 to $317 million in FY 01. As such, beginning in FY 98 overtime expenditures for uniformed police personnel has comprised a higher proportion of the City's total overtime budget, 35 percent compared with 26.5 percent between FY 92 and FY 97. (See Chart 4.)

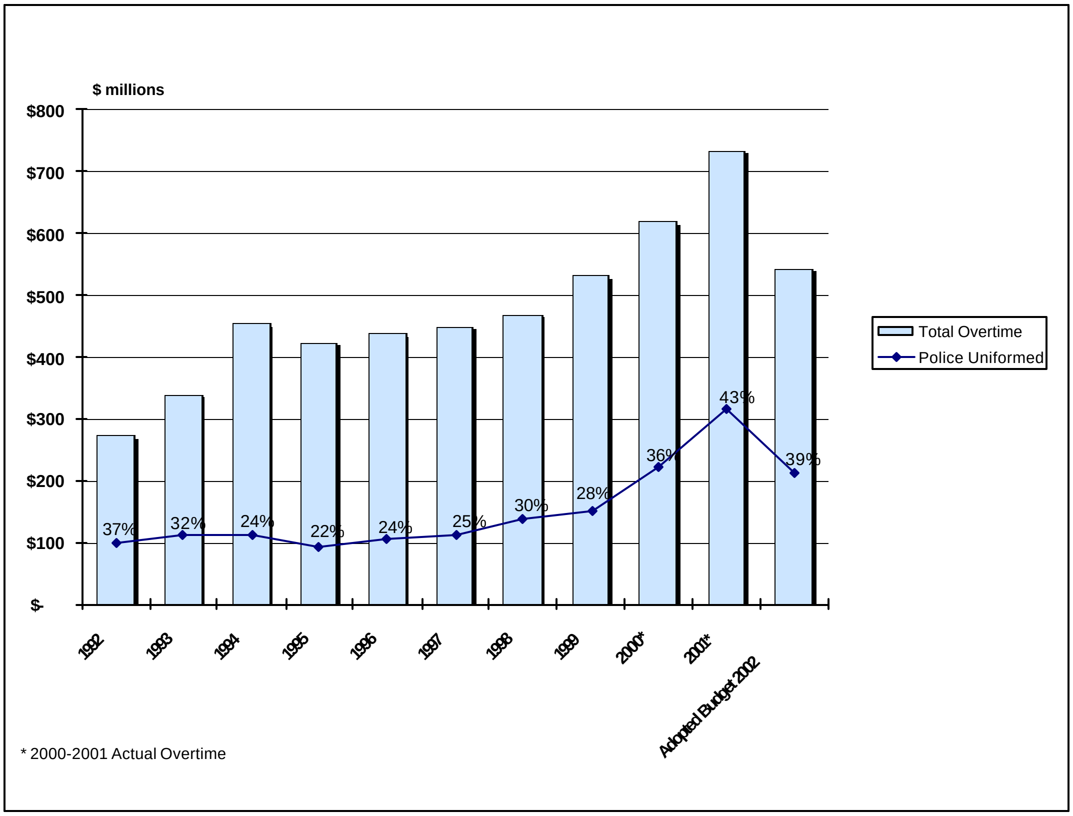
Table 5. *Overtime Spending, First Quarter FY 02 vs. First Quarter FY 01*

Agency	**First Quarter FY 02 (1)**	**Overtime Relating Directly to the World Trade Center Attack FY 02 (2)**	**First Quarter FY 02 Adjusted for World Trade Center (3)=(1-2)**	**First Quarter FY 01 (4)**	**FY 02 vs. FY 01 Better/(Worse) (5)=(3-4)**
Uniformed:					
Police	$101.6	($31.2)	$70.4	$80.0	($9.6)
Fire	27.5	(5.5)	22.0	19.2	2.8
Correction	14.3	0.0	14.3	10.5	3.8
Sanitation	13.1	(3.1)	10.0	9.4	0.6
Subtotal	$156.5	($39.8)	$116.7	$119.1	($2.4)
Civilian:					
Police	$6.3	($1.2)	$5.1	$5.3	($0.2)
Fire	6.6	(1.0)	5.6	4.7	0.9
Correction	0.9	0.0	0.9	0.9	0.0
Sanitation	1.1	(0.5)	0.6	0.9	(0.3)
Board of Education	1.1	0.0	1.1	2.5	(1.4)
Juvenile Justice	1.1	0.0	1.1	1.0	0.1
Environmental Protection	5.5	0.0	5.5	5.0	0.5
Transportation	7.1	0.0	7.1	6.6	0.5
Parks & Recreation	1.2	0.0	1.2	1.0	0.2
Administrative Services	1.2	(0.2)	1.0	1.0	0.0
Agency for Child Svcs.	4.9	0.0	4.9	4.4	0.5
Social Services	4.4	0.0	4.4	3.5	0.9
All Other Civilians	7.8	(0.4)	7.4	6.2	1.2
Subtotal	$49.2	($3.3)	$45.9	$43.0	$2.9
Total	**$205.7**	**($43.1)**	**$162.6**	**$162.1**	**$0.5**
Attributable to World Trade Center Attack	(43.1)	0.0		0.0	
Total Adjusted	**$162.6**			**$162.1**	**$0.5**

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

The other uniformed agencies, Fire, Correction, and Sanitation, together spent $7.2 million, or 18 percent, more in FY 02 than during the first quarter of FY 01. Overtime spending for civilian employees in the first quarter of FY 02 is $2.9 million, or 6.7 percent, above the first quarter of FY 01.

Chart 4. *NYC, Total Overtime and Police Uniformed Overtime, $ millions*



Source: NYC Comptroller's Office, *Comprehensive Annual Financial Report*, and Office of Management and Budget, June Plan and Adopted Budget FY 2002.

Public Assistance The City's public-assistance caseload fell by 11,860 recipients to 463,603 in September. Compared with the June 2001 caseload of 497,113, the welfare roll has already fallen by 6.7 percent, or 33,510 recipients, through the first quarter of FY 02. The year-to-date caseload decline consists of 26,043 recipients in the Federally mandated Family Assistance (FA) program and 7,467 recipients in the State-mandated Safety Net Assistance (SNA) program. Since reaching a historical peak of 1,160,593 in March 1995, the City's public assistance caseload has fallen by about 60 percent. Monthly grant expenditures for public assistance have followed a similar pattern over the same span, falling by about 61 percent to $96 million in September 2001 from $248 million in March 1995.

Compared with caseload projection in the Adopted Budget, the September caseload is already 38,467 recipients below plan. However, the City will not be able to reflect the potential saving because of the maintenance-of-effort (MOE) funding requirement governing the use of the Federal Temporary Assistance to Needy Families Block Grant. Under the MOE requirement, the City will have to reinvest the caseload savings from the FA program in other welfare or transitional programs. The City could use the surplus to fund families who are slated to leave the FA program in December 2001 because of the program's five-year lifetime limit. Some of these recipients, estimated at about 40,000 families, will be eligible to participate in the

SNA program. The City has indicated that no additional costs will be incurred because Federal laws permit these additional costs to count towards the MOE requirement.

Board of Education The Board of Education (BOE) faced a number of uncertainties over its finances as the school year began in September. Faced with a potential funding shortfall of $291 million prior to the start of the school year, the BOE announced several savings initiatives in August, targeting cuts in central administrative workforce and districts' spending. In the aftermath of the World Trade Center attack, the BOE now may need to identify up to $251 million in budget savings. The savings may be necessary to offset the additional costs related to the World Trade Center attack and to absorb a 2.5 percent tax-levy budget cut as part of a citywide cost-reduction program. Thus, the financial outlook for the BOE appears less rosy in FY 02 than in previous years, as it will need to contend with a host of funding issues and the viability of its savings proposals over the course of the year.

The initial $291 million funding shortfall resulted from baseline budget needs of $120 million and State aid shortfall of $171 million. The baseline budget needs were highlighted in the BOE budget request, attributable to cuts imposed by the City on BOE central headquarters budget as well as additional costs for transportation and special education.

The "bare-bones" budget adopted by the State in early August provides about an $82 million increase in unrestricted education aid in FY 02, which is $171 million short of the BOE's expectation of a $253 million increase in State education aid for the year. In late October, the Legislature approved supplemental budget appropriations that include a statewide increase for education aid. The State has not published updated allocations by aid category for each school district. However, the additional education aid provided by the State will still fall far short of City and BOE projections.

To address the State aid shortfall and its $120 million budget gap, the Board announced in August that it would begin paring its central administration staff over a three-year period to yield projected savings of about $100 million annually. The Chancellor also expanded the BOE's contingency-savings plan for school districts to $150 million from a previous target of $90 million. These cuts are expected to impact such areas as after-school programs, extra-curricular activities, instructional supplies, professional development, and school and district office staffing. In addition, the Chancellor has indicated that expansion of after-school and weekend instructional programs will be curtailed for additional savings of $40 million.

The uncertainties over the BOE budget have been compounded by the impact of the World Trade Center attack. The BOE estimates that, as a result of the World Trade Center attack, additional costs of up to $136 million will be required for providing services for relocated students and making up for lost instructional time. The largest component of this estimate stems from the BOE's proposal to extend the school day by three additional hours for the remainder of the school year to compensate for lost instructional days as a result of the World Trade Center attack, at a projected cost of $102 million.

Moreover, the City has announced a citywide cost-reduction program, in response to projected tax-revenue losses resulting from the World Trade Center disaster. The City expects the BOE to trim its budget by about $115 million in FY 02. Together, these two items represent a funding deficiency of up to $251 million in the BOE budget if they are fully implemented.

Pensions Pension fund investments lost approximately 9.4 percent during the first three months of FY 02. The 9.4 percent loss is the result of a 15.5 percent loss in domestic equity investments and a 16 percent loss in international equity investments, which are partly offset by a 3.2 percent gain in domestic fixed income investments. The losses for the first quarter of FY 02 are in addition to the 8.2 percent loss the pension fund investments suffered in FY 01.

The City's pension cost projections are based on the actuarial investment return assumption (AIRA) that investments 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. Conversely, if investment returns are lower, then the City's future pension costs will be higher. For each percentage point difference between the actual FY 02 investment return and the AIRA, the City's pension costs will differ by $7 million in FY 03, $18 million in FY 04, $33 million in FY 05, $51 million in FY 06, and $72 million in FY 07.

However, the following should be noted:

- For purposes of projecting the City's pension contributions for FY 03, the only relevant pension-fund asset values are those at the close of business on the last day of FY 02, i.e., June 30, 2002.
- The City has not yet fully reflected in the June Plan the entire impact on pension expenditures resulting from the 8.2 percent pension-fund investment losses in FY 01.

The City's future pension costs are also expected to increase as a result of casualties resulting from the attack on the World Trade Center and recovery operations. The City has lost about 340 firefighters and 23 police officers. It is possible that the injuries and fatalities will lead to some accidental disability retirements. The Chief Actuary of the City's pension systems is in the process of estimating the possible impact to the City's pension costs for FYs 03-05. It is anticipated, however, that the Federal Government will pay for any City cost increases resulting from the attack.

Labor Reserve The City has reached tentative contract agreements with the Uniformed Forces Coalition representing thirteen police, fire, correction, and sanitation unions. Although eleven of the unions have indicated that members will ratify the contract, the City is still in the process of finalizing the contract with these unions. The settlement provides for wage and benefit increases of 11.9 percent over thirty months. The City has finalized a two-year contract with District Council 37 (DC 37), the largest union, and several other unions. The DC 37 contract, which covers a 27-month period, grants wage and benefit increases of 9.26 percent to employees. Meanwhile, the Mayor has recently signed an Executive Order that will allow agency heads to grant wage increases to managers of 0, 2, or 4 percent, retroactive to July 2000. The managerial wages, if paid at the maximum of 4 percent per year, will cost the City approximately $33 million. However, the Executive Order required all City agencies to fund these unbudgeted raises from existing budget resources.

The City provides funding for wage increases for all non-managerial personnel in two parts – the general Labor Reserve and the BOE Labor Reserve. The general Labor Reserve includes funds of $543 million in FY 02, $781 million in FY 03, and $800 million in each of FYs 04 and 05. The BOE Labor Reserve includes funds of $467 million in FY 02, $604 million in FY 03, and $628 million in each of FYs 04 and 05. The funds in both labor reserves are primarily for wage increases agreed to by City employees and for wage increases anticipated for all other City employees.

The City has yet to reach settlements with two major unions – the United Federation of Teachers (UFT) and the Police Benevolent Association (PBA). The UFT and PBA are looking for wage increases higher than those increases agreed to by DC 37 and the Uniformed Forces Coalition. These two unions would like wage increases for their members to reflect higher wages paid to employees in the same titles in the City's surrounding counties.

The UFT has presented its position to the State Public Employment Relations Board (PERB) and has asked the State to appoint a panel to recommend a settlement. The PBA may do the same. Teachers and police offices in the surrounding counties earn as much as 30 percent to 40 percent more than their counterparts in NYC. If the UFT and PBA settle on wage increases higher than projected in the Adopted Budget, the City's labor costs will be higher. It costs approximately $19 million for every 1 percent wage increase received by the police officers and $56 million for every 1 percent wage increase received by the teachers. The City is responsible for about 85 percent of the additional cost of teachers' wage increases and for the entire additional cost of police officers.

Judgments and Claims The City projects that FY 02 judgements and claims (J&C) expenditures will be $464 million. However, the J&C budget was reduced to $310 million in FY 02, reflecting the impact of an agreement between the City and the Health and Hospitals Corporation (HHC). As stipulated in the agreement, beginning in FY 02, the City will fund debt-service costs related to the construction and rehabilitation of HHC facilities, in return for HHC indemnifying the City for all J&C costs incurred at its facilities. Preliminary statistics indicate that the City spent $596 million in FY 01 to resolve J&C cases, $105 million more than was spent in FY 00. The high level of spending in recent fiscal years resulted mainly from the increase in the number of personal injury claims resolved.

During the first quarter of FY 02, the City settled 2,033 tort (personal-injury and property-damage) claims, about 26.4 percent less than the same period in FY 01 and 9.6 percent less than in FY 00. The cost to resolve these claims was $103.7 million, at an average cost per claim of $50,994. (See Table 6.) The cost of $103.7 million is 19.9 percent more than the cost for same period in FY 01 and almost double the cost in FY 00.

Table 6. *NYC, Tort-Claims Cases and Expenditures, First-Quarter FYs 98-02*

	FY 02	FY 01*	FY 00	FY 99	FY 98
First-Quarter Tort-Claims Expenditures, $ mil.	**$103.7**	**$86.4**	**$54.2**	**$48.6**	**$48.1**
First-Quarter Cases Settled	2,033	2,763	2,250	2,002	2,243
Personal-Injury Cases Settled	1,414	2,011	1,621	1,309	1,243
Property-Damage Cases Settled	619	752	629	693	1,000
Average Cost per Claim, $ '000	**$50.9**	**$31.3**	**$24.1**	**$24.3**	**$21.5**
Personal-Injury Cases Settled, $ '000	$70.9	$41.9	$31.8	$36.3	$37.6
Property-Damage Cases Settled, $ '000	$5.4	$2.8	$4.2	$1.5	$1.3
Total Cases Settled in Fiscal Year	**N/A**	**N/A**	**11,822**	**11,112**	**10,840**

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

The growth in J&C costs for the first quarter of FY 02 resulted mainly from the increase in the average cost to resolve personal injury (PI) claims. The City resolved 1,414 PI cases during the first quarter of FY 02, which is 29.7 percent lower than the 2,011 cases resolved during the first quarter of FY 01. The cost to resolve these PI cases was $100.3 million, 18.9 percent more than the same period in FY 01 and 94.6 percent more than the same period in FY 00. This resulted in an increase in the average cost for PI claims to $70,936 in FY 02 from $41,934 in FY 01. This increase in the cost per claims resulted mainly from a growth of almost 54 percent in the cost to resolve claims of $1 million or more over the same period in FY 01. During the first quarter of FY 02, 14 claims for $1 million or greater were resolved at a cost of $51.2 million compared with 15 cases in FY 01 at a cost of $33.2 million.

Debt Service On October 23, 2001, the City issued a Revenue Anticipation Note (RAN) due April 12, 2002 (RAN Series FY 2002 A) in the amount of $1.5 billion at a true interest cost (TIC) of 2.03 percent. The transaction was over-subscribed by about seven to one.[2] The coupon rate for the RAN, however, was 3 percent, or 97 basis points above the TIC. This results in gross interest cost of $21.125 million, which was partly offset by a premium above par value of $6.75 million, resulting in a net interest cost of $14.4 million against FY 02 Adopted Budget appropriations. The FY 02 Adopted Budget assumed short-term note borrowing of $1.4 billion at an interest rate of 3.75 percent for 250 days, resulting in projected interest costs of $36.46 million. Thus, despite the increased borrowing of $100 million, the savings from this transaction will be approximately $22 million in FY 02 resulting from lower interest costs against Adopted Budget appropriations.

On October 4, 2001, the NYC Transitional Finance Authority (TFA) successfully issued $1 billion in New York City Recovery Notes – Fiscal 2002 Series A due October 2, 2002. The transaction was over-subscribed by about three to one and was buoyed by intensive media coverage and seeming patriotic sentiment for New York City.[3] The note pricing produced competitive rates of 2.13 percent with an all-expense true-interest-cost of 2.22 percent.

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[2] Over-subscription occurs when the demand for the notes exceeds its supply. The City received orders of $10.8 billion for $1.5 billion of notes.

[3] The TFA received orders of $3.132 billion for $1 billion of notes.

This $1 billion transaction is the first under the new State Legislature authorization to increase the TFA's debt-incurring power by $2.5 billion to finance the City's costs relating to or arising from the World Trade Center attack. The $2.5 billion authorization is in addition to the TFA's $11.5 billion limitation for the issuance of debt financing the City's capital program. The City expects to receive Federal aid for the costs associated with the clean-up and remediation of the financial district that resulted from the World Trade Center attack. The initial costs are being funded by the proceeds of the Recovery Notes.

The TFA will subsequently issue long-term Recovery Bonds on a subordinated basis that will pay for the principal and interest due on the notes. Future pledges of Federal aid for recovery costs may secure the debt service of the Recovery Bonds.

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