The Comptroller's Comments on the Fiscal Year 2007 Executive Budget

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

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I. Executive Summary

With revenue collections bolstered by a vigorous real estate market, the City expects to end the year with a stated surplus of $3.439 billion. However, the City Comptroller's Office finds the surplus to be $5.4 billion, once uses of other FY 2006 resources that benefit the outyears are accounted for. These funds will be used primarily to balance the budget in FY 2007 and to narrow the FY 2008 gap, when residential and commercial real estate activity is expected to fall back to levels consistent with longer-term trends.

The stated surplus will be used to prepay FY 2007 debt service expense, which with other actions reduces FY 07 spending to $53.392 billion and enables budget balance. The City has chosen to delay recognition of TSASC revenue until FY 2008 and plans to defease $350 million in New York City Transitional Finance Authority (NYCTFA) bonds in FY 2006, two years early. In addition, the City is undertaking a transaction that will bring the Health and Hospitals Corporation $1.27 billion in third-party assistance. The City's initial expenditure for this transaction will be fully offset through a restructuring of its financial relationship with HHC in future years.

With $1 billion of the surplus, the City is planning to create a Retiree Health Benefits Trust Fund (RHTBF) by the end of FY 2006. Another deposit of $1 billion is planned for FY 2007. In addition, the City will divert to the Trust the current year's retiree health expenses, which the RHTBF will be responsible for paying. The assets accumulated in the RHBTF will partially offset the liabilities related to postemployment benefits, such as retiree health insurance coverage, which governments will be required to compute and disclose on their entity-wide financial statements beginning in FY 2008. However, because all City expenses for retiree health benefits will be paid from the RHBTF, the City could also allow the Trust to use its assets to pay current retiree health expenses, thus freeing up General Fund resources for other purposes. In this sense, the RHBTF will serve as a quasi-Rainy Day Fund.

Despite the prudent use of this year's surplus, the outyears continue to show large gaps of $3.579 billion in FY 2008, $4.202 billion in FY 2009, and $3.588 billion in FY 2010. The large FY 2006 surplus was created by non-recurring events, including extraordinary activity in housing and commercial real estate markets, strong performance on Wall Street, and one-time savings in pension contributions. The local and national economies are expected to slow, affecting revenue collections. The Comptroller's Office expects that these forces will have a less damaging impact on the City's economy and revenue collections in the near term than the Mayor projects. The Comptroller's Office projects that the City will end FY 2007 with a small surplus and that budget gaps in FY 2008 and FY 2009 will be reduced $305 million and $45 million, respectively.

Overall spending growth for the Financial Plan period is moderate. The Mayor expects to restrain spending growth in "discretionary" items (wages and salaries and agency operations) to the rate of inflation or less, despite the proposed expansion of the police force and the addition of hundreds of employees to staff initiatives in the Administration for Children's Services.

Other expenses—particularly debt service, pension contributions, and employee health insurance—are difficult to control and continue to grow more rapidly. Debt service growth will outstrip tax revenue growth by 37 percentage points from FY 2006 to FY 2010. The City has not done enough to incorporate pay-as-you-go financing into the capital plan and use it to maximize future savings, which would help trim debt service expenses over the long run. However, to reduce borrowing costs, the City has submitted legislation to the State Legislature to raise the cap on New York City Transitional Finance Authority borrowing, an action supported by the Comptroller's Office.

Pension contributions will increase from $4 billion in FY 2006 to $5.7 billion in FY 2010. Increases in pension contributions are driven by the actuarial phase-in of investment losses in 2002 and 2003. Once these are fully phased in, costs will level off at a high but not unprecedented level compared to total City-fund spending. Employee health care costs are projected to grow an average of 8.9 percent per year, reflecting a nation-wide problem of rising health care costs.

There are other unresolved issues in the budget. The State has yet to present a plan to fully address the Court decision in the CFE lawsuit. Some progress appeared to have been made in the 2006 legislative session, when Albany lawmakers agreed to provide additional state funding for school building projects. The agreement includes $1.8 billion in school construction financing from proceeds of bonds to be issued by a State authority, and creates a mechanism for assigning State building aid to pay debt service on $4.87 billion in NYCTFA bonds. The details of this latter portion of the agreement have yet to be finalized, and adequate State building aid allocations would have to be appropriated annually by the State Legislature.

Although growth in the City's Medicaid costs has been contained through a State takeover of the Family Health Plus program and a cap on local spending growth, there remain potential risks to the City's budget from the indirect effects of State efforts to control Medicaid costs because of the negative impact of these actions on the Health and Hospitals Corporation. The City may need to increase future subsidy levels if these impacts are significant, but they may not be known until resolution of a dispute between the Governor and the Legislature over the latter body's constitutional powers to alter budget items.

Finally, efforts to improve transparency in budgeting should be commended. The Mayor has agreed to begin providing more meaningful budget categories so that New Yorkers can better understand how their tax dollars are being spent. The Comptroller's Office hopes that the pilot program for this project, which involves two relatively small agencies, the Department of Small Business Services and ACS, will quickly be expanded. As previously noted by this Office, in the Department of Education the reorganization of the Department's regional operations in 2003 resulted in a major consolidation of its financial reporting structure. Nine units of appropriation were removed as part of this restructuring, bringing the new total to 26. While the realignment of the units of appropriation was intended to better reflect the Department's new operating structure, it has led to the emergence of sizable budget codes, with one code reaching as high as $2.7 billion in FY 2007, dwarfing the size of most agency budgets.

Table 1. FY 2007—FY 2010 Financial Plan

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	Changes FYs 2007-10 Dollar	Changes FYs 2007-10 Percent
Revenues						
Taxes:						
General Property Tax	$13,140	$13,744	$14,400	$15,077	$1,937	14.7%
Other Taxes	$19,463	$19,334	$20,244	$21,176	$1,713	8.8%
Tax Audit Revenues	$509	$509	$509	$510	$1	0.2%
Miscellaneous Revenues	$4,807	$5,147	$4,735	$4,757	($50)	(1.0%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$0	0.0%
Anticipated State & Federal Actions	$50	$0	$0	$0	($50)	(100.0%)
Less: Intra-City Revenues	($1,307)	($1,305)	($1,307)	($1,307)	$0	0.0%
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$36,987	$37,754	$38,906	$40,538	$3,551	9.6%
Other Categorical Grants	$1,111	$972	$987	$992	($119)	(10.7%)
Inter-Fund Revenues	$395	$373	$365	$365	($30)	(7.6%)
Total City & Inter-Fund Revenues	$38,493	$39,099	$40,258	$41,895	$3,402	8.8%
Federal Categorical Grants	$5,095	$5,094	$5,090	$5,090	($5)	(0.1%)
State Categorical Grants	$9,804	$9,969	$10,066	$10,182	$378	3.9%
Total Revenues	$53,392	$54,162	$55,414	$57,167	$3,775	7.1%
Expenditures						
Personal Service						
Salaries and Wages	$19,098	$19,239	$19,332	$19,511	$413	2.2%
Pensions	$4,891	$5,614	$5,859	$5,724	$833	17.0%
Fringe Benefits	$6,937	$6,271	$6,582	$6,835	($102)	(1.5%)
Subtotal-PS	$30,926	$31,124	$31,773	$32,070	$1,144	3.7%
Other Than Personal Service						
Medical Assistance	$4,935	$5,083	$5,222	$5,376	$441	8.9%
Public Assistance	$2,198	$2,202	$2,202	$2,202	$4	0.2%
Pay-As-You-Go Capital	$200	$200	$200	$200	$0	0.0%
All Other	$14,916	$15,168	$15,547	$15,863	$947	6.3%
Subtotal-OTPS	$22,249	$22,653	$23,171	$23,641	$1,392	6.3%
Debt Service						
Principal	$1,633	$1,766	$1,800	$1,811	$178	10.9%
Interest & Offsets	$2,332	$2,562	$2,893	$3,255	$923	39.6%
Total Debt Service	$3,965	$4,328	$4,693	$5,066	$1,101	27.8%
Prepayments	($3,439)	$0	$0	$0	$3,439	(100.0%)
Transfer for NYCTFA Debt Service	($200)	$0	$0	$0	$200	(100.0%)
Defeasance of certain NYCTFA Debt	($16)	($350)	$0	$0	$16	(100.0%)
NYCTFA						
Principal	$369	$443	$439	$461	$92	24.9%
Interest & Offsets	$535	$538	$547	$524	($11)	(2.1%)
Total NYCTFA	$904	$981	$986	$985	$81	9.0%
MAC Administrative Expenses	$10	$10	$0	$0	($10)	(100.0%)
General Reserve	$300	$300	$300	$300	$0	0.0%
	$54,699	$59,046	$60,923	$62,062	$7,363	13.5%
Less: Intra-City Expenses	($1,307)	($1,305)	($1,307)	($1,307)	$0	0.0%
Total Expenditures	$53,392	$57,741	$59,616	$60,755	$7,363	13.8%
Gap To Be Closed	**$0**	**($3,579)**	**($4,202)**	**($3,588)**	**($3,588)**	**N/A**

NOTE: Tax revenues include STAR and PIT revenues assigned for NYCTFA debt service. Expenditures include NYCTFA debt service.
SOURCE: NYC Office of Management and Budget

Table 2. Plan-to-Plan Changes
May 2006 Plan vs. June 2005 Plan

($ in millions)

	FY 2007	FY 2008	FY 2009
Revenues			
Taxes:			
General Property Tax	($114)	($426)	($404)
Other Taxes	$2,303	$1,849	$1,833
Tax Audit Revenues	$0	$0	$0
Miscellaneous Revenues	$321	$641	$207
Unrestricted Intergovernmental Aid	($222)	($222)	($222)
Anticipated State & Federal Actions	$50	$0	$0
Less: Intra-City Revenues	($36)	($35)	($36)
Disallowances Against Categorical Grants	$0	$0	$0
Subtotal: City Funds	$2,302	$1,807	$1,378
Other Categorical Grants	$188	$44	$53
Inter-Fund Revenues	$40	$29	$22
Total City & Inter-Fund Revenues	$2,530	$1,880	$1,453
Federal Categorical Grants	$235	$244	$240
State Categorical Grants	$432	$537	$591
Total Revenues	$3,197	$2,661	$2,284
Expenditures			
Personal Service			
Salaries and Wages	$838	$802	$681
Pensions	($195)	$635	$1,008
Fringe Benefits	$1,133	$126	$115
Subtotal-PS	$1,776	$1,563	$1,804
Other Than Personal Service			
Medical Assistance	($237)	($236)	($236)
Public Assistance	($306)	($302)	($302)
Pay-As-You-Go Capital	$0	$0	$0
All Other	$1,147	$1,282	$1,481
Subtotal-OTPS	$604	$744	$943
Debt Service			
Principal	($93)	$36	$9
Interest & Offsets	($48)	($186)	($157)
Total Debt Service	($141)	($150)	($148)
BSA	$0	$0	$0
Prepayments	($3,439)	$0	$0
Transfer for NYCTFA Debt Service	($7)	$0	$0
Defeasance of certain NYCTFA Debt Service	($16)	($350)	$0
Principal	$85	$0	$0
Interest & Offsets	($136)	($2)	($2)
Total NYCTFA	($51)	($2)	($2)
MAC Debt Service/Administrative Expenses	$0	$0	$0
General Reserve	$0	$0	$0
Less: Intra-City Expenses	($36)	($35)	($36)
Total Expenditures	($1,310)	$1,770	$2,561
Gap To Be Closed	$4,507	$891	($277)

NOTE: Tax revenues include STAR and PIT revenues assigned for NYCTFA debt service. Expenditures include NYCTFA debt service.
SOURCE: NYC Office of Management and Budget.

Table 3. FYs 2007-2010 Risks and Offsets

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010
City Stated Gap	**($0)**	**($3,579)**	**($4,202)**	**($3,588)**
Tax Revenue Assumptions				
Property Tax	$10	$120	$140	$180
Personal Income Tax	140	30	(170)	(240)
Business Taxes	60	0	0	(10)
Sales Tax	60	80	0	(10)
Real-Estate-Related Taxes	110	150	150	150
Subtotal	**$380**	**$380**	**$120**	**$70**
Expenditure Projections				
Overtime	($110)	($75)	($75)	($75)
Subtotal	**($110)**	**($75)**	**($75)**	**($75)**
Total (Risk)/Offsets	**$270**	**$305**	**$45**	**($5)**
Restated (Gap)/Surplus	**$270**	**($3,274)**	**($4,157)**	**($3,593)**

II. Balancing the FY 2007 Budget

Projected spending in the FY 2007 Executive Budget totals $53.4 billion, a decline of $1.6 billion from estimated FY 2006 spending of $55 billion.[1] This decline reflects the prepayment of $3.4 billion of FY 2007 expenditures in FY 2006. After netting out the effects of prepayments, FY 2007 spending is projected to increase $1.7 billion, to $56.8 billion, from estimated FY 2006 spending of $55.1 billion.

Compared to the June 2005 Plan, when the FY 2007 budget had a projected gap of $4.5 billion, the City's FY 2007 Executive Budget shows additional resources totaling $6.6 billion, as shown in Table 4. These resources close the FY 2007 budget gap and enable the City to deposit $1 billion in the Retiree Health Benefits Trust Fund and fund the incremental cost of $1.1 billion stemming from contract settlements reached with unions representing teachers and uniformed employees, as discussed in "Labor" beginning on page 23.

More than half of the additional resources are from funds that will be transferred from FY 2006 via the prepayments of $3.3 billion of FY 2007 debt service and $124 million of FY 2007 New York City Transit Authority (NYCTA) subsidy. Upward revisions to the City's revenue projections account for another $2.4 billion of the additional resources. The remaining additional resources result from changes to actuarial assumptions and methodologies used in computing pension contributions, agency gap-closing actions, debt service savings, and agency spending reductions, as shown in Table 4.

Table 4. Changes to the FY 2007 Estimates
June 2005 Financial Plan vs FY 2007 Executive Budget

($ in millions)

June 2005 Gap	**($4,507)**
Additional Resources	
Prepayments	$3,439
Revenues	2,381
Pension	195
Gap Closing Actions	336
Debt Service Savings	227
Agency Spending Reduction	10
Subtotal	**$6,588**
Additional Obligations	
Retiree Health Benefits Trust Fund	$1,000
Collective Bargaining	1,081
Subtotal	**$2,081**
Executive Budget Gap	**$0**

[1] Our analysis of the City's expenditure includes New York City Transitional Finance Authority debt service.

A. THE FY 2006 SURPLUS

Since June 2005, when it adopted a balanced FY 2006 budget, the City has added $3.85 billion to its revenue projections. This revision is mainly the result of higher tax revenue collections, driven by strong Wall Street profits and bonuses and a robust real-estate market, that have significantly exceeded projections at the beginning of the fiscal year. At the same time, the City's baseline expenditure projections were lowered by $937 million mainly because changes to actuarial assumptions and methodologies resulted in lower pension contributions.

The decrease in estimated baseline agency spending is more than offset by an expected $1 billion contribution to a Retiree Heath Benefits Trust Fund to be established before the end of the current fiscal year. In addition, the City plans to defease certain New York City Transitional Finance Authority (NYCTFA) debt maturing in FY 2008. The $3.85 billion increase in the revenue projections and the total increase of $413 million in City-fund expenditures result in a projected surplus of $3.4 billion in FY 2006, as shown in Table 5.

Table 5. Changes to the FY 2006 Estimates since Budget Adoption

($ in millions)

Revenues	
Tax Revenues	$3,630
Non-Tax Revenues	222
Total Revenues	**$3,852**
Expenditures	
Baseline City-Fund Expenditures	($937)
Defeasance of certain NYCTFA bonds	350
Retiree Health Benefits Trust Fund	1,000
Total Expenditures	**$413**
Surplus	**$3,439**

While the City's modified FY 2006 budget shows that the City is using the $3.4 billion to prepay FY 2007 debt service and NYCTA subsidies, the City is in essence rolling nearly $5.4 billion out of FY 2006, as shown in Table 6 on page 6. In addition to the $3.4 million in prepayments, the defeasance of $350 million of NYCTFA debt maturing in FY 2008 allows the City to reduce FY 2008 spending by the same amount. Also, as discussed in "Health and Hospitals Corporation" beginning on page 26, a contribution of $575 million of City-funds to draw down Federal Medicaid revenue for the Health and Hospitals Corporation (HHC) is offset partially by HHC support in FY 2006, and allows the City to reduce its HHC expenditure by a total of $377 million in FY 2007 and FY 2008. Furthermore, the deferral of the recognition of all but $5 million of FY 2006 TSASC, Inc. residual tobacco settlement revenue to FY 2008 will increase

FY 2008 revenues by an additional $233 million.[2] Finally, the planned initial $1 billion deposit into the Retiree Health Benefits Trust Fund in FY 2006 allows the City to defer to the future the use of $1 billion of FY 2006 funds. While the stated purpose of the deposit is to reduce the actuarial liability of postemployment benefits other than pension, the City has the option to finance the pay-as-you-go portion of retiree health benefits from this fund.[3]

Table 6. Use of FY 2006 Surplus Funds

($ in millions)

	Use of FY 2006 Funds	Deferred Benefits from FY 2006 Funds	
	FY 2006	FY 2007	FY 2008
Prepayment	($3,439)	$3,439	$0
NYCTFA Defeasance	(350)	16*	350
Net Contribution to HHC	(377)	287	90
Delayed Recognition of TSASC revenue	(233)	0	233
Subtotal	**($4,399)**	**$3,742**	**$673**
Deposit to Retiree Health Benefits Trust Fund	($1,000)	**?****	**?****
Total	**($5,399)**		

Note: Positive numbers indicate reduction in expenditures or increase in revenues while negative numbers show increase in expenditures or reduction in revenues.
* The defeasance of NYCTFA bonds maturing in FY 2008 will result in some interest savings in FY 2007.
** While the contribution to the Retiree Health Benefits Trust Fund has outyear benefit implications it is not possible to determine the timing and amount of benefits ahead of time.

B. OUTYEAR GAPS

While the City has closed the FY 2007 gap, projected deficits of $3.6 billion, $4.2 billion, and $3.6 billion loom in FYs 2008, 2009, and 2010, respectively. Because the $4.5 billion FY 2007 gap was closed with a heavy reliance on non-recurring resources, the absence of these resources in the outyears results in the re-emergence of multi-billion dollar gaps.

Non-recurring resources in FY 2007 total approximately $4 billion. Prepayments of $3.4 billion of FY 2007 expenses account for the bulk of the non-recurring resources. The transfer in FY 2005 of $200 million, initially allocated as pay-as-you go capital, to NYCTFA for FY 2007 debt service and the defeasance of certain NYCTFA bonds

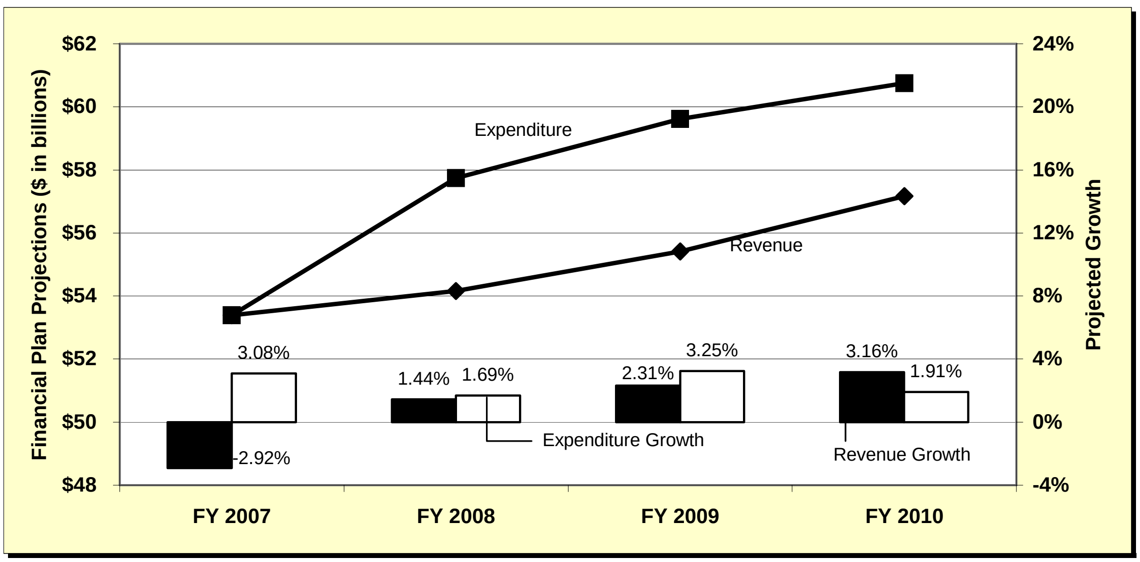
[2] In addition to the $233 million, the City is also deferring $121 million of FY 2007 residual tobacco settlement revenue to FY 2008. The total amount of deferred tobacco revenue in FY 2008 is $354 million.

[3] The establishment of the Retiree Health Benefits Trust Fund was prompted by the Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, which requires employers to account for and report the costs and liabilities of "postemployment benefits other than pensions" on an actuarial basis similar to the City's current pension reporting practices. However, the Statement does not require employers to fund the liabilities.

maturing in FY 2008 produce, additional non-recurring savings totaling $216 million in FY 2007.

In addition to the absence of budgetary relief provided by non-recurring resources in FY 2007, expenditure growth, net of the impact of pre-payments, exceeds revenue growth in FY 2008, as shown in Chart 1. In FY 2008, the projected gap of $3.6 billion is the result of both the absence of the benefits of FY 2007 non-recurring resources and the growth in spending exceeding revenue. The gap widens to $4.2 billion in FY 2009 as expenditures are expected to grow faster than revenues. However, in FY 2010, revenue growth is projected to exceed expenditure growth, resulting in the projected gap narrowing to $3.8 billion.

***Chart 1*. Financial Plan Gaps and Projected Growth**



C. RISK AND OFFSETS

The Office of the Comptroller's analysis indicates that the City will end FY 2007 with a surplus of $265 million, and face gaps of $3.3 billion in FY 2008, $4.2 billion in FY 2009 and $3.6 billion in FY 2010, as shown in Table 3 on page 3. In comparison, the May 2006 Financial Plan shows a balanced FY 2007 budget without any surplus, and moderately higher gaps during FYs 2008 and 2009.

The more optimistic fiscal outlook of the Comptroller's Office stems from higher revenue forecasts than the City's. As discussed in "The City's Economic Outlook" beginning on page 9, the Comptroller's Office outlook for the local economy is more optimistic than the City's for the first half of the Financial Plan period and less optimistic for the latter half. As a result, the Office of the Comptroller's forecast for the economically sensitive personal, business and sales tax revenues are $260 million and $110 million higher than the City's for FYs 2007 and 2008, respectively, and

$170 million and $260 million lower in FYs 2009 and 2010, respectively. However, the Office of the Comptroller's lower outyear forecasts for the economically sensitive tax revenues are more than offset by higher forecasts for property and real-estate-related tax revenues. The Comptroller's Office expects a softer landing for the real-estate market and consequently the Office's forecast for total property and real-estate-related tax revenues is about $300 million higher than the City's in the outyears of the financial plan.

The Office of the Comptroller's higher revenue estimates are tempered by risks to the City's overtime projections. As discussed in "Overtime" beginning on page 18, the Office of the Comptroller's analysis of overtime indicates that actual overtime spending may be $110 million greater than the City's estimate in FY 2007 and $75 million higher in each of the outyears. Overall, the Comptroller's Office projects additional resources, above the financial plan projections, of $270 million in FY 2007, $305 million in FY 2008, and $45 million in FY 2009.

III. The City's Economic Outlook

A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2006-2010

New York City's economy should continue to expand through 2010, but at a moderate pace. After a strong performance in 2005 and early 2006, the risks to the City's economy are beginning to mount. The Comptroller does not anticipate that the City will lapse into recession in the near future, but several negative factors will prevent the local economy from continuing its rapid expansion.

NYC ended 2005 on a strong note. The real chain-weighted Gross City Product (GCP) grew 3.4 percent in 2005, the biggest gain since 2000. The City also added 49,000 jobs on an annualized basis, the best job creation record in four years, and new residential building permits reached their highest level since 1972. The momentum was carried into the first quarter of 2006, during which the City's GCP grew at a 4.3 percent annual rate. Payroll jobs increased by 23,900 from the previous quarter and civilian employment—the number of City residents who have jobs—reached a record level of 3.59 million. In March, the unemployment rate fell to a five-year low of 5.4 percent.

There are signs, however, that the economy will slow during the coming year. The Federal Funds target rate has been raised to 5.0 percent, up by four percentage points from its level of two years ago, and longer-term interest rates are gradually adjusting to this tighter monetary environment. The higher interest rates may constrain Wall Street profits while cooling off the City's residential and commercial real estate markets. Furthermore, gasoline and other energy prices appear to have settled at a new, higher level, thereby siphoning millions of dollars out of the local economy.

As a result, the Comptroller's Office forecasts weaker economic growth for the duration of 2006 and through 2007, before the local economy begins to heat up again in 2008. Similarly, job creation should slow to 24,000 in 2007, before it too begins to rise again. Both the Comptroller and the Administration anticipate a similar economic performance for the 2006-2010 period, although the Comptroller expects a less volatile growth pattern. The Comptroller's GCP forecast is more optimistic than the Administration's for 2006 and 2007, but slightly less so thereafter, as shown in Table 7.

Table 7. NYC Forecasts of (1) Change in GCP, Percent, and (2) Change in Payroll Jobs, Year-over-Year, Calendar Years 2006-2010

		2006	2007	2008	2009	2010
Change in GCP, percent	Comptroller	2.9	2.1	2.8	3.4	3.5
	Mayor	2.2	-0.7	3.3	3.8	3.9
Change in Payroll Jobs, '000	Comptroller	41.0	24.0	40.0	42.0	44.0
	Mayor	45.4	21.7	30.6	40.9	37.4

Source: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the Mayor (Office of Management and Budget) in the Executive Budget, 2006-2010.

B. UNDERLYING FACTORS AFFECTING THE FORECAST

Several factors underlying the Comptroller's forecast for the City's economy were already apparent in 2005 and continue to linger in 2006. While the City's three leading indicators signal continued economic growth, a softer housing market, higher oil prices, and rising interest rates are major concerns.

There are indications that the national housing market is beginning to cool. Softer market conditions became evident in Manhattan during the first quarter of 2006 when, according to Prudential Douglas Elliman, the number of condominium sales fell 1.1 percent and the average number of days it took to sell a Manhattan apartment rose 47.8 percent on a year-over-year basis. Through the fourth quarter of 2005, however, conventional home prices in the New York metropolitan area remained strong, maintaining a 15 percent annual rate of appreciation according to the Office of Federal Housing Enterprise Oversight. Moreover, the number of new residential building permits in the five boroughs was up by 30 percent during the first quarter of 2006 compared to the previous year, portending continued strong residential construction activity into 2007. While home sales, and the consumer spending associated with it, are likely to slow down, the Comptroller's forecast anticipates only a gradual loss of momentum in the City's housing market.

A softer real estate market during the remainder of 2006 and into 2007 will be one of the factors slowing the regional and national economies. Rising home values have supported consumer spending by increasing household wealth and encouraging the extraction of equity through refinancing and home equity loans. This source of consumer spending will taper off, if not reverse, during the coming year.

Another economic constraint is record-high energy prices. The price of a barrel of West Texas Intermediary rose beyond $70 in April, pushing the retail gasoline price in New York above three dollars per gallon. With a worldwide shortage of refining capacity and continued instability in oil-producing regions, prices are unlikely to drop significantly. New York City is somewhat better positioned with respect to energy prices than is the nation as a whole. The City's mass transit system and high residential densities make it more energy-efficient than other regions, so higher energy costs will have less of an effect on consumer purchasing power here than elsewhere.

Nevertheless, the Comptroller's Office estimates that each dollar increase in the price of gasoline raises the expenses of City residents by about $1 billion annually. Thus the higher gasoline prices, coupled with similarly rising home heating costs, divert a significant amount of consumer spending out of the local economy and, all else equal, reduce local employment and economic growth. While few economists expect higher oil prices alone to trigger a national recession, the diversion of consumer dollars to energy costs will act as a drag on the national and local economies.

The Comptroller's Office considers higher interest rates to be the most significant threat to the local economy. At its May 10th meeting, the Federal Reserve's Federal Open Market Committee decided to raise the Federal Funds rate to 5.0 percent, and released a statement indicating that there may be more rate increases. In addition to slowing national economic growth, the higher interest rates could have a disproportionate effect on the City's economy if they decrease Wall Street's profitability. While the Federal Funds rate only now is approaching the range that prevailed during 1999 and 2000—very profitable years for Wall Street firms—further increases could impair financial sector activity. Other indicators, including corporate and municipal underwriting volume, merger and acquisition activity, stock prices, and stock market volume, remained positive entering 2006.

During the late-1990s, the national and local economies thrived with short- and long-term interest rates above their current levels. At that time, however, low inflation and a Federal budget in or moving toward surplus allowed the Federal Reserve to maintain a very stable interest rate environment. Current circumstances are much different. With the Federal budget deficit for 2006 projected at over $500 billion and the US trade deficit running at nearly $800 billion annually, there is a risk that interest rates will move significantly higher. The best scenario would be a gradual readjustment of the dollar relative to other important currencies, particularly China's renminbe, and a gradual dissipation of the current international imbalances, without a spike in US interest rates.

These risks may impede, but should not reverse, the City's recent economic progress. Three leading indicators signal that the City's economy will continue to expand. The NYC Business Conditions Index, the NAPM-NY's composite gauge of current business conditions in New York City, increased 13.6 percent in the first quarter of 2006, on a year-over-year basis. The two key components of the index, the "current conditions" index and the "six-month outlook" index, increased 16.1 percent and 1.6 percent, respectively. As mentioned earlier, the number of building permits authorized rose by 30 percent during the first quarter compared to the same period in 2005. While the Conference Board's Help-Wanted-Advertising Index, which tracks job offerings in major newspapers, declined 15.8 percent in the first quarter, the decrease may reflect changes in the way job vacancies are advertised. On a quarter-over-quarter basis, "online" ad volume rose by one percent, according to the Monster Local Employment Index, and by 24.3 percent, according to the Conference Board.

Overall, the Comptroller's Office expects the City's economy to continue to expand in 2006-2010, but more modestly in 2006 and 2007 than in the latter years of the plan.

Table 8 shows the forecasts of the Mayor and the Comptroller for US GDP and payroll jobs in 2006-2010. Both the Mayor's and the Comptroller's forecast reflect a similar cyclical trend, but the Comptroller's forecast is more optimistic than the Mayor's.

Table 8. Forecasts of U.S. Real GDP and U.S. Payroll Jobs, Percent Change, Calendar Years 2006-2010

		2006	2007	2008	2009	2010
U.S. Real GDP	Comptroller	3.3	2.6	3.2	3.6	3.7
	Mayor	3.3	2.5	3.0	3.1	3.0
U.S. Payroll Jobs	Comptroller	1.4	1.2	1.7	1.8	1.0
	Mayor	1.4	1.1	1.1	1.1	0.9

Source: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the NYC Office of Management and Budget for 2006-2010.

IV. Revenue Assumptions

Revenue projections for FY 2007 have increased $3.2 billion since the June 2005 Financial Plan, to $53.4 billion in the Executive Budget. Revisions to City-fund revenues account for $2.5 billion of this increase are due primarily to higher tax revenue projections. The Administration has increased its FY 2007 tax revenue projections $2.2 billion to $33.1 billion. General property tax revenues were revised downward $114 million, but are more than offset by upward revisions of $2.3 billion in other taxes. The largest increases in projected revenues are Personal Income Tax ($940 million), Real Estate Transaction Taxes ($553 million), and the General Corporation Tax ($358 million). Projections for Miscellaneous Revenues were increased $285 million. Projections for Unrestricted Intergovernmental Aid have been revised downward $222 million.

Tax Revenues

In the Executive Budget, the City projects total tax revenues of $33.1 billion in FY 2007, including revenues earmarked for NYCTFA debt service. The City has raised tax revenue projections 7.1 percent more than the amount projected in the FY 2006 Adopted Budget, as illustrated in Table 9.[4] Revisions to the personal income tax (PIT), business taxes, and real-estate transaction taxes account for about 90 percent of the increase.

Table 9. Changes to the City's FY 2007 Tax Revenue Estimates from the June 2005 Financial Plan

($ in millions)

Tax	June 2005	May 2006	Change
Property	$13,254	$13,140	($114)
PIT	6,455	7,395	940
Business	3,668	4,142	474
Sales	4,288	4,508	220
Real-Estate Transaction	1,192	1,745	553
All Other	1,557	1,673	116
Revenues from Audit	509	509	0
Total	$30,923	$33,112	$2,189

SOURCE: NYC Office of Management and Budget.

Real property tax revenues are forecast at $13.1 billion in FY 2007, which is $114 million, or 0.9 percent less than the amount forecast in the FY 2006 Adopted Budget. The City expects a marked slowdown in market value growth across all property classes except Class 1. The slowing of market value growth will be reflected in smaller increases in billable assessed value, on which revenues are based.

[4] The definition of individual tax revenues used in this section includes STAR, NYCTFA, and net lien sales of property.

PIT revenues, including the fraction earmarked for NYCTFA debt service, are forecast to decline 5.0 percent in FY 2007 to $7.4 billion resulting from slower growth in the national and local economies, the expiration of the temporary tax surcharges, a decline in capital gains realizations, and a decline in Wall Street bonuses in calendar year 2006. For the current fiscal year, the City raised its PIT forecast $1.1 billion above the FY 2006 Adopted Budget forecast, based on higher collections in the first ten months of the year.

Real estate transaction taxes are expected to yield $1.7 billion in FY 2007, $553 million more than the amount anticipated at the time of the FY 2006 Adopted Budget, but $856 million, or 32.9 percent, less than the current year's estimate. Revenues from the mortgage recording tax for FY 2007 are forecast at $882 million, a 35.2 percent decline from the FY 2006 level. Real property transfer tax revenues are expected to decline 30.4 percent to $863 million. The City's anticipated decline in the real estate market, originally expected to occur during FY 2006, is now forecast for FY 2007. The City expects the number of residential transactions to decline during the year. In addition, average one- to three-family home prices are expected to fall by 8.0 percent through 2010 while condominium prices are expected to fall 12 percent over the same period. The decline in tax revenues from commercial transactions is forecast to be steepest, as the City does not anticipate the sales of high-profile office buildings to continue at the pace of the past two years.

Projections of business taxes for FY 2007 are $474 million more than those in the FY 2006 Adopted Budget. The Administration expects a cyclical slowdown in the national economy and a decline in NYSE member-firm profits in calendar year 2007, while non-financial sector profits are forecast to remain at a high level. The City has raised its FY 2006 business tax forecasts $609 million, based on current collections.

The City anticipates sales tax revenues of $4.5 billion in FY 2007, representing 1.8 percent growth over the prior year. The relatively slow growth reflects an expected drop in wage earnings growth in 2006 and 2007 and a decline in Wall Street bonuses in 2007. Higher gasoline and fuel oil prices are expected to further slow personal consumption spending and reduce sales tax collections.

The Comptroller's forecasts of PIT, business taxes, and sales tax revenues for FY 2007 reflect a slightly more optimistic economic outlook than the City's. Total tax collections for FY 2007 are expected to exceed the Executive Budget target by $380 million, as shown in Table 10. About two-thirds of the difference stems from higher expected levels of PIT, business tax, and sales tax revenues. The Comptroller's Office also expects a less severe decline in real estate transaction activities, which translates into a more positive forecast for real estate transaction tax collections for FY 2007.

The Comptroller estimates that real property tax revenue will grow 4.4 percent in FY 2007, a projection which closely matches the City's forecast.

Overall, for the outyears of the financial plan, the Comptroller's tax revenue forecasts are $380 million, $120 million, and $70 million more than the Mayor's in fiscal years 2008-2010, respectively. Lower forecasts for the economically sensitive revenue categories of the PIT and the business taxes in the last two years of the financial plan are offset by more optimistic forecasts for real property tax and real-estate transaction tax revenues.

Table 10. Tax Revenue Risks and Offsets, Comptroller's Estimates

($ in millions)

Tax	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Property	$ 0	$10	$120	$140	$180
PIT	50	140	30	(170)	(240)
Business	0	60	0	0	(10)
Sales	20	60	80	0	(10)
Real-Estate Transactions	15	110	150	150	150
All Other	0	0	0	0	0
Total	**$85**	**$380**	**$380**	**$120**	**$ 70**

SOURCE: NYC Comptroller's Office, based on data from NYC.

Miscellaneous Revenues

The non-tax revenue portion of City funds is referred to as miscellaneous revenues. These receipts include a variety of revenues such as fees charged for licenses, franchises and permits, charges for municipal services, fines, rental income, interest income, water and sewer charges, and other miscellaneous revenues including asset sales.

The City's miscellaneous revenue forecast for FY 2007 is $3.5 billion, which is $229 million less than the FY 2006 forecast (exclusive of private grants and intra-City revenues). The slight decline is due mainly to lower estimates for interest income and the miscellaneous revenue subcategory. Despite higher interest rates, the City anticipates reduced interest income because it expects its cash balances to drop significantly in FY 2007. The City's high level of cash balances in FY 2006 included cash withheld for the payments of retroactive salary increases. This cash will not be available in FY 2007. In addition, the City plans to deposit $1 billion into the Retiree Health Benefits Trust Fund, reducing its cash available for investments. The decline in the miscellaneous revenue subcategory reflects primarily the loss of non-recurring revenues in FY 2007, such as residual proceeds from the sale of the FY 2005 Escrow Securitization Corporation bonds, landfill reimbursement, payment related to the State takeover of MAC debt, and asset sales.

Since the June 2005 Plan, the FY 2007 miscellaneous revenue forecast has increased by $285 million. Even though the City anticipates FY 2007 interest income to drop 27 percent from the FY 2006 level, interest income estimates for FY 2007 have increased by $130 million, reflecting higher projections for overnight cash balances and interest rates, as shown in Table 11. Water and sewer revenue estimates have increased by $78 million since the June 2005 Plan. However, these revenues are not available for general operating purposes as they are dedicated to the costs of providing water and sewer services. Revenue estimates stemming from fines and forfeitures and charges for services have increased slightly since the June 2005 Plan, while the net decrease in the miscellaneous subcategory results mainly from a downward revision of $121 million in tobacco settlement revenues. The City will delay the receipt of these revenues from FY 2006 and FY 2007 until FY 2008.

Table 11. Changes to the FY 2007 Miscellaneous Revenue Estimates June 2005 Plan vs FY 2007 Executive Budget

($ in millions)

	June 2005 Plan	FY 2007 Executive Budget	Change
Licenses, Franchises, etc.	$371	$403	$32
Interest Income	115	245	130
Charges for Services	512	551	39
Water and Sewer Charges	1,002	1,080	78
Rental Income	181	181	0
Fines and Forfeitures	691	723	32
Miscellaneous	343	317	(26)
Total	**$3,215**	**$3,500**	**$285**

In the outyears, miscellaneous revenues are expected to remain flat at about $3.4 billion, except in FY 2008, when the City anticipates miscellaneous revenues will exceed $3.8 billion, reflecting mainly the deferred recognition of $354 million in tobacco settlement revenues.

Federal and State Aid

The FY 2007 Executive Budget projects total Federal and State aid receipts of $14.9 billion, including $8.85 billion in education grants and $4.02 billion in social services grants. These figures represent an increase of $667 million in total grants since the June 2005 Plan, composed mainly of $497 million for education and $107 million for social services.

The FY 2007 Executive Budget assumes $50 million in additional Federal gap-closing assistance, the same level of support reflected in the June 2005 Plan. To achieve the Federal aid assumption, the City has compiled a Federal Agenda listing a menu of $924 million in potential actions, including appropriation of authorized funding levels for Title I grants ($684 million), criminal justice programs ($76 million), reimbursement for United Nations security costs ($66 million), and additional child care funding to meet new welfare-to-work requirements ($46 million).

The main element of the State budget impact in FY 2007 is the increase in education support for the City. Based on the formula-based school aid estimates, the City would receive a year-over-year increase of $427 million in school aid for FY 2007, as reflected in the Executive Budget. A significant portion of the increase stems from an additional allocation of about $226 million in Sound Basic Education (SBE) grants earmarked mainly for high-need school districts. The school aid increase also includes $53 million in special education excess cost aid, $50 million in transportation aid, and $43 million in supplemental extraordinary needs aid. In addition to the operating aid increase, the State has enacted $1.8 billion in new EXCEL funding to support school construction projects contained in the current DOE capital plan. The State has also expanded the City's NYCTFA borrowing capacity by $9.4 billion to fund additional school construction projects. According to the City, the State would pay for half of the debt service costs related to these NYCTFA issuances through future building aid receipts. The City has not reflected the incremental debt service expenditures that would be necessary to support the new NYCTFA borrowing in the Executive Budget.

Aside from the increased support for education, the City projects a marginal benefit of $17 million from the State budget. The components of this estimate include a subsidy increase for the Staten Island Ferry, various local transportation grants, and enhanced reimbursement for State-ready inmates. These changes provide the City with about $27 million in additional aid, which is offset by a tax revenue loss of about $10 million. The net impact, however, has yet to be reflected in the FY 2007 Executive Budget and does not include the potential negative effect of Medicaid cost containment actions on the Health and Hospitals Corporation (HHC). The Legislature has attempted to thwart the Governor's effort to reduce Medicaid spending, prompting the Governor's claim that legislative overrides of his vetoes, with regard to these Medicaid actions, are unconstitutional. The Governor's position is based on a court ruling that bars the Legislature from changing the language within the executive budget proposals. At this point, the ultimate effect on HHC is unclear.

V. Expenditure Assumptions

FY 2007 expenditures are projected to total $53.4 billion, a decrease of $1.2 billion from the June 2005 estimate of $54.6 billion.[5] The lower expenditure estimate reflects the prepayments of $3.4 billion of FY 2007 expenditures in the Executive Budget. Without the prepayments, FY 2007 expenditures in the Executive Budget would be $2.2 million higher than projected in June 2005. This increase results mainly from a $1 billion deposit into a Retiree Health Benefits Trust Fund to be established before the end of the current fiscal year, and incremental collective bargaining costs of $1.1 billion from contract agreements reached between the City and unions representing teachers and uniformed employees in FY 2006.

Overtime

The Executive Budget includes approximately $683 million for overtime expenditures in FY 2007, about $99 million, or 13 percent, below estimated FY 2006 spending. This estimate is also $168 million, or 20 percent, below the average overtime spending for the last three years. The Office of the Comptroller's analysis indicates that FY 2007 overtime spending may exceed the City's projection by at least $110 million, as shown in Table 12.

Table 12. Projected Overtime Spending, FY 2007

($ in millions)

	City's Planned Overtime	Comptroller's Projected Overtime	Risk
Uniform			
Police	$279	$350	($71)
Fire	110	125	(15)
Correction	55	55	0
Sanitation	61	61	0
Total Uniformed	$505	$591	($86)
Others			
Police-Civilian	$16	$40	($24)
Admin for Child Svcs	17	17	0
Environmental Protection	23	23	0
Transportation	28	28	0
All Other Agencies	94	94	0
Total Civilians	$178	$202	($24)
Total City	**$683**	**$793**	**($110)**

NOTE: The Comptroller's overtime projection assumes that the City will be able to achieve some offsets to overtime spending from personal services savings.

[5] Expenditure analysis in this report includes NYCTFA debt service.

Overtime spending in the Police Department accounts for the bulk of the overtime risk. As Table 12 shows, the Comptroller's Office projects a risk of $71 million for uniformed police officer overtime spending and $24 million for Police Department civilian overtime. The City's police officer overtime budget of $279 million is significantly below the average for FYs 2004 and 2005. Police officer overtime spending in these years, after adjusting for unexpected events, such as the electrical blackout in FY 2004 and the Republican National Convention in FY 2005, averaged $350 million. Overtime costs for the first ten months of FY 2006 are $287 million and are expected to be about $350 million for the full year.

Headcount

Full-time City-funded headcount is expected to be 228,402 by June 30, 2007 as shown in Table 13. The projected FY 2007 year-end headcount is 3,317 higher than the projected FY 2006 year-end headcount of 225,085, mainly reflecting higher staffing levels for the Department of Parks and Recreation and the Police Department. Headcount is expected to decrease to 227,378 by June 30, 2008, 226,482 by June 30, 2009, and 225,640 by June 30, 2010. The decline in the outyears of the financial plan reflects declining projections for the Department of Education pedagogical staff from 88,830 for FY 2007 to 85,973 by June 30, FY 2010.

Table 13. City-Fund Full-Time Year-End Headcount

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Agency					
Uniformed:					
Police	34,824	35,624	35,624	35,624	35,624
Fire	11,211	11,211	11,211	11,211	11,211
Correction	8,618	8,734	8,668	8,668	8,668
Sanitation	7,607	7,612	7,612	7,612	7,612
Sub-total	62,260	63,181	63,115	63,115	63,115
Pedagogical:					
Dept. of Education	88,340	88,830	87,690	86,795	85,973
City University	2,706	2,700	2,700	2,700	2,700
Sub-total	91,046	91,530	90,390	89,495	88,673
Civilian:					
Police	9,234	9,845	9,845	9,845	9,845
Fire	4,422	4,556	4,628	4,628	4,628
Admin for Child Svcs.	6,767	6,864	6,864	6,864	6,864
Dept. of Health	2,890	3,121	3,182	3,187	3,170
Social Services	11,499	11,688	11,745	11,745	11,745
Parks and Recreation	1,586	2,611	2,609	2,609	2,608
All Other Civilians	35,381	35,006	35,000	34,994	34,992
Sub-total	71,779	73,691	73,873	73,872	73,852
Total	225,085	228,402	227,378	226,482	225,640

SOURCE: Office of Management and Budget, FY 2007 Executive Budget.

Since the June 2005 Financial Plan, the City has increased headcount projections the most for the Department of Parks and Recreation, the Police Department, and the Administration for Children Services (ACS). A significant part of the 1,039 increase in the staffing level of the Department of Parks and Recreation is due to the reclassification of 894 per diems and 52 seasonal workers as full-time employees. The increase of 1,223 employees in the Police Department reflects the Department's plan to hire an additional 800 officers and hire 400 civilians to replace police officers performing clerical functions. ACS' planned addition of 622 staff is to support the agency's new action plan, Safeguarding Our Children, which was released in March 2006.

Full-time-equivalent (FTEs) employees are expected to total 30,233 on June 30, 2007, a decrease of 2,112 from the June 30, 2005 projection of 32,345. Most of the decline in the current projection resulted from the conversion of over 900 part-time workers in the Department of Parks and Recreation to full-time employees and a decrease of 649 in the number of FTEs at the NYPD. FTEs are expected to decline slightly to 30,220 by June 30, 2008, 30,216 by June 30, 2009, and 30,192 by June 30, 2010 as shown in Table 14.

Table 14. City-Fund Full-Time Equivalent Year-End Headcount Projections

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Agency Pedagogical FTEs:					
Dept. of Education	952	952	952	952	952
City University	1,468	1,468	1,468	1,468	1,468
Sub-total	2,420	2,420	2,420	2,420	2,420
Civilian FTEs:					
Dept. of Education	14,619	14,619	14,619	14,619	14,619
City University	800	800	800	800	800
Police	5,347	5,900	5,916	5,916	5,916
Dept. of Parks & Rec.	4,279	2,793	2,759	2,740	2,716
Dept. of Health	1,836	1,742	1,758	1,773	1,773
All Other Civilian FTEs	2,008	1,959	1,948	1,948	1,948
Sub-total	28,889	27,813	27,800	27,796	27,772
Total FTEs	**31,309**	**30,233**	**30,220**	**30,216**	**30,192**

SOURCE: Office of Management and Budget, FY 2007 Executive Budget.

Health Insurance

The FY 2007 Executive Budget and Financial Plan shows that the City's spending for employee and retiree health insurance is projected to increase at an average annual rate of 8.9 percent between FY 2005 and FY 2010.[6] This mainly reflects a rate increase of 8.75 percent in FY 2006, an expected rate increase of 8.64 percent in FY 2007, and assumed increases of 8.0 percent for the remaining outyears. In addition, the Executive

[6] The City currently funds its health insurance expenses on a pay-as-you-go basis.

Budget expends $1 billion in each of FY 2006 and FY 2007 into a Retiree Health Benefits Trust Fund that the City expects to establish by the end of FY 2006 to pay for post-retirement benefits other than pensions.

Table 15. FYs 2006 – 2010 Health Insurance Expenditures May 2006 Financial Plan

($ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Pay-as-you-go Expense	$2,575	$2,886	$3,162	$3,458	$3,739	$3,946
Transfer to Retiree Health Benefits Trust Fund		$1,000	$1,000			
Total	$2,575	$3,886	$4,162	$ 3,458	$3,739	$3,946

NOTE: The projections include health insurance expenditures for the Department of Education as well as the City's portion of the City University of New York.

Liability for Post-Employment Healthcare for Employees

Beginning FY 2008, the City will be required, under the Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* to account for and report the costs and liabilities of "postemployment benefits other than pensions" on an actuarial basis similar to the City's current pension reporting practices. For the City, "postemployment benefits other than pensions" include health benefits provided to retirees, contributions to union welfare funds on behalf of retirees, and Medicare Part B premiums refunded to retirees. The City's Chief Actuary is now calculating the actuarial liabilities and costs of these benefits.

While Statement No. 45 does not compel the City to fund the annual actuarial cost, it has prompted the City to establish a Retiree Health Benefits Trust Fund (RHBTF) with an initial deposit of $1 billion in FY 2006 and a deposit of another billion dollars in FY 2007. In addition, every year's pay-as-you-go expenses for retirees' health, welfare benefit contributions, and Medicare Part B reimbursements, totaling approximately about $1.4 billion in FY 2007, will be channeled through this Fund. Since all postemployment benefits will be disbursed from the Trust Fund, the City has the flexibility to finance the pay-as-you-go expenses from the Trust assets.

Pensions

The FY 2007 Executive Budget projects that the City's pension contributions will grow from $4 billion in FY 2006 to $5.8 billion in FY 2009 before declining moderately to $5.6 billion in FY 2010, as shown in Table 16 on page 22. These projections include the impact of the changes to actuarial assumptions and methodologies as recommended by the Chief Actuary and adopted by the Boards of Trustees of the five actuarial pension systems in the current fiscal year.[7] It is anticipated that the State legislation required to enable some of these changes will be enacted by June 30, 2006.

Table 16. FY 2007 Executive Budget Projections of the City's Pension Expenditures

($ in millions)

	FY 2005 Actual	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Five Actuarial Systems	$ 3,284	$ 3,919	$ 4,788	$ 5,508	$ 5,751	$ 5,615
Other Systems	86	99	103	106	108	109
TOTAL	$ 3,370	$ 4,018	$ 4,891	$ 5,614	$ 5,859	$ 5,724

Investment Returns Earned by the Pension Funds

The five actuarial pension funds have earned an estimated 9.8 percent this fiscal year through May 31, 2006. As a result of the "one-year lag" methodology expected to be implemented this fiscal year, investment earnings above or below the expected actuarial return for the fiscal year through June 30, 2006 will affect employer contributions beginning in FY 2008 rather than FY 2007. For every hundred million dollars earned on investments in FY 2006 that is more or less than the actuarial assumption, employer contributions to the pension funds will be reduced or increased, respectively, by $1.5 million in FY 2008, $3 million in FY 2009 and $4.5 million in FY 2010.

Actuarial Audit of the Pension Systems

The Segal Company (Segal), engaged by the Comptroller under Section 96 of the New York City Charter as Independent Actuarial Auditor for two consecutive biennial engagements, has completed their first biennial engagement and has submitted the following final reports:

1. A report on the Actuarial Audit of Liabilities, Assets, and Employer Pension Contributions. Segal found that the liabilities and assets as of June 30, 2003 and the employer contributions for FY 2004 were appropriately and accurately computed under generally accepted actuarial principles and practices.

2. An Experience Study Report that examines actual experience through June 30, 2003. Segal highlighted several areas of actual experience that differed significantly from the assumptions used to compute FY 2006 employer pension contributions. However, Segal decided to delay making any recommendations for change until the second experience study, which examines two more years of experience (data through June 30, 2005), is completed.

3. An Administrative Review that reports on their examination of the actuarial

[7] The changes to the actuarial assumptions and methodologies are discussed in greater detail in "Pensions" beginning on page 20 of the Comptroller's report on "The State of the City's Economy and Finances, 2005," December 15, 2005.

valuation process—including the accuracy, efficiency and security of how data is gathered, transmitted, maintained and processed—and makes recommendations for improvement.

4. An Independent Actuary's Statement in which Segal has certified that employer contributions to the five pension systems were accurately computed as per applicable laws and actuarial standards and satisfy the systems' funding requirements.

Segal has already commenced work on their second engagement, under which they will audit FY 2006 employer contribution computations, perform an experience study on data through June 30, 2005, and perform another administrative review of the actuarial valuation process.

Labor

Since the FY 2006 Budget adoption, the City has reached settlements with unions representing mainly teachers and uniformed employees. Contracts granting wage increases of 15 percent to 17.1 percent over four ears or more were reached with the United Federation of Teachers (UFT), the Uniformed Firefighter's Association (UFA), the Uniformed Sanitationmen's Association (USA), the Detectives' Endowment Association (DEA), the Corrections Officers' Benevolent Association (COBA), the Uniformed Fire Officers Association (UFOA), and the Assistant Deputy Wardens/Deputy Wardens Association (ADW/DWA).[8] In addition, the City reached an agreement with the Sergeants' Benevolent Association (SBA) on a two-year contract granting wage increases patterned after the Patrolmen's Benevolent Association (PBA) contract.[9]

The City's funding for collective bargaining at the time of the FY 2006 Budget adoption included funding for all civilians based on the DC 37 settlement and for all uniformed employees based on the PBA settlement.[10] The Executive Budget reflects additional funding of $1.1 billion for FY 2007 that was added in November 2005 to fund:

- The incremental cost of the UFT contract over the DC 37 contract.

- The incremental cost of uniformed employees' contracts, the terms of which extend beyond the two-year term of the PBA contract.

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[8] See "Labor" beginning on page 24 of the Comptroller's report on "The State of the City's Economy and Finances, 2005," December 15, 2005, for a detailed discussion of these contracts.

[9] The PBA contract granted a 5 percent wage increase on the first day of the contract and another 5 percent increase on the first day of the 13th month of the contract.

[10] The DC 37 contract provided for a $1,000 lump sum payment upon ratification of the contract, a 3 percent increase on the first day of the 13th month, and a 2 percent increase, funded by productivity initiatives, on the first day of the 25th month of the contract.

- Funding of a one-year extension for civilian employee contracts and an additional two years for the PBA and SBA contracts patterned after the other uniformed employees contracts.[11]

- The incremental cost of funding all unsettled contracts based on the current funding pattern.

Public Assistance

The number of public assistance recipients in New York City has fallen to its lowest level in more than 40 years. For April, the Department of Social Services reported a welfare caseload of 397,579, representing a decline of about 4.5 percent from the FY 2005 year-end caseload of 416,164. Prior to the enactment of Federal welfare reform in 1996, the City's public assistance caseload rose to a historical peak of 1,160,593 recipients. Since reaching this peak, the welfare caseload has fallen 66 percent, showing consistent year-over-year declines with the exception of FY 2004.

The FY 2007 Executive Budget continues to project that the public assistance caseload will reach 411,120 by June 2006 and then remain constant during FY 2007. This assumption represents a decrease of about 6.0 percent from a previous estimate of 438,295 in the June 2005 Plan. Thus far, the caseload decline has already exceeded the City's expectation in FY 2006. Meanwhile, the City's share of grants spending for public assistance has averaged slightly more than $41 million on a monthly basis. The public assistance budget contains annualized funding of $504 million for baseline grants for FY 2006, in line with actual spending levels. For FY 2007, funding for public assistance grants grows modestly to about $520 million. Given that monthly grant expenditures have been range-bound at $40-$42 million in the past two years, the City's funding assumption in this area appears reasonable.

In February, the reauthorization of the Temporary Assistance to Needy Families (TANF) program was signed into law and will take effect in October 2006. New work participation requirements for welfare recipients are less stringent than previously contemplated by Congress, although they still represent significant changes from current law. While the required overall work participation rates remain unchanged at 50 percent for all families, the legislation resets the base year for which caseload reduction credit will be determined to 2005. Under current law, states receive direct offsets—equivalent to the caseload reduction percentage achieved since the 1995 base year—against the required work participation rate. Because of the dramatic caseload decline experienced across the nation in the past decade, the caseload reduction credit puts most states in compliance with the work participation rate requirement. By shortening the time frame for this credit, the Federal government minimizes its offsetting impact on the work participation rate, at least in the short term. Also, under the new provisions, the

[11] The City has not yet settled with the Council of Supervisors and Administrators (CSA), Lieutenants Benevolent Association (LBA), Sanitation Officers Association (SOA), Captains Endowment Association (CEA), and Corrections Captains Association (CCA).

determination of work participation rates would include separate state programs such as New York's Safety Net Assistance program, which is currently excluded from the requirement. Failure to meet the work participation rate requirement could result in reduced TANF block grant allocation and increased maintenance-of-effort spending for states. The Federal Department of Health and Human Services has until the end of June to issue regulations on eligible work activities and work reporting/verification procedures.

Medical Assistance

The City-funded Medicaid projection in the FY 2007 Executive Budget remains at $4.8 billion, basically unchanged from the Preliminary Budget projection. Compared with the June 2005 Plan, the FY 2007 spending projection reflects a cumulative decline of about $220 million, mainly due to a technical adjustment associated with the State Medicaid cap. The Medicaid cap would limit the City's Medicaid spending growth to no more than 3.25 percent more than the 2006 level. The level of City-funded Medicaid spending reflected in the FY 2007 Executive Budget is consistent with the cap provisions. Moreover, projected 2006 spending, which is capped at a 3.5 percent growth from the 2005 base year, may be adjusted pending a final determination of actual 2005 Medicaid expenditures by the State in June. This change, while not expected to be substantial, will affect the baseline assumptions in the City's Medicaid budget throughout the current plan.

Department of Education

For the FY 2007 Executive Budget, the City projects net education spending (excluding pension and debt service) of $15.31 billion, constituting about 29 percent of the total expense budget. The latest budget modification increases funding to the Department of Education (DOE) budget by $446 million in FY 2007, compared with the January Plan.

Overall, since the June 2005 Plan, projected FY 2007 spending for the Department has risen about 8.0 percent or $1.15 billion. Almost half of this cumulative increase, or $578 million, represents funding for contractual raises under the United Federation of Teachers collective bargaining agreement reached in October 2005. Under the contract, teachers would receive a wage increase of 3.25 percent during the 2006-2007 school year. In addition, the DOE projects significant needs as a result of rising tuition costs for pre-school and school-age students who attend private special education programs. The FY 2007 Executive Budget also assumes more robust charter school enrollment growth. The revisions in these categories have led to an increase of about $217 million in non-public school payments.

In other major changes, the DOE has increased funding for non-instructional and support services by $166 million, including $80 million for pupil transportation services, $20 million for fringe benefits, and $11 million for school safety agents. The Department has also provided a net increase of $144 million for general and special education instructional programs, after recognizing $59 million in savings mostly derived from lower-than-expected enrollment growth. The Executive Budget projects enrollment will continue to slide from the FY 2006 level of 1,082,299 to 1,063,788.

Since the June 2005 Plan, the FY 2007 budget has incorporated an additional $493 million in State support, consistent with the level of education aid appropriations in the State's FY 2006-07 Budget. The State will also provide the City with $1.8 billion in EXCEL capital funds and raise the NYCTFA debt capacity by $9.4 billion to support school construction costs. Meanwhile, the level of City funding in the DOE budget has risen $718 million since June 2005 and represents 42 percent of the total DOE budget, compared to a State funding share of 46 percent. In contrast, Federal grants have fallen $59 million mainly as a result of lower Medicaid revenue assumptions.

In the latest development in the Campaign for Fiscal Equity (CFE) court case, the CFE has filed an appeal with the State Court of Appeals requesting an expedited process that would lead to a final resolution. In response, the Court has established a schedule under which both sides will need to file briefing before the end of August. The most recent court decision, issued in March, sided in general with the magnitude of a recommendation by a panel of Special Referees, calling for additional State support of $4.7 billion to $5.63 billion for operating purposes and $9.18 billion for capital purposes to be phased in over five years. However, the ruling maintained that the responsibility of education financing resides with the Governor and the Legislature. While the outcome of the court case remains uncertain, the new capital funding for school construction provided by the State appears to be a more responsive effort than in the past, given the context of the CFE recommendations.

Health and Hospitals Corporation

The City projects that the Health and Hospitals Corporation (HHC) will achieve, on an accrual basis, a net income of $321 million in FY 2006. Since the January Plan, projected income for FY 2006 has risen by about $307 million.

The improvement stems mainly from a Medicaid action that is expected to occur before the end of FY 2006, from which HHC would derive $1.27 billion in additional third party revenues. To achieve this action, the City would need to contribute half of the transaction value from its own funds to draw down matching Federal reimbursement for Disproportionate Share and Upper Payment Limit funding, available to hospitals that treat significant numbers of uninsured clients. A net increase of $575 million in City funds has been reflected in support of this action. On the strength of this transaction, the City projects that the FY 2006 year-end cash balance for HHC would reach $874 million.

The large cash balance projected at the beginning of FY 2007 enables the City to restructure its financial relationship with the Corporation. Payment for certain HHC debt service costs, which is currently a City responsibility, will be reduced by $164 million in FY 2006 and $153 million in FY 2007. In addition, the City would lower its subsidy to HHC by a total of $116 million in FYs 2006 and 2007. Also, City support for other expenses would fall by an additional $52 million in FYs 2006-07. Over the term of the current plan, the transaction would provide no net additional City support to HHC.

Despite the prospect of opening the new fiscal year with an exceptionally strong cash balance, the outlook for FY 2007 remains guarded. Expenditures are projected to rise to $5.38 billion in FY 2007, mostly attributable to rising fringe benefits and affiliation contract costs; however, HHC's baseline revenue is estimated at only about $4.4 billion. The stagnant revenue outlook underscores the ongoing concern over HHC's finances, which show a significantly higher cost structure than its revenue assumption could support, resulting in an accrual-based deficit of $982 million in FY 2007. After the inclusion of gap-closing actions, comprised mainly of Federal and State initiatives, the projected deficit for HHC falls to about $700 million. The Corporation's cash balance, correspondingly, would dwindle to about $349 million by the end of FY 2007.

The budget stalemate in Albany poses added uncertainty to HHC's revenue assumption. The Governor argues that the restoration of certain Medicaid cuts by the Legislature was unconstitutional and therefore his vetoes may not be overridden in such cases. In a previous estimate, the City had assigned a negative impact of $150 million on HHC revenues from these actions. Yet, on a more optimistic note, there exists a potential for additional IGT revenues that have not been reflected in HHC's FY 2007 gap-closing assumptions. The City indicates that while the magnitude of additional IGT revenues would not be comparable to the current action contemplated for FY 2006, it could still provide significant budget relief to the Corporation in FY 2007.

Debt Service

Debt service in the FY 2007 Executive Budget is projected to total $5 billion, a decrease of $153 million from the projection as of June 2005. As Table 17 shows, the lower estimate results from a reduction of $180 million projected in General Obligation (GO) debt service and $22 million in NYC Transitional Finance Authority (NYCTFA) debt service, offset by increases of $53 million in estimated lease-purchase debt service costs.

The $180 million decrease in projected GO debt service is driven by two primary factors: 1) $107 million in refunding savings that was not anticipated at budget adoption; and 2) $41 million in savings because of an assumed reduction from $2.4 billion to $1.2 billion in short-term note issuance.

The NYCTFA debt service projection for FY 2007 decreased $22 million from the estimate in June 2005. This is due primarily to $36 million of refunding savings from a transaction in the first-half of FY 2006 that targeted savings in FY 2007.

Table 17. Changes to FY 2007 Debt Service Estimates
Adopted FY 2006 vs. Executive FY2007

($ in millions)

Debt Service Category	FY 2006 Adopted	FY 2007 Executive	Increase/ (Decrease)
GO[a]	$3,770	$3,590	$(180)
NYCTFA	955	933	(22)
Lease-Purchase Debt	335	388	53
TSASC, Inc	92	88	(4)
Municipal Assistance Corp	10	10	0
Total	**$5,162**	**$5,009**	**($153)**

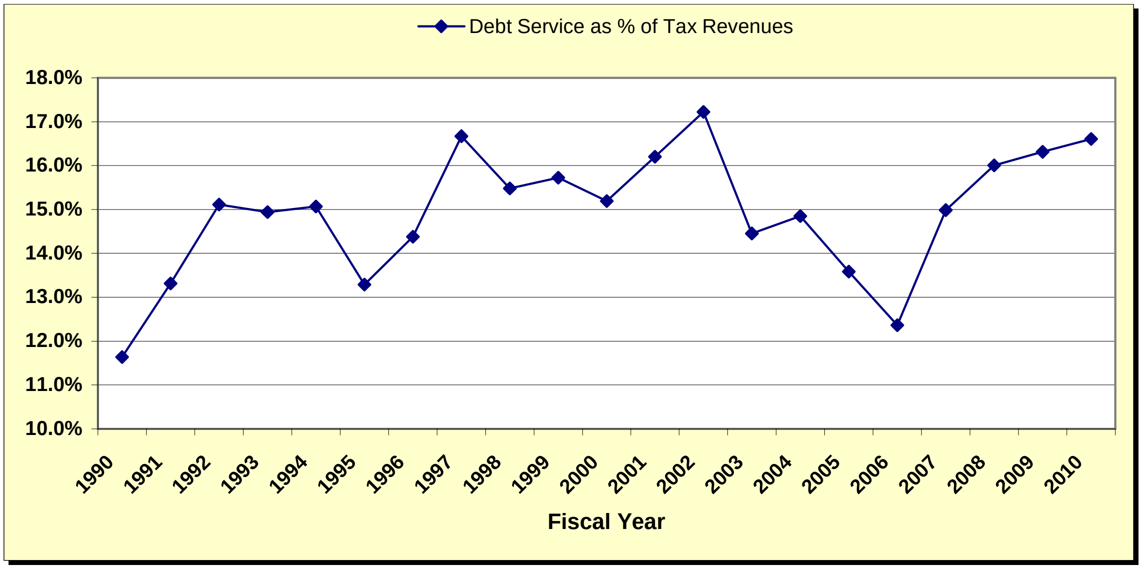
SOURCE: FY 2006 Adopted Budget, June 2005, FY 2007 Executive Budget, May 2006.
Note: Debt Service is adjusted for prepayments
[a] Includes long term G.O. debt service and interest on short term notes.

The $53 million increase in the lease-purchase debt-service budget, also referred to as the budget for conduit issuers, is due primarily to the delay in potential debt service costs related to the Hudson Yard Infrastructure Corporation (HYIC) whereby $50 million of projected FY 2006 debt service is now expected to be due in FY 2007. This deferral in debt service is due to delays in the HYIC project. At the same time, TSASC, Inc. debt service decreased by about $4 million due, in part, to the restructuring of its debt and other baseline re-estimates.

Debt Burden

The debt burden, as measured by debt service as a percent of local tax revenues, is projected to be 12.5 percent in FY 2006, 15 percent in FY 2007, 16 percent in FY 2008, 16.3 percent in FY 2009, and 16.6 percent in FY 2010, as shown on Chart 2. The growth in debt service from FYs 2006-2010 exceeds tax revenue growth by 37 percentage points. This growth differential accounts for the increasing debt service burden on local tax revenues over the Financial Plan period.

Chart 2. Debt Service as Percent of Tax Revenues, FYs 1990-2010



SOURCE: FY 2007 Executive Budget and Financial Plan, and the Office of Comptroller.

NYC Transitional Finance Authority Education Bonds

The Executive Budget assumes the issuance of an additional $4.87 billion of NYCTFA bonds for education projects. The $4.87 billion is part of the incremental $9.4 billion NYCTFA borrowing for education purposes authorized by new state legislation. The legislation also authorizes the Mayor to assign State building aid revenues to the NYCTFA. The NYCTFA subordinate building aid bonds will have a claim on the building aid revenues. In addition to the pledged building aid revenues, the new credit will provide investors with an added layer of protection through New York State Finance Law Section 99-b. Section 99-b allows the State Comptroller to withhold aid for education to a city, school district, or to any public benefit corporation that defaults on its payment of principal or interest for bonds issued for education purposes. Under this statute, the State Comptroller effectively intercepts education aid revenues and pays any defaulted debt service on behalf of the issuing entity.

The City is also seeking legislative approval to increase NYCTFA's borrowing cap for general capital financing purposes. The current proposal, which caps NYCTFA borrowing authority at 10 percent of the average aggregate personal income of residents of New York City for the five most recent years as determined by the U.S. Department of Commerce, would potentially increase the current general NYCTFA cap of $11.5 billion to more than $30 billion. The administration has considered several NYCTFA debt cap increase proposals over the past several years which never materialized.

Capital Plan

The Executive Budget and Financial Plan include an update to the Five-Year Capital Commitment Plan for FYs 2006-2010.

Capital Commitment Plan, FYs 2006-2010

The FY 2007 Executive Capital Commitment Plan for FYs 2006-2010 totals $47.7 billion, of which $38.1 billion is to be financed with City funds. This represents an increase of $3.77 billion in all funds from the Commitment Plan released in September of 2005.[12] Several capital project types account for about three-quarters of the increase. They include increases of: 1) $714 million for citywide equipment purchases; 2) $579 million for water main projects; 3) $583 million for bridge and highway projects; 4) $317 million for economic development projects; 5) $258 million in projects for Parks; 6) $240 million for housing; and 7) $152 million for data processing/technology projects.

As shown in Table 18, capital projects for education and the City University of New York (CUNY), environmental protection, and transportation, including mass transit, account for 60 percent of the total Capital Commitment Plan. Housing and economic development projects, technology and equipment purchases, and administration of justice projects account for another 23 percent of the plan.

Table 18. FYs 2006-2010 Capital Commitments, All Funds

($ in millions)

Project Category	May 2006 for FYs 2006-2010	Percent of Total	Change from September 2005 Plan (FYs 2006-2009)
Education & CUNY	$12,701	26.6%	$110
Environmental Protection	9,524	20.0	627
Dept. of Transportation & Mass Transit	6,467	13.6	667
Housing and Economic Development	4,652	9.7	558
Technology and Citywide Equipment	3,519	7.4	867
Administration of Justice	2,634	5.5	32
Parks Department	1,926	4.0	258
Hospitals	1,034	2.2	22
Other City Operations and Facilities	5,256	11.0	625
Total	**$47,713**	**100.0%**	**$3,766**
Reserve for Unattained Commitments	($2,659)	n/a	n/a
Adjusted Total	**$45,054**	**n/a**	**n/a**

SOURCE: Office of Management and Budget, Capital Commitment Plan FY 2007, Executive Budget & September 2005 Capital Commitment Plan

[12] Changes from FYs 2006-2009 only. FY 2010 was not presented in the September 2005 Capital Commitment Plan.

The Capital Plan assumes full State support totaling approximately $6.5 billion for education projects. The City expects these projects to be funded through the issuance of $1.8 billion of Dormitory Authority of the State of New York (DASNY) bonds in FY 2007 and FY 2008, and $4.87 billion of NYCTFA Education bonds to be issued during FYs 2007-2010. Compared to the Capital Plan released in January 2006, the City-funded capital cash flow reduces GO capital borrowing in FY 2007 and FY 2008 by an amount almost identical to the assumed DASNY bond support, with a reduction of $1.3 billion in FY 2007 and $327 million in FY 2008.[13]

Implicit in the City's projection is the assumption that the NYCTFA Education bonds will be supported by the State. Should the expected State support for the NYCTFA Education bonds not materialize and these bonds not be issued over the Financial Plan period, a significant portion of the construction projects, which would add 53,000 classroom seats to the system, would be in jeopardy.

Borough Presidents' Recommendations

In accordance with Section 245 of the New York City Charter, the Borough Presidents may propose changes to the Preliminary Expense Budget during the Executive Budget process. The Queens Borough President's office and the Manhattan Borough President's office were the only two submissions included in the FY 2006 Executive Budget.

The Queens Borough President recommended increasing allocations by $148 million. The suggested increases to expenditures include $35 million for youth programs, $21 million for the City University of New York, $24 million for health and mental health programs, $16.6 million to the Queens Borough Public Library, $15.3 million to the Department of Cultural Affairs, $11.5 million for Parks, and almost $5 million for Housing programs.

The proposed funding sources come from eliminating the property tax exemption for Madison Square Garden, procurement efficiencies, converting the multiple dwelling registration flat fee to a per unit fee, energy conservation, eliminating jury duty for teachers, expanding the bottle redemption bill, and ending the use of outside contractors for elevator inspections.

The Manhattan Borough President proposed increasing expense budget allocation by $380 million. Suggested increases to expense budget appropriations include $163 million for the Health and Hospitals Corporation, $39.8 million for the New York Public Libraries, $30 million for youth and community development programs, $25.3 million for health and mental health services, $13.4 million for the City Parks Department, $10.5 million for homeless services, and $5 million for cultural affairs.

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[13] The two-year sum does not equal $1.8 billion due to other capital cash increases since the January 2006 Capital Plan.

The proposed funding sources come from the use of $350 million set aside by the Mayor from tobacco revenues and $176 million from a restructured progressive personal income tax budget option listed by the Independent Budget Office.

Neither the Queens nor Manhattan Borough President proposed specific borough reallocations of appropriations.

Appendix — Revenue and Expenditure Details

Table A1. ***FY 2007-2010 Financial Plan Revenue Detail***

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2007- 2010 Percent	Dollar
Taxes:						
Real Property	$13,140	$13,744	$14,400	$15,077	14.7%	$1,937
Personal Income Tax	$7,395	$7,453	$7,972	$8,407	13.7%	$1,012
General Corporation Tax	$2,408	$2,372	$2,442	$2,529	5.0%	$121
Banking Corporation Tax	$525	$508	$537	$566	7.8%	$41
Unincorporated Business Tax	$1,209	$1,188	$1,231	$1,306	8.0%	$97
Sale and Use	$4,508	$4,570	$4,797	$5,032	11.6%	$524
Commercial Rent	$502	$520	$536	$553	10.2%	$51
Real Property Transfer	$863	$822	$825	$854	(1.0%)	($9)
Mortgage Recording Tax	$882	$727	$720	$740	(16.1%)	($142)
Utility	$359	$353	$352	$341	(5.0%)	($18)
Cigarette	$118	$115	$112	$110	(6.8%)	($8)
Hotel	$309	$317	$330	$342	10.7%	$33
All Other	$385	$389	$390	$396	2.8%	$11
Tax Audit Revenue	$509	$509	$509	$510	0.3%	$1
Total Taxes	**$33,112**	**$33,587**	**$35,153**	**$36,763**	**11.0%**	**$3,651**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$403	$399	$398	$398	(1.2%)	($5)
Interest Income	$245	$133	$140	$146	(40.4%)	($99)
Charges for Services	$551	$532	$533	$532	(3.4%)	($19)
Water and Sewer Charges	$1,080	$1,074	$1,086	$1,102	2.0%	$22
Rental Income	$181	$174	$172	$171	(5.5%)	($10)
Fines and Forfeitures	$723	$724	$724	$724	0.1%	$1
Miscellaneous	$317	$806	$375	$377	18.9%	$60
Intra-City Revenue	$1,307	$1,305	$1,307	$1,307	0.0%	$0
Total Miscellaneous	**$4,807**	**$5,147**	**$4,735**	**$4,757**	**(1.0%)**	**($50)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capital Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$13	$13	$13	$13	0.0%	$0
Total Unrestricted Intergovernmental Aid	**$340**	**$340**	**$340**	**$340**	**0.0%**	**$0**
Anticipated State and Federal Aid:						
Anticipated State Aid	$0	$0	$0	$0	0.0%	$0
Anticipated Federal Aid	$50	$0	$0	$0	(100.0%)	($50)
Total Anticipated Aid	**$50**	**$0**	**$0**	**$0**	**(100.0%)**	**($50)**
Other Categorical Grants	**$1,111**	**$972**	**$987**	**$992**	**(10.7%)**	**($119)**
Inter Fund Agreements	**$395**	**$373**	**$365**	**$365**	**(7.6%)**	**($30)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**0.0%**	**$0**
Less: Intra-City Revenue	**($1,307)**	**($1,305)**	**($1,307)**	**($1,307)**	**0.0%**	**$0**
TOTAL CITY FUNDS	**$38,493**	**$39,099**	**$40,258**	**$41,895**	**8.8%**	**$3,402**

Table A1 (Con't). ***2007-2010 Financial Plan Revenue Detail***

($ in millions)

	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2007-2010 Percent	FYs 2007-2010 Dollar
Federal Categorical Grants:						
Community Development	$249	$249	$249	$249	0.0%	$0
Welfare	$2,264	$2,306	$2,306	$2,306	1.9%	$42
Education	$1,748	$1,748	$1,748	$1,748	0.0%	$0
Other	$834	$791	$787	$787	(5.6%)	($47)
Total Federal Grants	**$5,095**	**$5,094**	**$5,090**	**$5,090**	**(0.1%)**	**($5)**
State Categorical Grants						
Welfare	$1,757	$1,758	$1,749	$1,749	(0.5%)	($8)
Education	$7,106	$7,278	$7,385	$7,506	5.6%	$400
Higher Education	$188	$188	$188	$188	0.0%	$0
Department of Health and Mental Hygiene	$410	$410	$409	$404	(1.5%)	($6)
Other	$343	$335	$335	$335	(2.3%)	($8)
Total State Grants	**$9,804**	**$9,969**	**$10,066**	**$10,182**	**3.9%**	**$378**
TOTAL REVENUES	**$53,392**	**$54,162**	**$55,414**	**$57,167**	**7.1%**	**$3,775**

Table A2. ***FY 2007-2010 Financial Plan Expenditure Detail***

($ in thousands)

	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2007- 2010 Percent	Dollar
Mayoralty	$79,749	$78,287	$78,287	$78,243	(1.9%)	($1,506)
Board of Elections	$80,119	$80,119	$79,919	$72,869	(9.0%)	($7,250)
Campaign Finance Board	$13,889	$8,171	$8,171	$8,171	(41.2%)	($5,718)
Office of the Actuary	$5,323	$5,123	$5,123	$5,123	(3.8%)	($200)
President, Borough of Manhattan	$3,657	$3,215	$3,215	$3,215	(12.1%)	($442)
President, Borough of Bronx	$5,332	$4,626	$4,626	$4,626	(13.2%)	($706)
President, Borough of Brooklyn	$4,961	$4,034	$4,034	$4,034	(18.7%)	($927)
President, Borough of Queens	$4,567	$3,737	$3,737	$3,737	(18.2%)	($830)
President, Borough of Staten Island	$3,497	$3,227	$3,227	$3,227	(7.7%)	($270)
Office of the Comptroller	$62,026	$70,640	$70,348	$70,348	13.4%	$8,322
Dept. of Emergency Management	$7,892	$7,437	$7,437	$7,437	(5.8%)	($455)
Tax Commission	$2,543	$2,443	$2,443	$2,443	(3.9%)	($100)
Law Dept.	$118,016	$115,349	$113,462	$113,462	(3.9%)	($4,554)
Dept. of City Planning	$24,808	$21,505	$21,505	$21,505	(13.3%)	($3,303)
Dept. of Investigation	$17,356	$17,356	$17,356	$17,356	0.0%	$0
NY Public Library – Research	$16,193	$16,194	$16,194	$16,194	0.0%	$1
New York Public Library	$84,048	$84,088	$84,088	$84,088	0.0%	$40
Brooklyn Public Library	$62,363	$62,397	$62,397	$62,397	0.1%	$34
Queens Borough Public Library	$60,392	$60,475	$60,475	$60,475	0.1%	$83
Dept. of Education	$15,314,359	$15,442,788	$15,623,353	$15,756,306	2.9%	$441,947
City University	$533,410	$533,209	$533,241	$533,257	(0.0%)	($153)
Civilian Complaint Review Board	$9,192	$9,192	$9,192	$9,192	0.0%	$0
Police Dept.	$3,629,741	$3,625,790	$3,600,870	$3,579,107	(1.4%)	($50,634)
Fire Dept.	$1,339,470	$1,333,965	$1,322,524	$1,315,087	(1.8%)	($24,383)
Admin. for Children Services	$2,444,599	$2,445,251	$2,445,251	$2,445,251	0.0%	$652
Dept. of Social Services	$6,987,627	$7,139,648	$7,286,524	$7,422,415	6.2%	$434,788
Dept. of Homeless Services	$664,677	$666,240	$661,235	$661,235	(0.5%)	($3,442)
Dept. of Correction	$867,930	$858,392	$855,726	$851,335	(1.9%)	($16,595)
Board of Correction	$868	$868	$868	$868	0.0%	$0
Dept. of Employment	$0	$0	$0	$0		$0
Citywide Pension Contribution	$4,754,616	$5,477,900	$5,723,127	$5,588,140	17.5%	$833,524
Miscellaneous	$6,656,185	$6,367,690	$6,879,952	$7,482,350	12.4%	$826,165
Debt Service	$650,094	$4,328,282	$4,693,322	$5,065,866	679.3%	$4,415,772
M.A.C. Debt Service	$10,000	$10,000	$0	$0	(100.0%)	($10,000)
N.Y.C.T.F.A. Debt Service	$904,000	$981,000	$986,000	$985,000	9.0%	$81,000
Transfer for N.Y.C.T.F.A. Debt Service	($200,000)	$0	$0	$0	(100.0%)	$200,000
Defeasance of N.Y.C.T.F.A. Debt Svc.	($16,000)	($350,000)	$0	$0	(100.0%)	$16,000
Public Advocate	$1,833	$1,833	$1,833	$1,833	0.0%	$0
City Council	$50,799	$47,424	$47,424	$47,424	(6.6%)	($3,375)
City Clerk	$3,677	$3,657	$3,657	$3,657	(0.5%)	($20)
Dept. for the Aging	$235,759	$225,086	$225,086	$225,086	(4.5%)	($10,673)
Dept. of Cultural Affairs	$114,659	$114,602	$114,602	$114,602	(0.0%)	($57)
Financial Info. Serv. Agency	$53,840	$47,818	$45,221	$45,221	(16.0%)	($8,619)
Dept. of Juvenile Justice	$106,791	$106,495	$106,495	$106,495	(0.3%)	($296)
Offic of Payroll Admin.	$12,142	$10,977	$10,977	$10,977	(9.6%)	($1,165)
Independent Budget Office	$3,005	$2,975	$2,975	$2,975	(1.0%)	($30)

Table A2 (Con't). *FY 2007-2010 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2007	FY 2008	FY 2009	FY 2010	FYs 2007-2010 Percent	FYs 2007-2010 Dollar
Equal Employment Practices Comm.	$737	$737	$737	$737	0.0%	$0
Civil Service Commission	$569	$610	$610	$610	7.2%	$41
Landmarks Preservation Comm.	$3,769	$3,769	$3,769	$3,769	0.0%	$0
Districting Commission	$0	$0	$0	$0	N/A	$0
Taxi & Limousine Commission	$28,382	$25,830	$25,830	$25,830	(9.0%)	($2,552)
Commission on Human Rights	$6,917	$6,917	$6,917	$6,917	0.0%	$0
Youth & Community Development	$226,239	$226,495	$226,495	$226,495	0.1%	$256
Conflicts of Interest Board	$1,764	$1,764	$1,764	$1,764	0.0%	$0
Office of Collective Bargain	$1,749	$1,749	$1,749	$1,749	0.0%	$0
Community Boards (All)	$13,222	$13,222	$13,222	$13,222	0.0%	$0
Dept. of Probation	$76,101	$76,101	$76,101	$76,101	0.0%	$0
Dept. Small Business Services	$114,636	$108,603	$108,593	$91,065	(20.6%)	($23,571)
Housing Preservation & Development	$480,315	$480,619	$478,301	$477,694	(0.5%)	($2,621)
Dept. of Buildings	$82,921	$77,812	$77,157	$77,054	(7.1%)	($5,867)
Dept. of Health & Mental Hygiene	$1,490,273	$1,503,650	$1,518,066	$1,516,843	1.8%	$26,570
Health and Hospitals Corp.	$849,044	$876,910	$955,281	$975,326	14.9%	$126,282
Dept. of Environmental Protection	$880,667	$857,710	$849,180	$847,546	(3.8%)	($33,121)
Dept. of Sanitation	$1,193,897	$1,204,926	$1,200,766	$1,196,488	0.2%	$2,591
Business Integrity Commission	$5,370	$5,370	$5,370	$5,370	0.0%	$0
Dept. of Finance	$201,589	$201,699	$201,708	$201,708	0.1%	$119
Dept. of Transportation	$535,586	$527,139	$527,139	$527,209	(1.6%)	($8,377)
Dept. of Parks and Recreation	$241,935	$238,960	$236,189	$235,115	(2.8%)	($6,820)
Dept. of Design & Construction	$99,766	$95,668	$89,668	$89,668	(10.1%)	($10,098)
Dept. of Citywide Admin. Services	$309,452	$303,757	$303,750	$303,750	(1.8%)	($5,702)
D.O.I.T.T.	$194,153	$191,748	$188,513	$188,513	(2.9%)	($5,640)
Dept. of Record & Info. Services	$4,521	$4,111	$4,096	$4,096	(9.4%)	($425)
Dept. of Consumer Affairs	$14,599	$14,547	$14,547	$14,430	(1.2%)	($169)
District Attorney - N.Y.	$70,737	$66,578	$66,578	$66,578	(5.9%)	($4,159)
District Attorney - Bronx	$41,608	$39,135	$39,135	$39,135	(5.9%)	($2,473)
District Attorney - Kings	$70,703	$67,125	$67,125	$67,125	(5.1%)	($3,578)
District Attorney - Queens	$37,301	$39,742	$39,742	$39,742	6.5%	$2,441
District Attorney - Richmond	$6,607	$6,235	$6,235	$6,235	(5.6%)	($372)
Office of Prosec. & Spec. Narc.	$14,692	$14,401	$14,401	$14,401	(2.0%)	($291)
Public Administrator - N.Y.	$1,107	$1,107	$1,107	$1,107	0.0%	$0
Public Administrator - Bronx	$345	$345	$345	$345	0.0%	$0
Public Administrator - Brooklyn	$473	$473	$473	$473	0.0%	$0
Public Administrator - Queens	$371	$371	$371	$371	0.0%	$0
Public Administrator - Richmond	$292	$292	$292	$292	0.0%	$0
Prior Payable Adjustment	$0	$0	$0	$0	N/A	$0
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Energy Adjustment	$0	$3,072	($7,127)	($3,821)	N/A	($3,821)
Lease Adjustment	$0	$18,148	$36,841	$56,095	N/A	$56,095
OTPS Inflation Adjustment	$0	$54,165	$109,684	$165,203	N/A	$165,203
Total	**$53,392,413**	**$57,741,117**	**$59,616,219**	**$60,754,979**	**13.8%**	**$7,362,566**

Glossary of Acronyms

ACS	Administration Children Services
ADW/DWA	Assistant Deputy Wardens/Deputy Wardens Association
CEA	Captains Endowment Association
CCA	Corrections Captains Association
CFE	Campaign for Fiscal Equity, Inc.
COBA	Corrections Officer's Benevolent Association
CSA	Council of Supervisors and Administrators
CUNY	City University of New York
DASNY	Dormitory Authority of the State of New York
DC 37	District Council 37
DEA	Detectives' Endowment Association
DOE	Department of Education
FTE	Full-Time Equivalent
FY	Fiscal Year
GASB	Governmental Accounting Standards Board
GCP	Gross City Product

GDP	Gross Domestic Product
GO Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
HYIC	Hudson Yard Infrastructure Corporation
IGT	Intergovernmental Transfers
LBA	Lieutenants Benevolent Association
MAC	Municipal Assistance Corporation
NYC	New York City
NYCTA	New York City Transit Authority
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PS	Personal Services
PIT	Personal Income Tax
RHBTF	Retiree Health Benefits Trust Fund

STAR	School Tax Relief Program
SBA	Sergeants’ Benevolent Association
SBE	Sound Basic Education
TANF	Temporary Assistance to Needy Families
TSASC, Inc.	Tobacco Settlement Asset Securitization Corporation
UFA	Uniformed Firefighter’s Association
UFOA	Uniformed Fire Officers Association
UFT	United Federation of Teachers
USA	Uniformed Sanitationmen’s Association
U.S.	United States