The Comptroller's Comments on The Fiscal Year 2003 Adopted Budget

The City of New York
Office of the Comptroller
William C. Thompson, Jr., Comptroller

July 2002

Prepared by the New York City Office of the Comptroller, Bureau of Fiscal and Budget Studies
For more information, visit www.comptroller.nyc.gov or call (212) 669-2507.

WILLIAM C. THOMPSON, JR.
Comptroller

Deputy Comptroller / Chief of Staff
Gayle Horwitz

First Deputy Comptroller
Adam M. Blumenthal

Deputy Comptroller for Policy, Audit, Contracts and Accountancy
Greg Brooks

Deputy Comptroller for Budget
Andrew M. Joseph

Chief Economist
John Tepper Marlin

Staff
Kettly Bastien
Amitabha Basu
Millicent Budhai
Rosa Charles
Basil Duncan
Peter E. Flynn
Farid Heydapour
Manny Kwan
Hope Lendzian
Veronica Lues
Michael Zhang

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

EXECUTIVE SUMMARY

The FY 2003 budget adopted on June 21 will need significant adjustment if the City is to end the new fiscal year in balance. While the City's adopted budget does a credible job in addressing the $5 billion deficit projected in the Mayor's Executive Budget, analysis issued by the Comptroller in May demonstrated that the problem is substantially larger.

The Comptroller's review of the FY 2003 Adopted Budget finds that despite the efforts of the Mayor and the City Council, risks of more than $1 billion are contained in the budgetary assumptions. The Comptroller believes that with appropriate monitoring and corrective action, FY 2003 risks can be ameliorated and the year ended in balance. It is important that the City address these issues at the earliest possible moment, not only to ensure FY 2003 balance but also to address the looming FY 2004 problem.

The City anticipates that the FY 2004 deficit will exceed $3.7 billion. This gap represents a shortfall of nearly 13 percent against City-fund revenues. This is the largest next-year gap ever projected, both in dollar and percentage terms, since the City achieved compliance with Generally Accepted Accounting Principles in 1981. Unfortunately, the Comptroller's analysis finds that the gap will be even larger, exceeding $5 billion if left unaddressed this year. If the City is to achieve FY 2004 balance it must promptly begin its gap-closing effort.

The City has no choice but to face these significant challenges. Regardless of the causes underlying these large deficits, the City must design initiatives with recurring value to close the current year gap and to begin addressing next year's unprecedented shortfall. It must begin to implement these gap-closing actions at the earliest possible moment in this fiscal year to achieve the greatest savings.

Table 1. *Four Year Financial Plan, $ in millions*

	FY 2003	FY2004	FY 2005	FY 2006
Revenues				
Taxes:				
General Property Tax	$9,001	$9,317	$9,723	$10,135
Other Taxes	$14,064	$15,047	$15,965	$16,806
Tax Audit Revenues	$427	$427	$427	$427
Miscellaneous Revenues	$4,256	$4,295	$4,006	$3,761
Transitional Finance Authority - 9/11	$1,500	$0	$0	$0
Unrestricted Intergovernmental Aid	$790	$580	$555	$555
Anticipated Federal & State Aid	$230	$0	$0	$0
Other Categorical Grants	$623	$410	$407	$413
Less: Intra-City Revenue	($997)	($1,009)	($1,009)	($1,009)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)
Subtotal: City Funds	$29,879	$29,052	$30,059	$31,073
Inter-Fund Revenues	$326	$318	$318	$318
Total City & Inter-Fund Revenues	$30,205	$29,370	$30,377	$31,391
Federal Categorical Grants	$4,419	$4,147	$4,143	$4,140
State Categorical Grants	$8,297	$8,289	$8,372	$8,440
Total Revenues	$42,921	$41,806	$42,892	$43,971
Expenditures				
Personal Service	$22,955	$23,604	$24,480	$25,292
Other Than Personal Service	$17,848	$18,123	$18,485	$18,837
Debt Service	$2,082	$3,260	$3,439	$3,698
MAC Debt Service	$255	$489	$490	$492
NYCTFA	$578	$868	$1,031	$1,051
General Reserve	$200	$200	$200	$200
	$43,918	$46,544	$48,125	$49,570
Less: Intra-City Expenses	($997)	($1,009)	($1,009)	($1,009)
Total Expenditures	$42,921	$45,535	$47,116	$48,561
Gap To Be Closed	**$0**	**($3,729)**	**($4,224)**	**($4,590)**

Note: Other Taxes includes NYCTFA.

Table 2. *Risks to the FYs 2003-2006 Financial Plan, $ in millions*

	FY 2003	FY 2004	FY 2005	FY 2006
City Stated Gap	$0	($3,729)	($4,224)	($4,590)
Budget Assumptions				
Personal Income Tax	($43)	$25	$103	$91
Other Taxes	($109)	($145)	($83)	$50
Airport Rent	($175)	($320)	($285)	($40)
Sale of OTB	$0	($250)	$0	$0
Other Miscellaneous Revenues	($35)	$0	$0	$0
Overtime	($145)	($145)	($145)	($145)
Fringe Benefit Cost Containment	($252)	($326)	($322)	($444)
Public Assistance	($28)	($40)	($40)	($40)
Medical Assistance	$0	$0	($75)	($130)
Pension Costs	($73)	($137)	($248)	($373)
Subtotal	**($860)**	**($1,338)**	**($1,095)**	**($1,031)**
State and Federal Aid				
Anticipated Federal Actions	($230)	$0	$0	$0
Subtotal	**($230)**	**$0**	**$0**	**$0**
Total Risk	**($1,090)**	**($1,338)**	**($1,095)**	**($1,031)**
Restated Gap	**($1,090)**	**($5,067)**	**($5,319)**	**($5,621)**

I. CHANGES FROM THE EXECUTIVE BUDGET

The Adopted Budget generally follows the parameters of the April 17 Executive Budget as illustrated in Table 3. Overall, spending has been increased by $376 million, as a result of the newly negotiated Teachers' contract as discussed in "Labor Reserve" beginning on page 14 as well as to restore funds to a wide variety of programs throughout the City's agencies.

Table 3. *Change From Executive Budget to Adopted Budget*
FY 2003, $ in millions

	Executive	Adopted	$ Changes
Revenues			
Taxes:			
General Property Tax	$8,866	$9,001	$135
Other Taxes	$13,935	$14,044	$109
Tax Audit Revenues	$427	$427	$0
Decoupling from New Federal Accelerated Depreciation	$128	$20	($108)
Miscellaneous Revenues	$4,212	$4,256	$44
Transitional Finance Authority - 9/11	$1,500	$1,500	$0
Unrestricted Intergovernmental Aid	$721	$790	$69
Anticipated State & Federal Actions	$630	$230	($400)
Other Categorical Grants	$428	$623	$195
Less: Intra-City Revenues	($1,012)	($997)	$15
Disallowances Against Categorical Grants	($15)	($15)	$0
Sub-Total City Funds	**$29,820**	**$29,879**	**$59**
Inter-Fund Revenues	$323	$326	$3
Total City & Inter-Fund Revenues	**$30,143**	**$30,205**	**$62**
Federal Categorical Grants	$4,358	$4,419	$61
State Categorical Grants	$8,044	$8,297	$253
Total Revenues	**$42,545**	**$42,921**	**$376**
Expenditures			
Personal Service	$22,370	$22,955	$585
Other Than Personal Service	$17,618	$17,848	$230
Debt Service	$2,436	$2,082	($354)
MAC Debt Service	$255	$255	$0
NYCTFA	$678	$578	($100)
General Reserve	$200	$200	$0
Subtotal Expenditures	**$43,557**	**$43,918**	**$361**
Less: Intra-City Expenses	($1,012)	($997)	$15
Total Expenditures	**$42,545**	**$42,921**	**$376**

Note: Other Taxes includes NYCTFA.

The budget supplies more than $594 million in additional funding to the Board of Education, which will be used to restore cuts as well as support increased salaries. The Adopted Budget increased funding for the Department of Public Health by $42 million, restored nearly $28 million to the City's public libraries, and increased support for cultural institutions by over $20 million. The Department for the Aging received $15 million in restorations, the City University gained over $14 million, the Department of Youth and Community Development gained over $13 million and more than $8 million went to the Department of Parks and Recreation.

The support for the increased spending came from three main sources. First, the City projects that tax revenues will be somewhat higher than previously projected as discussed beginning on page 6. Next, the City has recognized more than $300 million in additional intergovernmental aid as discussed on page 10. Finally, the prepayment of FY 2003 debt service in FY 2002, along with the prepayment of certain subsidies, has allowed the City to reduce FY 2003 spending by $354 million as discussed in "Surplus Roll" on page 20.

The City has also increased the projected gap in each of FYs 2004-06 as illustrated in the figure to the right. The Comptroller's analysis indicates that the deficits will be more than $1 billion per year larger than estimated by the City, as shown in Table 2 on page 2.

	2004	**2005**	**2006**
Adopted	($3,729)	($4,224)	($4,590)
Executive	($2,664)	($3,076)	($3,567)
Change	($1,065)	($1,148)	($1,023)

II. ECONOMIC IMPACT

Since the release of the Executive Budget on April 17, two additional months of economic data have become available. However, neither the Comptroller nor the Mayor has changed his previous economic forecast because the new numbers reflect both positive and negative developments of materially equal magnitude.[1]

On the national front, economic data showed mixed results. Revised data for the first quarter raised GDP growth to 6.1 percent. Preliminary numbers indicate that growth nationwide continued in the second quarter, but appeared to slow from the extremely fast first-quarter pace. During April and May the U.S. economy created 47,000 net new jobs, a significant change after 12 successive months of job declines. However, the U.S. unemployment rate is up to 5.8 percent in May 2002, from an October 2000 low of 3.9 percent. At the same time, no signs have appeared of a higher rate of inflation, which remained at a tame 1.2 percent annual rate in May.

Despite this strength in the overall economy, financial markets had poor returns. The Federal Reserve in late June therefore decided to leave unchanged the target interest rate (fed funds rate) and the discount rate, and announced a neutral stance on the future direction of monetary policy. Meanwhile, in the latest of a sequence of corporate earnings restatements, the nation's second-largest long-distance carrier, WorldCom, announced a hidden loss of nearly $4 billion. The long list of companies with billion-dollar changes in their financial statements has added to investor concerns and has pushed the Dow Jones Industrial Average below 9,000. In addition, a significantly weaker dollar suggests in part a net outflow of foreign investment from the United States.

The City's economy is deeply affected by these national developments. The City, like the nation, saw a two-month (April-May) increase in payroll jobs, gaining 17,700 after a long series of declines since January 2001 that was unbroken except for May and September 2001.[2] But there are indications that some of these new jobs simply reflect the return to the World Financial Center of workers who had left temporarily after September 11. Also, the City's unemployment rate hit a four-year high of eight percent in May, partly because more City residents have entered the workforce seeking employment. Other negative indicators include a decline in the hotel-occupancy rate to 78.1 percent in May 2002 from 78.4 percent in May 2001, and a decline in the help-wanted-advertising index, which measures the supply of jobs and is sensitive to labor-market conditions, to 21 in May 2002 from 31 in May 2001.

In addition, the downturn in the stock market doubly affects the City's budget. On the revenue side, investor concerns suggest weaker Wall Street earnings (which fell to

---

[1] See *The Comptroller's Comments on the Economic Assumptions Underlying the Executive Budget for Fiscal Year 2003*, issued May 2002 for a discussion of the Comptroller's analysis of the Mayor's assumptions.

[2] Company unemployment insurance forms tend to be sent in during the first week of every month, so that September's numbers reflect jobs status immediately prior to September 11.

$10 billion in 2001 from $21 billion in 2000) and the potential for layoffs in the securities industry because of depressed stock prices that inhibit merger and acquisition activity and new stock offerings. In this environment, the good economic news is not strong enough to offset deep worries about U.S. financial markets and their close ties to the City economy.

The downturn in the stock market will require the City to increase its pension contributions due to losses sustained in the pension funds. These contributions will increase in the next few years from less than $1 billion in FY 2000 to nearly $4 billion by FY 2006.

Tax Revenues

The City has raised its overall tax-revenue forecast for FY 2003 by $237 million, or one percent, in the Adopted Budget compared with the Executive Budget. This is the result of four main changes. Property tax projections are increased by $135 million, business taxes by $114 million and the cigarette tax by $133 million. The personal income tax (PIT) projection has been lowered by $141 million but the amount withheld for the New York City Transitional Finance Authority (NYCTFA) has been reduced by $100 million. This is the result of the NYCTFA refunding of Bond Series 2003 A which produces debt service savings in FY 2003 and thus reduces the amount to be withheld from PIT for NYCTFA debt service. The $128 million impact from decoupling requested from the State Legislature will yield $108 million because the tax relief was retained for investment in Lower Manhattan.

Changes From the Executive to the Adopted Budget FY 2003 ($ in millions)	
Property	$135
PIT	(141)
TFA	100
Business	114
Cigarette	133
All Other	4
Decoupling	(108)
Total	**$237**

Except to adjust for legislative changes, the Comptroller is keeping his economic and tax forecasts essentially unchanged from the Executive Budget. Only one month (May) of complete tax-revenue collections has come in since the Comptroller's Executive Budget report. Although this May's collections are $25 million above May 2001's, this reflects an advance from Battery Park City of June payments for payments-in-lieu-of-taxes (PILOTS) rather than improved collections.[3] June collections for PIT are available and do not signal any significant change from trend. Thus tax information available since our May report has therefore left our projections largely unchanged. The City has also left

Changes To FY 2003 Tax-Revenue Risks ($ in millions)		
Tax	Adopted	Executive
Property	$ (5)	$ (5)
PIT	(44)	(195)
Business	(52)	(46)
Sales	(51)	(62)
Other	(1)	8
Total	**$(153)**	**$(300)**

[3] Adjusting for PILOTS, collections are below last year but collections in May are small and therefore not a reliable gauge of changes.

its economic assumptions unchanged and except for the PIT, the changes to its tax assumptions are mainly the result of legislative actions.[4] As the figure above shows, the tax risk to the Adopted Budget is reduced to $153 million (from $300 million in the Executive Budget) mainly because of the City's adjustment to its PIT assumptions.

Property Tax

The Adopted Budget increases the City's forecast for property-tax collections for FY 2003 by $135 million compared to the Executive Budget. This results mainly from three changes. First, the final assessed value is higher than anticipated and raises the levy by $56 million. Second, a decrease in the reserve for uncollectibles made $33 million available for budget purposes. And finally, $41 million comes from an increase in expected lien sales.[5]

In the final assessment roll for property taxes, released by the Department of Finance on May 25, the overall billable assessed value of $93.3 billion, on which the taxes are based, represents a decrease of $638 million, or 0.68 percent, from the tentative assessment roll released in January. Compared with the tentative assessments in January, the billable assessed value for Class I property (one-, two- and three- family homes) decreased by $52 million to $10.6 billion, Class II (all other residential) property decreased by $291 million to $32 billion, Class III (utility) property increased by $263 million to $6.8 billion, and Class IV (commercial) property decreased by $558 million to $43.8 billion.

With the final assessment roll released and the non-property tax overall revenues agreed upon between the City Council and the Mayor, the City Council set the individual class tax rates on June 21 to achieve the necessary levy of $9.79 billion in order to balance the FY 2003 budget. Per $100 of assessed value, the Class I rate increased by $0.678 to $12.287, the Class II rate decreased by $0.228 to $10.564, the Class III rate is left unchanged at $10.541 and the Class IV rate decreased by $0.017 to $9.695.

Market values grew fastest in Class I properties. The City Council adjusts class shares (the portion of the levy allocated to each class) for changes in market value each year. The law limits the adjustment factor for each class to within five percent of the prior year, with excesses shifted to the other classes not to exceed the five-percent limit. As the figure to the right shows, the Class I increase exceeded the five-percent limit and the excess was shifted to Class III and Class IV. Because of differences between the City Council and the Mayor, the budget was not approved until June 21 and the tax rates were set later than the legislated date of

	Change in Class Share	
Class	**Before Shift**	**After Shift**
I	8.69%	5.00%
II	0.28%	0.28%
III	-7.84%	-5.73%
IV	-1.59%	-0.80%

City Council - Tax Fixing Resolution for FY 2003.

[4] The drop to the City's PIT forecast is $151 million. About $10 million is offset by legislative actions.

[5] The Mayor determines the projection of revenues other than property taxes. The City Council approves an expenditure budget. The property tax levy must balance the gap between the two.

June 5. Tax bills, however, were distributed based on the old rates. New bills will have to be reissued in November. The City Council may also have to adjust the tax rates when it reissues the tax bill because Albany is expected to cap the rate increases at two percent (as it has been doing for some time) instead of five percent for FY 2003. The excess from Class I will likely be shifted to the other classes.

Non-Property Taxes

The changes in the estimates of business and cigarette tax collections are mainly the result of legislative actions. The decoupling of city income from federal depreciation rules was approved by the State Legislature and the potential risk to revenue from this has been substantially reduced. This is expected to generate an additional $108 million in business tax collections in FY 2003. The overall estimate of general corporation tax collection is raised by $81 million, the banking corporation tax by $28 million, $22 million of which results from decoupling and the unincorporated business tax by $5 million. The approval to increase the tax on cigarettes is expected to improve collections by $133 million for FY 2003.[6]

The PIT forecast is reduced over the entire term of the financial plan because observed tax revenues are lower than projected, reflecting a lower level of economic activity in the City. The City's PIT forecast for the Executive Budget was done before the much lower-than-expected April collections occurred.[7] The City is now adjusting its forecasts to account for this. Expected net collections after refunds are lower by $141 million in FY 2003. With the continued deterioration of estimated payments and negative outlook for Wall Street, the FY 2003 PIT forecast is reduced, with expected refund payouts increasing by $107 million. The net drop after allocation to NYCTFA is only $41 million as the amount deducted for this has been reduced by $100 million. Legislative changes also have some minor effects on the PIT for FY 2003. Income tax exemptions for World Trade Center victims will reduce PIT collections by $7 million; the tax amnesty program increases collections by $13 million; and lowering the electronic fund transfer threshold for withholding raises it $5 million creating a net $11 million increase.

Other tax-revenue changes from the Executive to the Adopted Budget are small. Sales-tax revenue is raised by $12 million, commercial rent by $6 million and mortgage-recording tax by $10 million. Real-property-transfer tax has been reduced by $5 million and the hotel-occupancy tax by $12 million. Finally, legislation affects sales tax by a small amount.

[6] Some of the increase in revenue from the cigarette tax will be offset by a drop-off of $23 million in sales tax because of reduced sales. The net benefit is $110 million.

[7] This is further discussed in *The Comptroller's Comments on the FY 2003 Executive Budget,* released May 9, 2002. April collections were 30 percent below Plan.

FYs 2004-2006

The outyears of the financial plan are affected by factors similar to those impacting FY 2003. Total tax-revenue forecasts increase by $32 million in FY 2004, $65 million in FY 2005 and $106 million in FY 2006.

Property tax revenues increase at an average of $30 million per year, mainly by lowering the reserves set aside for uncollectibles. Decoupling from Federal depreciation legislation increases business taxes by $99 million in FY 2004 and $90 million in FY 2005. The cigarette tax raises revenue projections by $135 million for FY 2004, $132 million for FY 2005, and $128 million for FY 2006. Expected PIT collections are lower by $139 million in FY 2004, $118 million in FY 2005 and $62 million in FY 2006.

FYs 2004-2006 Tax-Revenue Risks and Offsets
($ in millions)

Tax	2004	2005	2006
Property	$(48)	$(3)	$46
PIT	25	103	91
Business	(44)	(10)	29
Sales	(45)	(29)	9
Other	(8)	(41)	(34)
Total	**$(120)**	**$20**	**$141**

The Comptroller is maintaining his previous economic assumptions and many of his tax assumptions for the outyears except to adjust for legislative changes. As shown in the figure to the right, the Comptroller's tax-revenue projections are lower than the City's projections by $120 million in FY 2004 and above the City's projections by $20 million in FY 2005 and $141 million in FY 2006. The details of the changes in the City's revenue assumptions may be found on Table A1 on page 23.

Miscellaneous Revenues

Miscellaneous Revenue consists of locally generated non-tax revenues from such sources as fees, fines, permits and rents. The FY 2003 Adopted Budget miscellaneous revenue projection of $3.26 billion is materially unchanged from the Executive Budget. The major adjustment in the current projection reflects a transfer of $62 million to the miscellaneous revenue budget from the proposed State aid agenda in the Executive Budget. This initiative, which allows the City to increase certain parking violation fines, needed and received the necessary State approval.

The Comptroller's analysis of the Adopted Budget shows that $220 million in FY 2003 miscellaneous revenues, comprising the City's assumption of additional airports rental income and the renegotiation of the Metrotech leases, remain at risk. The projection of airports rental income of $185 million in FY 2003 incorporates the renewal of leases and the claims of back-rental income for JFK and LaGuardia airports. If the City does not resolve these issues, miscellaneous revenues will be reduced by approximately $175 million in FY 2003.

Furthermore, an additional $35 million in FY 2003 revenues are also in doubt. These risk stems from the assumption that the Metrotech leases will be renegotiated.

The miscellaneous revenue projections in the outyears of the financial plan appear reasonable, except for the continued expectation of additional rent from the Port Authority for the City's airports and the assumption that OTB will be sold in FY 2004. Thus we are holding $570 million at risk in FY 2004; $285 million at risk in FY 2005; and $40 million at risk in FY 2006.

Intergovernmental Aid

The Adopted Budget anticipates $12.7 billion in Federal and State grants for FY 2003, representing an increase of more than $300 million compared to the Executive Budget. The most significant change is an increase of $231 million in education aid, in recognition of school aid appropriations from the adopted State budget. In addition, the City has recognized about $61 million in Federal grants, mostly for social services and summer youth employment programs. However, the City could face a risk of $230 million from the expectation of additional Federal revenue over the course of FY 2003 since there is no indication that the Federal government is prepared to provide this amount of unrestricted gap-closing aid in the near future.

The Adopted Budget also contains $521 million in revenues and expense reductions resulting from approved Federal and State actions. Of note, the City has increased business tax revenue by $108 million from the decoupling of Federal and City tax laws regarding accelerated depreciation rules. An estimated revenue loss of $20 million has been reflected to account for exemption of the Downtown Manhattan area from the decoupling provisions. In addition, the City continues to expect an additional $230 million from anticipated Federal actions in its revenue assumptions. These estimates represent a combined value of $751 million, reflecting failed savings of $49 million compared to the $800 million Executive Budget projections.

Federal and State Actions Baselined In The FY 2003 Adopted Budget
($ in millions)

Debt Finance Reform	$262
Cigarette Tax	110
Parking Violation Fines	62
Tax Amnesty Reform & Audit	50
E-911 Land-Line Surcharge	45
Flexible Use of CD Block Grant	20
Decoupling Exemption	(20)
All Other	(8)
Total	**$521**

The FYs 2003-2006 Financial Plan has recognized failed Federal and State actions of approximately $280 million in each of FYs 2004-06. The recognition of these failed actions removes a portion of the Federal and State assistance previously assumed for the outyears and contributes to the increased budget gaps discussed in "Changes From the Executive Budget" beginning on page 3.

III. EXPENDITURES PROJECTIONS

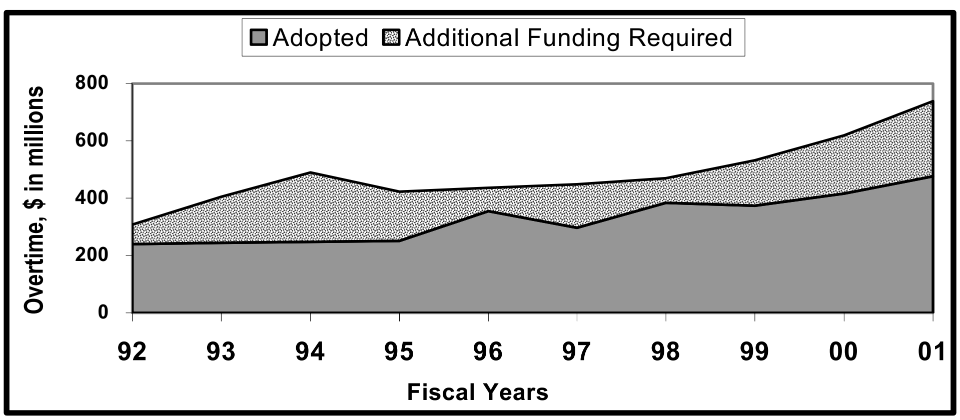
The Adopted Budget increases projected FY 2003 expenditures by $376 million. As discussed in “Changes From the Executive Budget” beginning on page 3, these funds were distributed throughout the City’s various agencies.

Overtime

The FY 2003 Adopted Budget’s overtime appropriation totals $551 million, representing a $28 million increase from the amount assumed in the Executive Budget. The Human Resource Administration (HRA) received about $16 million of the increase, followed by the Sanitation Department with a uniform related overtime increase of $7 million and the Fire Department with $5 million in additional civilian related overtime. The Comptroller estimates that at least $145 million in additional overtime funding will be needed beyond what has been already allocated for FY 2003.

The City remains underbudgeted in this area, given the trend of overtime spending in recent years illustrated on Chart 1. As of June 26, 2002, the City’s actual non-World Trade Center (WTC) overtime expenditure for FY 2002 amounted to $744 million.[8] In the two previous years, FYs 2000 and 2001, overtime expenditures were $618 million and $738 million respectively. Overtime expenditures are driven by uniform agencies, particularly the Police Department, which makes about half of total overtime costs.

Chart 1. *Overtime Comparison:*
Adopted Budgets with Actual Expenditures for FYs 1992-2001, $ in millions



---

[8] Total FY 2002 overtime expenditures, as of June 26, 2002, were $1.1 billion, of which $362 million was attributed to WTC-related overtime. The City anticipates that WTC overtime costs will approach $462 million.

The City would have to curtail overall overtime expenditures in FY 2003 by at least 26 percent from actual FY 2002 expenditures to meet the appropriated amount. As the Chart shows, the City has not experienced a decline in total overtime expenditures since FY 1995. The City is proposing overtime reduction initiatives to curb this expenditure in FY 2003. These savings include reductions of $22 million from the crime-fighting initiative Operation Condor (which is funded through overtime) and $11 million from the narcotics program of the Police Department.[9] In addition, privatization of ambulance tours by the Fire Department is estimated to save $10 million and a $10 million reduction in overtime expenditures is planned by the Correction Department due to streamlining and consolidation of facilities among a substantial number of other Citywide initiatives. Despite these efforts, however, the City is likely to spend over $700 million in overtime during FY 2003.

Pensions

The FY 2003 Adopted Budget anticipates that the City's contributions to the five actuarial pension funds will be $1.74 billion in FY 2003. The City's Financial Plan assumes that cost of contributions will reach $3.476 billion by FY 2006.

These projections include provisions for (1) an extension in the phase-in period, from five to ten years, of the cost impact of the Cost of Living Adjustment (COLA) benefit enacted by Chapter 125 of the Laws of 2000; (2) a new benefit, dubbed the VSF-DROP, that will pay a lump sum from the Variable Supplements Funds to police and fire service retirees who retire with more than twenty years of active service; and (3) pension fund investment losses of three percent for fiscal year 2002.[10] The projections also reflect the City's decision not to pursue a proposal to extend the amortization schedule of the Unfunded Accrued Actuarial Liability of the Fire Department Pension Fund that would have deferred costs of about $8 million per year during FYs 2003 to 2006.

---

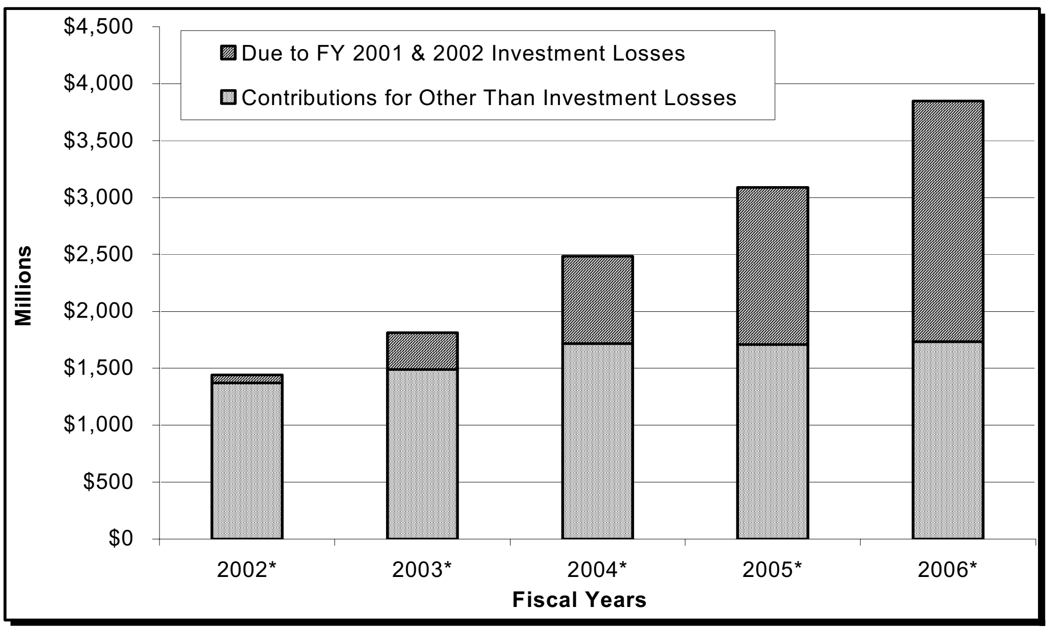
[9] The Police Department has allocated $40 million for Operation Condor and $33 million for the Citywide Narcotics Initiative for FY 2003.

[10] The Variable Supplements Fund – Deferred Retirement Option Plan (VSF-DROP), when enacted, will pay police and fire service retirees, on retirement, a one-time lump sum benefit. The benefit amount will be the total VSF benefits the member would have received (after the date this legislation is enacted) if the member had retired on the day after completing twenty years of service, less any supplementation or COLA payable during that period. The City and the municipal unions are reported to have agreed to this new benefit, which is expected to start in FY 2003, as soon as enabling State legislation is enacted. While the total actuarial cost of the benefit is over $40 million in FY 2003, the City's contributions will increase by $26 million that year because assets in the VSFs will absorb part of the cost.

Two factors, however, have the potential to increase the projections in the Adopted Budget. First, preliminary estimates indicate that the City's pension fund investments lost about 8.3 percent during FY 2002, a greater loss than provided for in the FY 2003 Adopted Budget. As shown in the figure above, this will increase the City's pension contributions by $3 million in FY 2003, $67 million in FY 2004, $178 million in FY 2005 and $303 million in FY 2006.[11] Chart 2 illustrates the impact of the FY 2001 and FY 2002 investment losses on City pension contributions.

	FY 2003	FY 2004	FY 2005	FY 2006
FY 2003 Adopted Budget Projections	$1,740	$2,346	$2,840	$3,476
For Deeper FY 2002 Investment Losses (-ve 8.3%) than Budgeted	$3	$67	$178	$303
TRS "Per Session" Pension Costs	70	70	70	70
Probable Pension Contributions	$1,813	$2,483	$3,088	$3,849
Risk	($73)	($137)	($248)	($373)

Chart 2. *The City's Contributions to the Actuarial Pension Systems*



In addition, a risk to the City's pension estimates stems from litigation currently under judicial review. If the Court of Appeals of the State of New York affirms a decision in favor of the UFT making "per session" earnings pensionable, the City's contributions to the Teachers' Retirement System will increase by at least $70 million per

[11] The impact of the greater-than-expected in FY 2002 investment losses is mitigated in TRS in FY 2003 by actuarial gains resulting from the methodology used to value variable annuities and in NYCERS in FYs 2003 and 2004 by the methodology used to phase-in the cost impact of the new permanent COLA. The actual budgetary impact of the FY 2002 investment losses will be determined later this year when the Chief Actuary updates the pension cost projections.

year.[12] As a result, the City's actuarial pension contributions could increase to $1.8 billion in FY 2003 and could rise to over $3.8 billion by FY 2006.

Labor Reserve

The City has allocated $479 million in the FY 2003 general labor reserve to fund wage increases to the unions that have not reached a settlement as yet. The potential costs of these settlements are shown in Table 4 below. Since the FY 2003 Executive Budget, the City transferred $11.4 million to agencies' budgets for funding of previously settled wage contracts.

Table 4. *Potential FY 2003 Settlement Costs of PBA and Other Uniformed Unions Based on the UFT Pattern, $ in millions*

	City's Proposed Settlement	**UFT Pattern Settlement**	**Difference**
Police Benevolent Association (PBA)	$212	$264	$52
Uniformed Firefighters Association (UFA)	92	133	41
Detectives Endowment Association (DEA)	77	70	(7)
Sergeants Benevolent Association (SBA)	57	64	7
Welfare Fund Benefits	9	9	0
Total	**$447**	**$540**	**$93**

Comptroller's Office estimates

At the same time, the BOE labor reserve contains funds of $792 million in FY 2003. This is a net increase of $323 million since the Executive Budget, which reflects additional State and other categorical funds of $275 million and City funds of $56 million, to fund wage increases granted by the United Federation of Teachers (UFT) contract. These additional resources were partially offset by a transfer of $8 million to fund other previously settled BOE contracts. The $792 million available in the BOE labor reserve is mainly to fund wage increases for UFT members, which will cost the City approximately $741 million in FY 2003. Pension and other benefit increases, which are funded elsewhere in the budget, will cost about $147 million in FY 2003.

The highlights of the UFT contract are:

- compounded wage increases of four percent effective November 16, 2000 and five percent effective November 16, 2001.
- an additional one percent, not to exceed $56 million, to be distributed effective September 1, 2002 primarily to lower steps.
- a further compounded six percent increase to teachers for working an additional 20 minutes per day beginning in the next school year.

[12] Please see Page 13 of *The Comptroller's Comments on The Fiscal Year 2003 Executive Budget* issued May 9, 2002 for more details.

The PBA, DEA, UFA, and SBA are seeking higher wage increases for their members than proposed by the City. The PBA and the City are currently awaiting the decision in a wage settlement arbitration before the State Public Employment Relations Board (PERB). The final briefs were submitted to PERB on June 28, 2002. It is expected that PERB will release its determination, which is binding, approximately one month after final briefs are filed. If the PBA and the other unions discussed above obtain wage increases similar to the UFT contract, the City will face additional costs of $93 million in FY 2003.[13]

The City has allocated funding in the general labor reserve for wage increases for the PBA and the other unions according to the agreement reached by the Uniform Forces Coalition (UFC). The UFC agreed on a 30-month settlement providing wage and benefit increases of 11.9 percent. Such settlements for the PBA and the other uniformed unions without contracts would result in retroactive payments for FYs 2001 and 2002 of approximately $452 million for both years combined, in addition to the $447 million payable for FY 2003. Furthermore, should these unions receive a six percent wage increase beginning July 1, 2002, which would be consistent with the pattern established by the UFT settlement, this will cost the City an additional $186 million in FY 2003.

The City includes $252 million in fringe benefit cost containment as part of its actions to close the FY 2003 budget gap. No details have been provided on how these actions will be achieved. This poses a risk to the FY 2003 budget.

Debt Service

The FY 2003 Adopted Budget contains amounts for debt service of $3.033 billion in FY 2003, a decrease of $454 million from the Executive Budget.[14] When adjusted for the FY 2002 prepayment of FY 2003 debt service in the amount of $662.7 million, total estimated debt service increases to $3.696 billion. The net decrease of $454 million is comprised of a decrease in NYCTFA debt-service of $100 million, a decrease of $13 million for General Obligation (G.O.) debt service, and a $341 million decrease in the FY 2003 debt-service as a result of an increase in the FY 2002 prepayment.[15] There are no changes to the Municipal

($ in billions)	
FY 2003 Budgeted Debt Service	$3.033
Prepayment Adjustment	0.663
Adjusted for Prepayments	$3.696

[13] This calculation assumes that raises would be effective on the first day of each contract and on the anniversary dates thereafter.

[14] Includes debt service for G.O., NYCTFA, TSASC, Inc. and MAC debt. Also includes interest on short-term notes and lease-purchase debt service. Unadjusted for prepayments and excludes debt service of the Water Finance Authority.

[15] The $341 million increase in the FY 2002 prepayment is in addition to the $322 million prepayment assumed in the Executive Budget, yielding a $663 million FY 2002 prepayment of FY 2003 debt service.

Assistance Corporation (MAC) or to TSASC in FY 2003 from their Executive Budget condition.[16]

FY 2003

G.O. and lease-purchase debt service is estimated to total $2.745 billion in FY 2003.[17] Of this amount, lease-purchase debt-service is estimated to be $174 million. Projected G.O. and lease-purchase debt service expenditures represent a decrease of $13.1 million in FY 2003 from the Executive Budget. The decrease in projected G.O. debt service in FY 2003 is composed of three elements: 1) Budget savings from G.O. New Money Series 2002 D which cost $3.4 million less than planned; 2) $12 million in additional planned savings; and 3) $2.3 million in costs related to the July transfer adjustment.[18]

In June of 2002, the City completed refunding Bond Series 2002 E, F, & G in the amount of $1.007 billion. The transaction generated debt-service savings of $204 million in FY 2003. These savings, however, are already subsumed in the Adopted Budget, which contained a FY 2003 G.O. refunding savings target of $417 million. Thus, almost half of the FY 2003 refunding savings target has already been achieved by this G.O. refunding alone. With other refundings scheduled during the course of the fiscal year, the refunding savings target will likely be met.

The City also had to account for costs of $12.7 million in FY 2003 from lowered anticipated refunding savings from G.O. bonds which were offset by $24.7 million in savings as a result of the approved State legislation which relaxes the City's retention requirements for City-funded Dormitory Authority of the State of New York (DASNY) lease-purchase debt. This change in refunding plan assumptions produced net savings of $12 million in FY 2003.

The New York City Transitional Finance Authority (NYCTFA) projects debt service costs of $578.2 million in FY 2003, a decrease of $100 million from the Executive Budget. In early July, the NYCTFA issued refunding Bond Series 2003 A in the amount of $1.24 billion. The savings from this transaction are $96.7 million in FY 2003, which will in turn reduce the need to retain PIT revenues by like amounts, thereby freeing PIT revenues for release to the City's general fund as discussed in "Tax Revenues" beginning on page 6.

---

[16] Section 232 of the New York City Charter requires that the Comptroller assess the City's debt condition and report the amount of debt that the City may soundly incur for capital projects during the current fiscal year and each of the three succeeding fiscal years. *The Capital Debt and Obligations Report*, published on or about December 1, meets and exceeds the Charter requirement as it contains sections which profile the City's debt, discuss its debt limit and affordability, and contains debt outstanding comparisons with other municipalities across the nation.

[17] Excludes impact of $662.7 million FY 2002 prepayment of the FY 2003 debt service.

[18] The July transfer adjustment refers to the difference between estimated debt-service for July 2002 compared with July 2003. This adjustment reconciles debt service accounted for on a retention basis (August-July) with debt-service accounted for on a payments-to-holders basis (July-June). The City budgets G.O. debt service costs on a retention-year basis.

The Adopted Budget contains net debt-service costs of $255.3 million for MAC, and $118 million for TSASC in FY 2003, both unchanged from the assumptions in the Executive Budget. The Comptroller's Comments on the FY 2003 Executive Budget, released May 9, 2002, contains further discussion of these issues.

FYs 2004-06

The June Financial Plan contains total debt-service estimates of $4.787 billion in FY 2004, $5.159 billion in FY 2005, and $5.442 billion in FY 2006. Compared with the April modification, these estimates represent a decrease of $11 million in FY 2004, an increase of $14 million in FY 2005, and a modest decrease of $6 million in FY 2006.

Of the amounts cited above, General Obligation (G.O.) debt service is projected to be $3.260 billion in FY 2004, $3.439 billion in FY 2005, and $3.698 billion in FY 2006. These amounts represent increases of $13.9 million in FY 2004 and $14 million in FY 2005, and a modest decrease of $6 million from the April modification.

The NYCTFA projects debt service costs of $868.5 million in FY 2004, $1.03 billion in FY 2005, and $1.05 billion in FY 2006. As in FY 2003, NYCTFA refunding Series 2003 A produced savings of $24.6 million in FY 2004, thereby reducing the amount of PIT to be retained for NYCTFA debt service in that fiscal year.

The Municipal Assistance Corporation (MAC) will pay off the last of its debt on July 1, 2008. The June Financial Plan assumes retention of sales tax for MAC debt service requirements will be $489.2 million in FY 2004, $490.4 million in FY 2005, and $491.9 million in FY 2006. These figures are unchanged from the assumptions in the April modification.

There are no changes to TSASC in FYs 2004-2006 from the April modification.

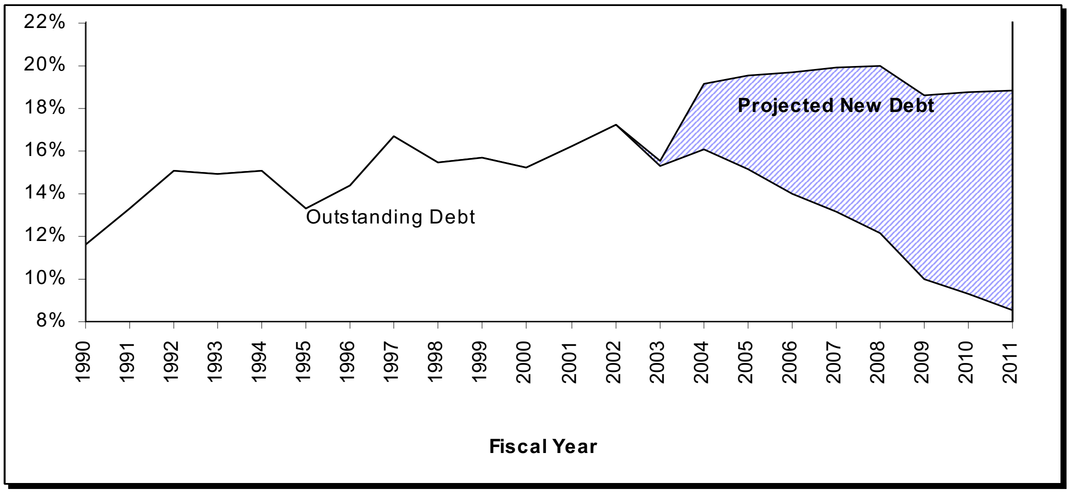
Debt Burden

Debt service continues to grow and considerably outpace the growth in City tax revenues. Between FYs 2003 and 2006, debt service grows at an average annual rate of 13.8 percent compared with tax revenue growth over the same period of 5.1 percent.[19] As shown in Chart 3, this marked differential is what causes debt service as a percent of tax revenues to increase significantly from a projected 15.6 percent in FY 2003 to 19.7 percent by FY 2006.

---

19 Includes Tobacco settlement revenues and NYCTFA Personal Income Tax revenues.

Chart 3. *Debt Service as a Percent of Tax Revenues, FYs 1990-2011*



Source: FY 2003 Adopted Budget and Financial Plan, NYC Comptroller's Annual Financial Reports, 1990-2001

As depicted in the chart, debt-service on outstanding debt as of June 30, 2002 will decline to about 45 percent of projected debt service by FY 2011 consuming about 8.5 percent of City tax revenues. However, planned borrowings from G.O., NYCTFA, and TSASC financing sources of over $14 billion between FYs 2003-2006 and an estimated $21 billion in borrowing during FYs 2007-2011 will increase the amount of City tax revenues utilized to support debt to about 19 percent.

After FY 2006, and assuming tax revenues increase at a rate of four percent per year, debt service will level off just below 20 percent, then decline to approximately 19 percent beginning in FY 2009. This is the result of the termination of MAC funding requirements for debt service, the last retention of sales taxes of which will be in FY 2008. If tax revenue growth beyond FY 2006 were to grow at a rate of only one-percent per year, debt service would exceed 20 percent of tax revenues in FYs 2007-2008 and grow to over 21 percent in FYs 2009-2011.

Mounting debt service will continue to exert pressure on the operating budget during the financial plan period and thereby consume property-tax resources that would otherwise be available to other parts of the expense budget.

FY 2003 Capital Budget

In accordance with section 254 of the New York City Charter, the City Council is permitted to amend the Mayor's Executive Capital Budget and Commitment Plan. On June 21, 2002, the City Council finalized the FY 2003 Adopted Capital Budget. The Council added $367.1 million to FY 2003, an increase of 5.3 percent over FY 2003 Executive Capital Commitments. Over three-quarters of the Council additions were made to five agencies: 1) $109.7 million for various cultural institutions citywide; 2) $79.7 million for the Board of Education; 3) $50.7 million for the NYC Department of Parks; 4) $24 million for the Department of Sanitation; and 5) $20.1 million for the Police Department. The details of these and other additions will be incorporated in the September Capital Commitment Plan which should be released in September 2002.

Board of Education

The Adopted Budget increases funding to the Board of Education (BOE) by $594 million, raising the FY 2003 BOE budget to $12.4 billion from the $11.8 billion proposed in the Executive Budget. Overall, the Adopted Budget provides an additional $143 million in City funds, and $451 million in State and other categorical funding.

BOE Funding Changes at FY 2003 Budget Adoption
($ in millions)

	UFT Collective Bargaining	Other	Total
City Funds	$ 72	$ 71	$ 143
Other Categorical	206	14	220
State Funds	53	178	231
Total Funds	**$331**	**$263**	**$594**

The additional funding includes $331 million to support provisions in the recently finalized United Federation of Teachers (UFT) contract as shown in the figure to the right.[20] Among the funding sources used to support the UFT contract costs are one-time proceeds of $206 million from an expected borrowing through the Municipal Bond Bank, in addition to $72 million in City funding and $53 million in State funding. The Adopted Budget also increases City funding by about $71 million mostly for instructional spending, and raises State aid by $178 million to support non-collective bargaining expenditures. The State aid increase reflects $140 million in school aid appropriations and $30 million in additional education aid advance.[21]

These funding increases restore most of the $358 million in budget cuts that the Board previously faced in the Executive Budget. In comparison, the Board now anticipates that $60 million in central Board and administration expense reductions will be needed to balance its FY 2003 budget.[22]

In addition, the school governance law introduces a new maintenance-of-effort (MOE) funding requirement that replaces the Stavisky-Goodman minimum funding requirement. Under the MOE requirement, beginning in FY 2004, City funding for a future fiscal year may not fall below City funding appropriated in the base year (the year immediately preceding) at the time of budget adoption, using FY 2003 as the initial base year. In contrast to the Stavisky-Goodman law, the new funding requirement is solely

[20] See “Labor Reserve” beginning on page 14 for a more detailed discussion of the UFT contract.

[21] The FY 2003 Adopted Budget reflects a total of $50 million in additional education aid advance from the State, $20 million of which has been dedicated towards the funding of UFT contract-related expenses.

[22] The Board’s solutions to balance its FY 2003 budget also includes a capital funding swap that frees up about $82 million in funding to support operating expenses.

based on City funds and excludes pension and debt service costs in its definition of education funding. Also, if overall City funding decreases between the base year and the following fiscal year, City funding for the Board's budget may be reduced by up to the same percentage. The BOE budget allocations in the June Financial Plan indicates that the City will exceed the MOE requirement by $165 million in FY 2004, based on assumed City funding levels of $5.222 billion in FY 2004 compared to $5.057 billion in FY 2003.

Surplus Roll

Surplus Roll – Executive Budget	$321.8
Increase in Adopted Budget	354.7
Revised Surplus Roll at Adoption	$676.5
Comprised of:	
Debt-Service Prepayment	$662.7
NYCT Subsidy Prepayment	13.8

The Executive Budget estimated that there would be a surplus roll of $322 million through the prepayment of FY 2003 debt service in FY 2002. The Adopted Budget revised this figure upward by $355 million, to $677 million, as illustrated in the figure to the right.[23] The surplus roll was achieved by the prepayment of debt service in the amount of $662.7 million along with the prepayment of a portion of the New York City Transit subsidy in the amount of $13.8 million.

[23] The increase in the surplus roll resulted from recognition of $150 million in savings through a reduction in prior-year payables, an actuarial reduction of $122 million in FY 2002 pension costs, and $83 million in net changes to the City's expense and revenue budgets.

IV. CHANGES TO THE EXECUTIVE BUDGET RISK ANALYSIS

The Comptroller's Comments on the Executive Budget, released May 9, 2002, documented FY 2003 risks of $1.745 billion. Analysis of the FY 2003 budget adopted by the City Council on June 21, 2002 demonstrates that $1.09 billion in risks still remain. Table 5 illustrates the changes in the Comptroller's assessment.

Table 5. *Risks to FY 2003 Budget, $ in millions*

	Executive	Adopted	Changes
Baseline Assessment			
Personal Income Tax	($195)	($43)	$152
Other Taxes	($105)	($109)	($4)
Airport Rent	($175)	($175)	$0
Other Miscellaneous Revenues	($67)	($35)	$32
Overtime	($145)	($145)	$0
Collective Bargaining	($40)	$0	$40
Fringe Benefit Cost Containment	$0	($252)	($252)
Public Assistance	($28)	($28)	$0
Pension Costs	($89)	($73)	$16
BOE Teacher Support Aid	($49)	$0	$49
Debt Reform-Federal Actions	($255)	$0	$255
Subtotal	($1,148)	($860)	$288
Federal and State Actions			
Anticipated Federal and State Actions	($328)	($230)	$98
Decoupling from Federal Accelerated Depreciation	($128)	$0	$128
Subtotal	($456)	($230)	$226
FY 2002 Risk/Reduction in Surplus Roll	($141)	$0	$141
FY 2003 Risk	($1,745)	($1,090)	$655

Risks Eliminated

Several risks identified in the Comptroller's May 9, 2002 analysis of the Mayor's Executive Budget have been eliminated. The City has funded the collective bargaining costs stemming from the new Teachers' contract, as discussed in "Labor Reserve" beginning on page 14 and the State legislature has restored funding for Teacher Support Aid. The State legislature has also approved the decoupling of the Federal accelerated depreciation credit from City income tax calculations, except for investment in lower Manhattan as noted in "Intergovernmental Aid" on page 10. The City has properly accounted for these changes in its Adopted Budget thus eliminating this risk. In addition, the City and NYCTFA have concluded refundings generating $301 million in FY 2003 savings. Since it is expected that additional refunding savings will be identified, the 'Debt Reform-Federal Actions' risk has been removed from this analysis. Finally, the identification of savings from prior-year actions, combined with an actuarial reduction in the City's FY 2002 pension costs, have allowed the City to increase the surplus roll, as discussed on page 20, and have eliminated this risk.

Risks Reduced

A significant number of risks contained in the Comptroller's May 9, 2002 analysis of the Mayor's Executive Budget have been reduced. As discussed in "Tax Revenues" beginning on page 6, changes to the City's assumptions have allowed the Comptroller to lower his estimate of the City's FY 2003 tax revenue shortfall from $300 million to $152 million. The Miscellaneous Revenue risk has also been lowered due to a change in the assumption of United Nations Development Corporation funding. Furthermore, State action, combined with changes to the city's projections, have allowed the Intergovernmental Aid risk to be reduced by $98 million as discussed beginning on page 10. Finally, the funding of a substantial portion of the projected FY 2002 investment losses, discussed beginning on page 13, has allowed this risk to be reduced.

Risks Unchanged

The risks to the FY 2003 budget from the Comptroller's projection of $145 million in unbudgeted Overtime expenses and $28 million in additional Public Assistance spending remain unchanged from the Executive Budget analysis as does the risk from the $175 million overestimation of airport rent from the Port Authority.

New Risk

One new risk has been added to the Adopted budget analysis. In the Executive Budget, the City projected receiving $500 million in savings from 'Fringe Benefit Cost Containment' in FY 2003. Adjustments from the stretchout of the amortization of cost-of-living adjustment by the City's pension plans will generate savings of $248 million this year, leaving $252 million at risk.

V. APPENDIX

Table A1. *Changes from Executive Budget to Adopted Budget Revenue Detail, FY 2003, $ in millions*

	Executive	Adopted	$ Change	% Change
Taxes:				
Real Property	$8,866	$9,001	$135	1.5%
Personal Income Tax	$5,077	$4,936	($141)	(2.8%)
General Corporation Tax	$1,428	$1,509	$81	5.7%
Banking Corporation Tax	$317	$345	$28	8.8%
Unincorporated Business Tax	$870	$875	$5	0.6%
Sale and Use	$3,564	$3,576	$12	0.3%
Commercial Rent	$364	$370	$6	1.6%
Real Property Transfer	$422	$417	($5)	(1.2%)
Mortgage Recording Tax	$384	$394	$10	2.6%
Utility	$277	$277	$0	0.0%
All Other	$587	$717	$130	22.1%
Tax Audit Revenue	$427	$427	$0	0.0%
Decouple from Federal Depreciation Rule	$128	$0	($128)	(100.0%)
State Tax Relief Program	$645	$648	$3	0.5%
Total Taxes	$23,356	$23,492	$136	0.6%
Miscellaneous Revenue:				
Licenses, Franchises, Etc.	$343	$341	($2)	(0.6%)
Interest Income	$66	$67	$1	1.5%
Charges for Services	$429	$435	$6	1.4%
Water and Sewer Charges	$883	$888	$5	0.6%
Rental Income	$266	$266	$0	0.0%
Fines and Forfeitures	$489	$551	$62	12.7%
Miscellaneous	$724	$711	($13)	(1.8%)
Intra-City Revenue	$1,012	$997	($15)	(1.5%)
Total Miscellaneous	$4,212	$4,256	$44	1.0%
Unrestricted Intergovernmental Aid:				
N.Y. State Per Capital Aid	$327	$327	$0	0.0%
Other Federal and State Aid	$394	$463	$69	17.5%
Total Unrestricted Intergovernmental Aid	$721	$790	$69	9.6%
Transitional Finance Authority 9/11	$1,500	$1,500	$0	0.0%
Anticipated State and Federal Aid:				
Anticipated State Aid	$400	$0	($400)	(100.0%)
Anticipated Federal Aid	$230	$230	$0	0.0%
Total Anticipated Aid	$630	$230	($400)	(63.5%)
Other Categorical Grants	$428	$623	$195	45.6%

Table A1 (Con't). Changes from Executive Budget to Adopted Budget
Revenue Detail, FY 2003, $ in millions

	Executive	Adopted	$ Change	% Change
Inter Fund Agreements	$323	$326	$3	0.9%
Reserve for Disallowance of Categorical Grants	($15)	($15)	$0	0.0%
Less: Intra-City Revenue	($1,012)	($997)	$15	(1.5%)
TOTAL CITY FUNDS	**$30,143**	**$30,205**	**$62**	**0.2%**
Federal Categorical Grants:				
Community Development	$267	$267	$0	0.0%
Welfare	$2,318	$2,345	$27	1.2%
Education	$1,237	$1,237	$0	0.0%
Other	$536	$570	$34	6.3%
Total Federal Grants	$4,358	$4,419	$61	1.4%
State Categorical Grants				
Welfare	$1,570	$1,584	$14	0.9%
Education	$5,577	$5,808	$231	4.1%
Higher Education	$164	$164	$0	0.0%
Department of Public Health	$462	$464	$2	0.4%
Other	$271	$277	$6	2.2%
Total State Grants	$8,044	$8,297	$253	3.1%
TOTAL REVENUE	**$42,545**	**$42,921**	**$376**	**0.9%**

Note: Personal Income Tax includes NYCTFA.

VI. GLOSSARY OF ACRONYMS

BOE	Board of Education
COLA	Cost of Living Adjustment
CPI	Consumer Price Index
DASNY	Dormitory Authority of the State of New York
DEA	Detectives' Endowment Association
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
G.O. Debt	General Obligation Debt
GDP	Gross Domestic Product
HRA	Human Resources Administration
JFK	John F. Kennedy Airport
MAC	Municipal Assistance Corporation
MOE	Maintenance of Effort
NYC	New York City
NYCTA	New York City Transit Authority
NYCTFA	New York City Transitional Finance Authority
OMB	Office of Management and Budget
PBA	Patrolmen's Benevolent Association
PERB	Public Employment Relations Board
PILOT	Payment in Lieu of Taxes
PIT	Personal Income Tax

SBA	Sergeants Benevolent Association
TSASC	Tobacco Settlement Asset Securitization Corporation
UFA	Uniformed Firefighters Association
UFC	Uniform Forces Coalition
UFT	United Federation of Teachers
UNDC	United Nations Development Corporation
VSF-DROP	Variable Supplements Fund – Deferred Option Plan
WTC	World Trade Center