The State of the City's Economy and Finances, 2003

The City of New York

Office of the Comptroller

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I. Executive Summary

The Comptroller is required, under Section 233 of the City Charter, to report annually on the state of the City's economy and finances. This analysis reveals that the recession, which gripped the City's economy since the beginning of 2001, appears to be over and that the November Modification to the FYs 2004-2007 Financial Plan confirms that the City is on course toward current-year budget balance.

Data which has become available since the November Modification was released contains promising signs for both the City's and the nation's economies. Therefore, the Comptroller's economic forecast shows stronger job growth in the coming year than that of the Mayor. The City, however, still faces significant financial challenges in the near future that must be addressed.

Multibillion-dollar deficits remain in the years ahead. Cash outlays must be carefully managed. The City must allow the temporary tax increases to sunset as planned while identifying the revenue necessary to support the operational and capital investment needs of our city's neighborhoods. The Comptroller reemphasizes his position that an appropriate vehicle to deliver budget relief is the temporary restoration of the commuter tax.

The City also faces the possibility that cost of mandated spending will rise sharply. Implementation of the findings of the recently completed actuarial audit could lead to increased pension contributions and the significant rise in the number of Medicaid enrollees may well require additional expenditures for medical assistance. The City must incorporate the lessons learned in this past downturn, including the long-term impact of tax policy, pension funding and capital planning decisions, to improve the ongoing management of its finances.

The November Modification addresses many of the shortcomings identified in the budget adopted in June. The Comptroller's July report on the Adopted Budget and FYs 2004-2007 Financial Plan noted that the City would need to provide additional funding for uniformed overtime and social services expenditures. The Mayor's proposal addresses those needs. The submission also recognizes additional revenue and calls for a budget stabilization fund of $413 million to be used to support budget balance in FYs 2005 and 2006.

Unfortunately, the November Modification does not address two important issues facing the City in the near term. One is the dispute with the Governor over retirement of the Municipal Assistance Corporation (MAC) debt, in which an appeal is pending before the New York State Appellate Division. The other significant issue is the City's labor policy. It is important that the City and its labor force reach agreement on a reasonable settlement that is fair to both its employees and its citizens.

Table 1. FYs 2004-2007 Financial Plan

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Changes FY 2004-FY 2007 Dollar	Changes FY 2004-FY 2007 Percent
Revenues						
Taxes:						
General Property Tax	$11,406	$11,708	$12,131	$12,575	$1,169	10.2%
Other Taxes	$14,647	$14,799	$15,263	$15,800	$1,153	7.9%
Tax Audit Revenues	$545	$506	$506	$506	($39)	(7.2%)
Miscellaneous Revenues	$4,319	$4,869	$4,205	$4,173	($146)	(3.4%)
Unrestricted Intergovernmental Aid	$831	$585	$585	$585	($246)	(29.6%)
Less: Intra-City Revenue	($1,179)	($1,100)	($1,099)	($1,098)	$81	(6.9%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City Funds	$30,554	$31,352	$31,576	$32,526	$1,972	6.5%
Other Categorical Grants	$901	$778	$798	$813	($88)	(9.8%)
Inter-Fund Revenues	$342	$326	$319	$315	($27)	(7.9%)
Total City & Inter-Fund Revenues	$31,797	$32,456	$32,693	$33,654	$1,857	5.8%
Federal Categorical Grants	$5,056	$4,513	$4,495	$4,506	($550)	(10.9%)
State Categorical Grants	$8,328	$8,261	$8,245	$8,317	($11)	(0.1%)
Total Revenues	$45,181	$45,230	$45,433	$46,477	$1,296	2.9%
Expenditures						
Personal Service						
Salaries and Wages	$16,603	$16,356	$16,352	$16,354	($249)	(1.5%)
Pensions	$2,555	$3,165	$3,958	$4,335	$1,780	69.7%
Fringe Benefits	$4,801	$5,058	$5,348	$5,644	$843	17.6%
Subtotal-PS	$23,959	$24,579	$25,658	$26,333	$2,374	9.9%
Other Than Personal Service						
Medical Assistance	$4,123	$4,541	$4,747	$4,944	$821	19.9%
Public Assistance	$2,351	$2,246	$2,254	$2,255	($96)	(4.1%)
Pay-As-You-Go Capital	$200	$200	$200	$200	$0	0.0%
All Other	$12,272	$12,050	$12,256	$12,458	$186	1.5%
Subtotal-OTPS	$18,946	$19,037	$19,457	$19,857	$911	4.8%
Debt Service						
Principal	$1,450	$1,511	$1,530	$1,557	$107	7.4%
Interest & Offsets	$1,132	$1,974	$2,196	$2,408	$1,276	112.7%
Total	$2,582	$3,485	$3,726	$3,965	$1,383	53.6%
Budget Stabilization	$413	$200	$0	$0	($413)	(100.0%)
Prepayment[a]	($624)	($413)	($200)	$0	$624	(100.0%)
NYCTFA						
Principal	$185	$336	$349	$363	$178	96.2%
Interest & Offsets	$599	$652	$632	$620	$21	3.5%
Total	$784	$988	$981	$983	$199	25.4%
General Reserve	$300	$300	$300	$300	$0	0.0%
	$46,360	$48,176	$49,922	$51,438	$5,078	11.0%
Less: Intra-City Expenses	($1,179)	($1,100)	($1,099)	($1,098)	$81	(6.9%)
Total Expenditures	$45,181	$47,076	$48,823	$50,340	$5,159	11.4%
Gap To Be Closed	**$0**	**($1,846)**	**($3,390)**	**($3,863)**	**($3,863)**	**N/A**

NOTE: Property Tax includes STAR, Other Taxes includes NYCTFA revenues. N/A = not applicable.

[a] Includes $624 million of FY 2003 PIT revenue retained to pay FY 2004 NYCTFA debt service.

Table 2. Plan to Plan Changes, November Modification vs. Adopted Budget FY 2004

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
Revenues				
Taxes:				
General Property Tax	($41)	($43)	($45)	($46)
Other Taxes	$446	$110	$81	$59
Tax Audit Revenues	$20	$1	$1	$1
Miscellaneous Revenues	$32	$264	$110	$125
Unrestricted Intergovernmental Aid	$276	$30	$30	$30
Less: Intra-City Revenue	($85)	($20)	($20)	($19)
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$648	$342	$157	$150
Other Categorical Grants	$59	$14	$13	$13
Inter-Fund Revenues	$21	$13	$7	$3
Total City & Inter-Fund Revenues	$728	$369	$177	$166
Federal Categorical Grants	$434	$46	$43	$44
State Categorical Grants	$155	$82	$86	$85
Total Revenues	$1,317	$497	$306	$295
Expenditures				
Personal Service				
Salaries and Wages	$284	$75	$68	$66
Pensions	($60)	($74)	($93)	($123)
Fringe Benefits	$6	$10	$5	$4
Subtotal-PS	$230	$11	($20)	($53)
Other Than Personal Service				
Medical Assistance	$252	$169	$231	$424
Public Assistance	$297	$192	$197	$197
Pay-As-You-Go Capital	$100	$200	$200	$200
All Other	$57	$76	$75	$72
Subtotal-OTPS	$706	$637	$703	$893
Debt Service				
Principal	($96)	($133)	($147)	($170)
Interest & Offsets	($484)	$55	$154	$235
Total	($580)	($78)	$7	$65
Budget Stabilization	$413	$200	$0	$0
Prepayments[a]	$679	($413)	($200)	$0
NYCTFA				
Principal	$0	($25)	($26)	($28)
Interest & Offsets	($46)	$17	$14	$15
Total	($46)	($8)	($12)	($13)
General Reserve	$0	$0	$0	$0
	$1,402	$349	$478	$892
Less: Intra-City Expenses	($85)	($20)	($20)	($19)
Total Expenditures	$1,317	$329	$458	$873
Gap To Be Closed	**$0**	**$168**	**($152)**	**($578)**

Note: Property Tax includes STAR, Other Taxes includes NYCTFA revenues.
[a] Includes $624 million of FY 2003 PIT revenue retained to pay FY 2004 NYCTFA debt service.

Table 3. FYs 2004-2007 Financial Plan Risks and Offsets

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
City Stated Gap	**$0**	**($1,846)**	**($3,390)**	**($3,863)**
Revenue Assumptions				
Personal Income Tax	($6)	$133	$105	$86
Business Taxes	$27	$37	$42	$44
Sales Tax	$17	$57	$28	$24
All Other Taxes	$159	$74	$59	$41
Expenditure Projections				
Overtime	($128)	($128)	($128)	($128)
Private Bus Subsidy	$0	($145)	($148)	($153)
MAC debt service	($492)	($490)	($492)	($494)
Total Risk	**($423)**	**($462)**	**($534)**	**($580)**
Restated Gap	**($423)**	**($2,308)**	**($3,924)**	**($4,443)**

II. The FY 2004 Budget

A. REVENUE OUTLOOK

Tax Revenue

The City raised its tax-revenue forecasts for FY 2004 by $446 million, or 1.8 percent, as illustrated in the figure to the right.[1] The outlook for property tax revenue remains unchanged while that for non-property tax revenues has been raised by $575 million. This increase reflects collections to date, which are above the projections in the Adopted Budget by approximately $450 million as illustrated in Chart 1, on page 5.[2] These gains are offset by reductions in expected payment in lieu of taxes (PILOT) from Battery Park City, STAR exemption, as well as an expected loss in revenue from a repeal of the absentee landlord surcharge sought by the City.

Change to the City's FY2004 Tax Revenue Estimates
($ in millions)

Property Tax	$0
Non-Property	
Real Estate Related	$157
Business	169
Personal Income (PIT)	120
PIT Retained for NYCTFA	45
Sales	41
All Other Including STAR	43
Subtotal Non-Property	**$575**
Less BPC PIL0T	(82)
Less STAR Exemption	(3)
Less Landlord Surcharge	(44)
Total Non-Property	**$446**

SOURCE: OMB

Collections are above the Adopted Budget assumptions partly because the economy is showing signs of improved performance. After ten quarters of decline, Gross City Product (GCP) showed a small positive growth in the third quarter of 2003 making this the fifth quarter of improving trend. While the City's job loss continues into its eleventh quarter, the loss has been slowing and the increase in GCP marks the end of the recession that began in January 2001.[3] After adjusting for changes in tax policy, the City's tax revenues are expected to increase by almost $1 billion, or 4.5 percent over FY 2003, as a result of the improving economy.[4]

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[1] The tax revenue discussion in this section of the report excludes refunds, audits, the school tax relief program (STAR) and any proposed tax program but includes net lien sales to property and the portion of personal income tax set aside for the New York City Transitional Finance Authority (NYCTFA).

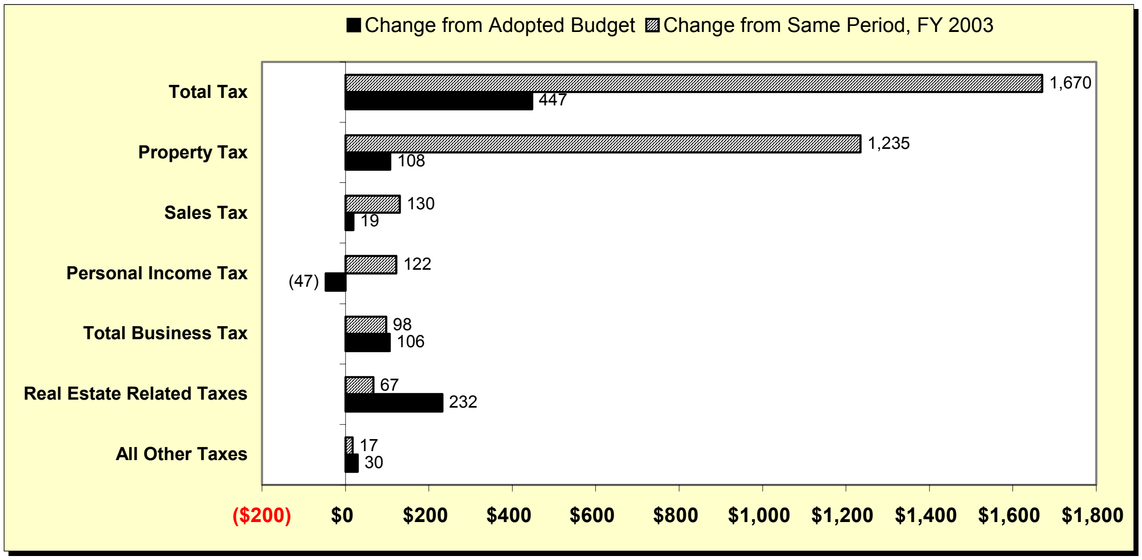
[2] Chart 1 compares collections with the Adopted Budget assumptions because it is the reference point for changes in the November Modification.

[3] See the Comptroller's third quarter 2003 Economic Notes, available on his website, www.comptroller.nyc.gov

[4] Final collections for FY 2003 totaled $22.7 billion, which is $20 million, or 0.1 percent more than previously expected. Excluding NYCTFA, but including STAR and audits, final collections were $23.4 billion, or $92 million greater than expected. Audit collections were $69 million higher than

Chart* 1. *Tax Revenues – Collections for the First Four Months of FY 2004 Compared to Adopted Budget Assumptions and to the Same Period in FY 2003

($ in millions)



SOURCE: OMB

<u>Property tax</u> revenues were $108 million above the Adopted Budget estimate for the first four months of FY 2004 as illustrated in Chart 1. The tax rate increase does not appear to affect delinquency rates. Fiscal year-to-date collections through October were 52 percent of the twelve-month estimate for the Adopted Budget. This is consistent with results for the past four years where an average of 52 percent of the planned twelve-month amount were collected during the first four months. Cumulative collections through October were $1.2 billion above that over the same period in FY 2003. The rate increase is projected to generate $1.7 billion in FY 2004.

<u>Non-property tax</u> collections as of October were $339.7 million above the Adopted Budget estimate. The better-than-expected receipts reflect higher collections from the property-related taxes, which were up by $232 million, and the business taxes, which were up by $106 million.[5] Non-property tax collections as of October were $435.4 million higher than the same period in FY 2003 but some of this increase reflects the rate and base change to the sales tax and personal income tax.

<u>Real-estate-related tax</u> revenues estimates have been raised by $157 million in the November Modification. The outlook for the mortgage recording tax (MRT) revenue is

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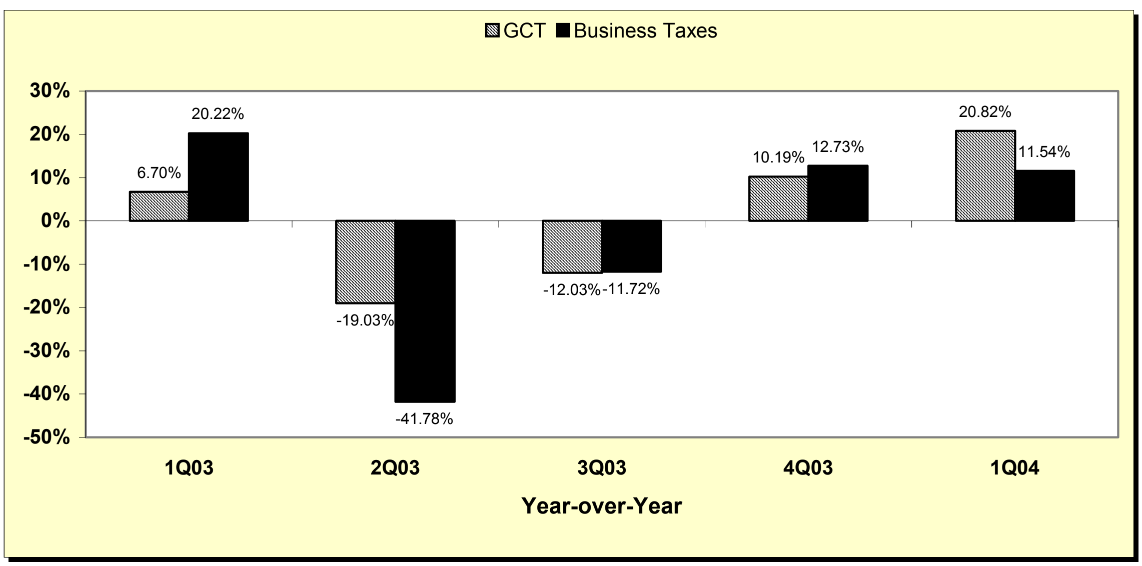
planned. This is also $1.6 billion, or 7.7 percent, higher than FY 2002 collections. After adjusting for tax policy, FY 2003 collections were $289 million above FY 2002 collections. The increase is attributable to the property tax as common-rate-and-base non-property taxes declined 1.4 percent in FY 2003.

[5] Property-related taxes are the mortgage recording tax, the real property transfer tax and the commercial rent tax. Business taxes are the general corporation tax, the banking corporation tax and the unincorporated business tax.

higher by $122 million and that for the real property transfer (RPTT) tax revenue is higher by $35 million. These two taxes, along with the commercial rent tax, account for about two-thirds of the $339.7 million increase in non-property tax revenues above the Adopted Budget estimate, but only 15 percent of the increase over the first four months of FY 2003. Refinancing activities continue, as the MRT collections are higher than FY 2003 collections by $71 million. However, sales are likely slowing as mortgage rates rise, and the RPTT collections are below the same period in FY 2003 by $12.7 million.

Business tax revenue forecasts are raised by $169 million in the November Modification. The general corporation tax (GCT) revenue forecast is raised by $126 million and the unincorporated business (UBT) tax forecast is raised by $43 million. The bank tax (BCT) net forecast is left unchanged. The cumulative business tax collections through October were $106 million above the Adopted Budget estimate and $98 million higher than FY 2003. Most of this increase is economically driven, reflecting stronger Wall Street activities, as there are only minor legislative changes to the business taxes in FY 2004.

Chart 2. ***Year-Over-Year Change in the General Corporation and Total Business Taxes***

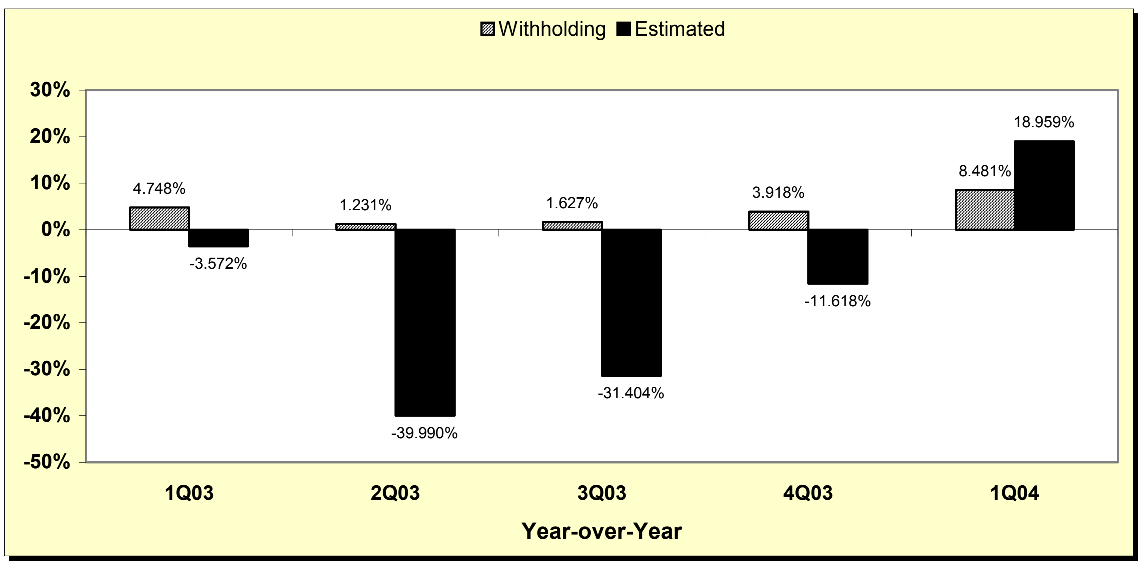


SOURCE: OMB

Year-over-year comparisons indicate that business tax collections are showing some strength as illustrated in Chart 2. Beginning in the fourth quarter of FY 2003 and continuing into the first quarter of FY 2004, business tax collections are 12.73 percent and 11.54 percent higher on a year-over-year basis. The improvement in business tax collections is driven mainly by GCT which grew year-over-year by 10.19 percent and 20.82 percent over the same period.

Personal income tax (PIT) net revenue forecast before NYCTFA retention is raised by $120 million, in the November Modification. Forecasts for gross collections are raised by $82 million and refunds are lowered by $38 million. Forecasts for withholding are higher by $74 million, and that for installments by $12 million. The amount retained for NYCTFA is lowered by $45 million. While the City's planned projections have been raised, collections for the first four months of the fiscal year were $47.3 million lower than the Adopted Budget estimate. Withholdings were $31 million below expectations and estimated payments were also lower, by $24 million. On a year-over-year basis, PIT collections exceed by $122 million collections for the first four months of FY 2003. Although much of this is likely due to the rate increase, withholding and estimated payments had previously shown signs of recovery as illustrated in Chart 3. The rate increase is reflected in the first quarter of FY 2004 (1Q04). The rate of decline in estimated payments is slowing and there is an increase in withholdings.

Chart 3. ***Year-Over-Year Change in the Estimated and Withholding Components of Personal Income Tax***



SOURCE: Office of Tax Policy, New York State Department of Taxation.

Sales tax revenue estimate for FY 2004 is higher than the Adopted Budget estimate by $41 million. Collections for the first four months of FY 2004 were $19 million above the Adopted Budget forecast and $122 million above FY 2003 levels.

Projections for payments-in-lieu-of taxes (PILOT) have been lowered by $81.5 million. This results from the structure of the refinancing of the Battery Park City PILOT where the savings are now expected over four years instead of in FY 2004 alone.[6] The

[6] Instead of receiving $150 million in FY 2004 as projected in the Adopted Budget, the City now expects receipt of $68.5 million in FY 2004, and $40 million in each of FYs 2005 through 2007.

absentee landlord tax has been removed from the tax program in anticipation of the City Council's repeal of the tax.

Financial Plan Offsets

Tax revenue assumptions have been changed by small amounts in the November Modification. The changes are due to revisions to non-property tax projections, which were increased by 1.8 percent or $446 million in FY 2004, 0.4 percent or $109 million in FY 2005, 0.3 percent or $81 million in FY 2006 and 0.2 percent or $59 million in FY 2007.

Since the City released the November Modification, economic data for September have become available that show promising signs for both the nation and the City. There are indications of improvements in both business investment and private sector jobs. Based on this positive economic outlook, the Comptroller is projecting higher revenues than the City has forecasted as illustrated in Table 4.

Table 4. Additional Projected Revenue FYs 2004-2007

($ in millions)

	FY 2004	2005	2006	2007
PIT	$(6)	$133	$105	$86
Business	27	37	42	44
Sales	17	57	28	24
Other	159	74	59	41
Total	**$197**	**$301**	**$234**	**$195**

Tax Burden

To help ease the City's fiscal stress created by the severe contraction in revenues resulting from the recession, the City, along with the State raised taxes, reversing the previous seven-year trend of tax reduction. While this averted drastic cuts in essential services while balancing the FYs 2003 and 2004 budgets, residents have borne the costs of these actions in terms of higher tax burdens as illustrated in Table 5.

Table 5. FYs 2003 and 2004 Tax Program and the Tax Burden

($ in millions)

Fiscal Year	Personal Income (PI)*	Total Taxes	Tax Burden: Tax/PI	Growth of PI	Growth of Taxes	Growth of Tax Burden
2002	310,500	21,718	6.99%			
2003	313,200	23,360	7.46%	0.87%	7.56%	6.63%
2004f	325,450	26,438	8.12%	3.91%	13.18%	8.92%

SOURCE: Based on data from OMB
*Personal income estimated on fiscal year basis.

The tax burden, as measured by the ratio of total tax revenue to personal income, increased from 6.99 percent in FY 2002 to 7.46 percent in FY 2003 and to 8.12 percent in FY 2004 as illustrated in Table 5. Although personal income increased by only 0.87 percent in FY 2003, tax revenues increased by 7.56 percent, largely attributable to tax policy changes such as the property tax rate increase, causing the tax burden to increase by 6.63 percent. Although personal income is projected to increase by 3.91 percent in FY 2004, tax revenues are expected to grow even faster, by 13.18 percent, as the PIT and sales tax increases also take effect. As a result, FY 2004 tax burden is estimated to increase by 8.92 percent to 8.12 percent.

Table 6. Tax Burden without FYs 2003 and 2004 Tax Program

($ in millions)

Fiscal Year	Personal Income (PI)*	Total Taxes	FYs 2003 and 2004 Tax Program	Total Tax less Tax Program	Tax Burden w/o Tax Program	Growth PI	Growth Total Tax w/o Tax Program	Growth Tax Burden w/o Tax Program
2002	310,500	21,718		21,718	6.99%			
2003	313,200	23,360	1,120	22,240	7.10%	0.87%	2.41%	1.52%
2004f	325,450	26,438	3,119	23,319	7.17%	3.91%	4.85%	0.90%

SOURCE: OMB, City Comptroller

NOTE: Personal income estimated on fiscal year basis.

f = Forecast

Without the FYs 2003 and 2004 tax program, the tax burden would increase by only 1.52 percent instead of 6.63 percent in FY 2003 as shown in Table 6. Similarly, in FY 2004 it would have increase by 0.9 percent rather than 8.92 percent with the tax program.

Federal and State Aid

The November Modification projects Federal and State aid will reach $13.38 billion in FY 2004, representing an increase of $589 million from the Adopted Budget projection. This increase is mainly attributable to the rollover of unspent Federal grants from FY 2003 and revised grant projections as a result of higher projected welfare expenditures. The increased welfare grant assumptions are mainly due to higher public assistance spending for childcare and higher caseload assumptions since the Adopted Budget.

Unlike the City's FY 2003 first quarter modification, the gap-closing program in the November Modification does not contain major proposals for Federal and State actions. In fact, the City has reduced expected revenues from certain State actions that were incorporated into its FY 2004 Adopted Budget. These changes include the elimination of $44 million in new surcharge revenue from absentee landlords and a reduction of $82 million in PILOT revenue from Battery Park City as discussed in "Tax Revenues" beginning on page 4. The City will likely unveil a comprehensive agenda for additional fiscal relief from the Federal and State government in its mid-year modification to address the projected budget gap in FY 2005 and beyond.

In the November Modification, the City's Federal and State aid projections are expected to decline from $13.38 billion in FY 2004 to $12.77 billion in FY 2005. This decline of almost five percent owes mostly to the boost in the FY 2004 projections from the rollover of Federal funds and flat assumptions for most grants in FY 2005. Though the intergovernmental aid assumptions appear to be on the conservative end, the looming

State budget process for the upcoming fiscal year will likely have a significant impact on the City's State aid projections in FY 2005. The State has already indicated in its mid-year financial plan update that a potential budget gap of between $5 billion and $6 billion exists in its next fiscal year. Therefore, it is conceivable that the State Executive Budget, which is expected to be released in January, could contain major reduction proposals in education and welfare grants, since these two areas make up about 89 percent of the total State aid to the City.

B. EXPENDITURE ANALYSIS

The City has increased its FY 2004 City-funded spending estimate by $753 million in the November Modification. As Table 7 shows, the largest increase stems from the establishment of a budget stabilization fund (BSA) of $413 million, funded by higher than expected tax revenues.

Table 7. November Modification Expenditure Adjustments

($ in millions)

	FY 2004
Budget Stabilization Account	$413
Medicaid	248
Uniformed Agency Overtime	118
Pay-As-You-Go Capital for School Construction	100
Private Bus Subsidy	79
Public Assistance	59
Other Social Services and Health	47
Debt Service	(103)
Additional FY 2003 Debt Service Roll	(110)
PEGs	(156)
All Others	58
Total	**$753**

In addition, the City increased funding by a total of $425 million for Medicaid, uniformed agencies overtime, and public assistance thereby addressing many of the funding shortfalls that were identified in the Comptroller's July report on the Adopted Budget and FYs 2004-2007 Financial Plan. At the same time, an additional debt service roll from FY 2003 that was identified after budget adoption, reductions in debt service, and agency reduction programs provide $369 million of relief in FY 2004.

November Modification PEGs ($ in millions)	
Police Department	$45.0
DOE	28.4
DOS	15.1
Subtotal	**$88.5**
All other agencies	67.8
Total	**$156.3**

The November Modification outlines an additional $156 million in agency reduction programs. Unlike the gap-closing programs that were instituted during the course of FY 2003, the current round of gap-closing actions relies significantly on non-recurring actions. Budgetary relief provided by these initiatives drops by nearly 57 percent to $68 million in FY 2005, and remains flat at $64 million in FYs 2006 and 2007. As the figure above shows, the Police Department, Department of Education (DOE), and the Department of Sanitation (DOS) account for more than half the expenditure related program to eliminate the gap (PEG). Significant PEG initiatives in the November Modification are an expected $37.9 million from the Federal government to reimburse the Police Department for providing security at the United Nations, the use of $16 million in State and Federal funding to defray pension cost in DOE, and the receipt of a $10 million grant under the Clean Water/Clean Air Act by DOS. The remaining PEGs are initiatives with savings ranging from $4,000 to $5 million spread across various city agencies.

Pensions

The November Modification anticipates that the City's contributions to the five actuarial pension funds will increase from $2.48 billion in FY 2004 to $4.23 billion in FY 2007.[7] As Table 8 shows, the City has lowered its projection for each year of the financial plan since budget adoption. A re-estimate of pension fund investment expenses allowed the City to reduce its annual pension contribution by $40 million. Adjustments to prior actuarial overestimates allowed a further decrease of $13.5 million in annual pension contributions. The rest of the decrease mostly represents the finalization of FY 2003 investment returns. The FY 2004 budget, which was adopted before the close of FY 2003, assumed that pension investments would earn a positive two percent for FY 2003. Pension investments actually earned 3.8 percent for FY 2003, as measured at the close of business on June 30, 2003.

Table 8. The City's Contributions to the Five Actuarial Pension Funds

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
FYs 2004-2007 Adopted Plan	**$2,543.0**	**$3,158.6**	**$3,962.5**	**$4,364.2**
November Plan Changes				
FY 2003 Investment Losses Adjustment	($12.0)	($28.0)	($51.0)	($80.0)
Investment Fees Adjustment	(40.0)	(40.0)	(40.0)	(40.0)
Technical Adjustment	(13.5)	(13.5)	(13.5)	(13.5)
Fire Corpus	0.0	(1.7)	(1.7)	(1.7)
Total November Modification Changes	**($65.5)**	**($83.2)**	**($106.2)**	**($135.2)**
FY 2004 November Plan	**$2,477.5**	**$3,075.4**	**$3,856.3**	**$4,229.0**

However, the November Modification projections could change considerably as a result of changes in actuarial assumptions and/or methods. Gabriel, Roeder, Smith & Company (GRS), an independent actuarial firm engaged by the Comptroller as required by the City Charter, recently completed an Experience Study comparing actual experience through June 30, 2001 to the assumptions used by the City in pension computations.[8] In their Experience Study Report, GRS recommended changes in several

[7] The City also contributes to several non-City actuarial and City non-actuarial plans for certain covered employees. In FY 2004, this cost is expected to be $77.7 million.

[8] GRS also performed an actuarial audit of FY 2002 employer contributions to the City's five pension funds and an administrative review of the actuarial data gathering process. As a result of the Audit

assumptions, including increasing the merit component of the Salary Scale Assumption in NYCERS, TRS and BERS; increasing the Baseline Salary Scale Assumption in NYCERS; increasing the Withdrawal Assumption in TRS; and increasing the Accidental Disability in Fire. If all of GRS' recommendations were to be implemented based on June 30, 2001 data, the City's annual pension contributions would increase by $200 million to $250 million.

The Retirement Systems' Chief Actuary is in the process of reviewing GRS' findings and recommendations and the package of actuarial assumptions and methods used to derive the City's pension contributions to determine his own recommendations for change to the Boards of Trustees.[10] The Chief Actuary has indicated that he will possibly modify some of GRS' recommendations and may recommend other significant changes.[11] As a result, the financial impact of the impending changes cannot be determined until the Chief Actuary releases his recommendations. Also, it is possible that the Chief Actuary will recommend that the revisions be implemented in the current fiscal year. If so, the pension contributions projected in the November Modification will be revised later this fiscal year.

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of FY 2002 Employer Contributions, GRS validated the Chief Actuary's methodology, software, and computations. They also identified a programming error (which was corrected before adoption of FY 2004 budget) that had overstated liabilities and made other recommendations for change. None of the findings or recommendations is expected to have any material financial impact.

In the Administrative Review of the actuarial data gathering process, GRS recommended several improvements in data quality, collection, transmission and storage procedures. GRS also recommended that the Office of the Actuary increase its staffing and upgrade data editing software. The financial impacts of implementing the Administrative Review recommendations can be estimated after basic plans of action are defined.

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[10] By law, each Board of Trustees can adopt only those changes in demographic assumptions that are recommended by the System's Chief Actuary.

[11] There are several reasons why the City Chief Actuary's recommendations may differ from those of GRS. The GRS' findings are based on data through June 30, 2001. The Chief Actuary is more knowledgeable about the Systems, the City's work force, current developments (including the potential impact of changes in behavior due to the destruction of the World Trade Center), and the City's current policies and future direction.

Health Insurance

The City has revised its previous estimate of health insurance cost and now expects spending on health insurance in FY 2004 to be $17.8 million less than the Adopted Budget estimate. However, as shown in Table 9, the City expects spending on health insurance in the outyears to be above the June Financial Plan projections. The increase reflects mainly a higher than expected HIP rate increase in FY 2005, higher Medicare Part B premiums from FY 2005, and headcount changes in the City's workforce.

Table 9. Changes to the City's Health Insurance Projections November Modification Compared with Adopted Plan

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007
FYs 2004-2007 Adopted Plan	**$2,390.6**	**$2,619.3**	**$2,876.9**	**$3,132.1**
November Plan Changes				
HIP Rate Increase	$0.0	$48.0	$52.0	$56.0
Medicare Part B	0.0	13.8	9.8	9.7
Re-estimate	(25.0)	(27.0)	(29.2)	(31.5)
Other adjustments	7.2	0.1	(0.7)	(0.8)
Total November Modification Changes	**($17.8)**	**$34.9**	**$31.9**	**$33.4**
FYs 2004-2007 November Plan	**$2,372.8**	**$2,654.2**	**$2,908.8**	**$3,165.5**

The City now anticipates that health insurance rates will increase by 10.43 percent in FY 2005, about 2.43 percentage points higher than provided for in the June 2003 Financial Plan. As a result, the City has added $48 million in FY 2005, $52 million in FY 2006, and $56 million in FY 2007 to accommodate the higher increase. The City continues to hold the rate increases in FYs 2006 and 2007 at eight percent.

Medicare Part B premiums, which are fully paid by the City for retirees, are also projected to increase, adding about $13.8 million in FY 2005 and almost $10 million each year thereafter. The remaining changes result mainly from adjustments to accommodate assumed headcount changes.

Overtime

Since the June 2003 budget adoption, the City has revised its overtime spending assumptions, addressing some of the shortfall in overtime funding identified in the Comptroller's July report on the Adopted Budget and FYs 2004-2007 Financial Plan. The City now expects overtime spending to be about $704 million in FY 2004, an increase of $158 million compared to the Adopted Budget. Overtime funding was increased for the Fire Department by $53 million, for the Police Department by $31 million, for the Department of Correction by $18 million, and for the Department of Sanitation by $16 million. The remaining increases were spread out over various agencies.

The City has not had much success in curbing overtime expenditures. Overtime expenditures have increased continuously from $308 million in FY 1992 to $840 million in FY 2003. Approximately 70 percent of these costs result from overtime usage by uniformed employees. For FY 2004, the City has allocated $498 million or 75 percent of the overtime budget for uniformed employees. As of October, the City has spent $271 million for overtime, including $214 million for uniformed employees. Since FY 2001, uniformed overtime spending has exceeded $500 million annually. The Police Department alone has seen overtime spending for uniformed officers increase from $317 million in FY 2001 to $336 million in FY 2003 as shown in Table 10. The current budget allocates $235 million for Police overtime, including $218 million for uniformed overtime. As of October, $133 million was spent on Police overtime, including $18 million that resulted from the August 14-15 blackout in New York City. The current pattern of spending on Police overtime is similar to spending trends over the past several years. Should this pattern continue throughout this fiscal year, Police overtime expenditures for FY 2004 could be at least $128 million more than the City projects. The City has acknowledged this shortfall and has identified potential resources that would be used to fund this gap. If these resources do not materialize, the City will need to provide additional funding for Police overtime.

Table 10. Overtime Expenditures

($ in millions)

	Annual Overtime Costs	Uniformed Overtime	Police Uniformed Overtime
FY 2004*	$664	$498	$218
FY 2003	$829	$613	$336
FY 2002	$797	$563	$333
FY 2001	$738	$508	$317
FY 2000	$618	$414	$220
FY 1999	$532	$353	$151

*Projected

NOTE: Overtime costs for FY 2002 and FY 2003 exclude expenditures related to the World Trade Center disaster.

Labor

Most labor contracts with City employees have expired as shown in Table 11. The City's forecast for wages and salaries in the financial plan shows a modest decline from $16.6 billion in FY 2004 to $16.4 billion in FY 2005, reflecting an expected reduction in the City's labor force. However, the City has not provided any provision for salary increases in its spending projections for wages and salaries.[12] Wages and salaries are expected to remain at $16.4 billion between FYs 2005 and FY 2007 consistent with the City's position that any wage increases for employees have to be funded through productivity initiatives. As such, the City has sought the cooperation of the labor unions in developing such initiatives.

[12] While the City has not included funding for wage increases in FYs 2004 to 2007, it has placed $200 million in the FY 2003 labor reserve to support future wage increases.

The unions are currently negotiating proposed benefit enhancements and wage increases with the City. Apart from wage increases, the City and the unions have to address the soaring costs of providing health benefits to employees. Health benefits include three major elements – visits to doctors, hospital coverage, and drug coverage. There has been some progress on the discussions about health care costs and benefits, particularly negotiations over the future of the PICA program, which covers psychotropic, injectable, chemotherapy, and asthma drugs. However, there has been no progress reported on wage benefits.

Table 11. Municipal Unions Contract Expiration Dates

Union	Description	Contract Expiration Date
DC 37	Civilians	Jun 30, 2002
IBT/L237	Civilians	Jun 30, 2002
CWA	Civilians	Jun 30, 2002
NYPD		
PBA	Police Officers	Jul 31, 2002
DEA	Detectives	Feb 14, 2004
SBA	Sergeants	May 31, 2003
CEA	Captains	Oct 31, 2003
CORRECTION		
CCA	Corrections Captains	May 31, 2003
COBA	Corrections Officers	Jan 31, 2003
ADWA	Asst. Deputy Wardens	Jun 30, 2003
FIRE		
UFA	Uniformed Firefighters	May 31, 2002
UFOA	Uniformed Fire Officers	Dec 31, 2002
SANITATION		
USA	Sanitation Workers	Oct 22, 2002
EDUCATION		
UFT	Teachers	May 31, 2003
UFT	Staff Nurses	Dec 31, 2002
CSA	Principals	Jun 30, 2003

Department of Education

The City projects the Department of Education (DOE) budget at $12.47 billion for FY 2004 in the November Modification, reflecting a modest decline of $11 million from the Adopted Budget. This change, almost entirely in City funds, is comprised mainly of gap-closing actions. The Department expects to achieve the savings targets through maximization of Medicaid revenue ($5 million) as recommended in the Comptroller's audit, reduction of City-funded indirect costs ($5 million), and accrued savings from summer instructional programs ($2 million).

In a related issue, the City has recognized $198 million in unrestricted aid from the Municipal Bond Bank borrowing in FY 2004. The expected revenue, originally earmarked to help the DOE fund teacher salary expenditures for extended instructional days in FY 2003, was eliminated from the City's budget in FY 2003 because the transaction failed to take place in time.[13] The City is now recognizing this revenue in its FY 2004 budget as unrestricted State aid, with the borrowing expected to take place in December 2003.[14] Debt service payments for this borrowing will be supported by future State payments that otherwise would have been made to the City with the express intent of retiring prior year education aid receivables.

The City has not imposed additional gap-closing actions on the DOE beyond FY 2004 in the November Modification. Funding for the DOE has actually risen by $19 million in FY 2005 to $12.54 billion in the November Modification. The additional funding is projected to fund increases in health insurance rates, consistent with citywide assumptions, beginning in FY 2005. The DOE also expects to undertake a reorganization of facilities management services, for the first full year in FY 2005, by outsourcing the functions of certain skilled trades workers. Although the initiative is not expected to result in budgetary savings, it would eliminate 486 skilled trades positions from the Division of School Facilities headcount.

Public Assistance

The City's public assistance caseload rose by 7,927 recipients in October, bringing the cumulative increase to 11,243 recipients since the end of FY 2003. The City ended FY 2003 with a welfare caseload of 421,546. Thus far, in FY 2004, the welfare caseload has jumped by about 2.7 percent from those levels, to 432,789 in October 2003. Correspondingly, welfare grant expenditures have been gradually increasing, with the City-funded share approaching $38.5 million monthly, compared with the FY 2003 average of about $37 million.

The City's welfare caseload appears to have reversed course, for the time being, from the declining trend seen in recent years. Between 1995 and 2003, the welfare caseload fell by about 64 percent from a peak of 1,160,593 (March 1995), to a recent low of 418,770 (February 2003). Since February 2003, however, the public assistance caseload has steadily regained some of this decline, rising by about 3.3 percent to the October 2003 caseload of 432,789.

In response to the rising trend in both caseload and monthly grants expenditures, the November Modification reflects an increase of $44 million in City-funded public

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[13] The eventual funding of these teacher salary expenditures was covered by tax levy funds.

[14] The Municipal Bond Bank borrowing is estimated to provide the City with $424 million. The residual funds, after meeting the revenue expectation of $197.5 million in the FY 2004 budget, will provide the City with the necessary resources to retire open education aid receivables that have been on its books dating back as far as FY 1993.

assistance baseline grants assumptions for FY 2004 to cover higher caseload projections. The City now projects that its share of baseline grants expenditures for income maintenance will reach $477 million for the Family Assistance and Safety Net Assistance programs combined. Compared with caseload projections from the Adopted Budget, the City has raised its FY 2004 year-end caseload projection from 420,764 in the Adopted Budget to 446,902 in the November Modification, an increase of about 6.2 percent. These projections appear to be in line with the recent trend in public assistance caseload. More importantly, the public assistance budget in the November Modification would support close to $40 million in monthly City-funded grants expenditures, which exceeds the current average of $38.5 million in FY 2004. For FY 2005, the City projects the welfare caseload to grow by approximately three percent from the FY 2004 year-end estimate, rising to 458,902 by June 2005 and then staying flat thereafter. In support of these assumptions, the November Modification reflects City-funded baseline grants spending of $491 million annually between FY 2005 and FY 2007, an increase of $58 million in each of these years compared with the June Financial Plan projections.

Medical Assistance

Among the major spending changes in the November Modification, the City has provided significant increases toward the funding of Medicaid expenditures. For FY 2004, the November Modification contains an estimate of $3.19 billion in direct City-funded Medicaid expenditures, reflecting a net increase of $219 million from the Adopted Budget projection. This sum excludes Medicaid expenditures made through the Health and Hospitals Corporation. Adjusted for a temporary increase in Federal Medicaid funding share in the current year, the projected City-funded Medicaid expenditures in FY 2004 represent a growth of almost eight percent or $247 million from the FY 2003 base.[15]

The higher Medicaid expenditure projection in the November Modification is indicative of the increased utilization of services, driven in part by a significant rise in the City's Medicaid enrollee population. As shown in Chart 4 on page 18, between January 2002 and October 2003, the Human Resources Administration reported an increase of almost 38 percent in the number of Medicaid enrollees, from 1,715,513 to 2,358,958. The rapid rise in the Medicaid enrollee population is attributable to various factors. The ongoing enrollment into the Family Health Plus programs has contributed to the increase in the Medicaid recipient population. The enrollment of disaster relief Medicaid recipients into the traditional Medicaid program has also played a significant role.

Among the major service categories of Medicaid expenditures, pharmacy and prepaid health care have been the fastest growing segments in recent years. The rising costs in these areas are attributable to rising pharmaceutical costs (as well as greater

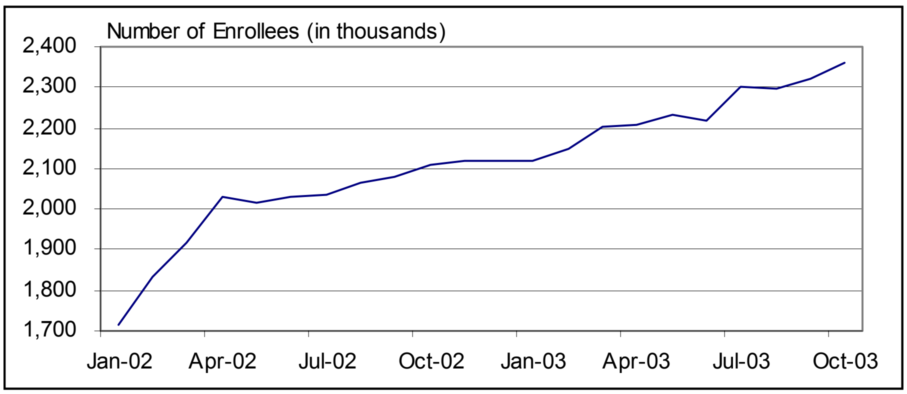
[15] Pursuant to a Federal provision enacted in May 2003, the Federal Medicaid Assistance Percentage (FMAP) has been increased by approximately three percent for the period between April 1, 2003 and June 30, 2004. The City has incorporated the FMAP increase as an offset of $232 million to City-funded Medicaid expenditures for FY 2004 in the Adopted Budget.

utilization) and the significant growth in managed care enrollment under Medicaid. In the November Modification, City-funded Medicaid spending for prepaid health care is projected at $535 million, which is almost a three-fold increase since FY 2000, as shown in the figure to the right. Pharmacy expenditures, estimated at $698 million, have almost doubled, growing by 95 percent from the FY 2000 level. Other categories that have also seen significant spending growth since FY 2000 are inpatient services, growing by 25 percent, and long term care (comprising mainly of nursing home and personal care), rising by 22 percent. Also, expenditures for outpatient services and clinic services have grown by 12 percent and 8 percent, respectively.

City-Funded Medicaid Spending by Major Categories
($ millions)

Service Category	FY 2004 Projection	Pct Growth Since FY 2000
Hospital Inpatient	$856	25%
Hospital Outpatient	195	12%
Pharmacy	698	95%
Prepaid Care	535	196%
Long Term Care	590	22%
Clinic	213	8%

Chart 4. The City's Medicaid Enrollment Growth, January 2002-October 2003



SOURCE: New York City Human Resources Administration.

Consistent with the FY 2004 revisions, the City has also significantly raised its Medicaid spending projections in FY 2005 and beyond. The changes in the November Modification include net increases in City-funded Medicaid expenditures of $172 million for FY 2005, $235 million for FY 2006 and $428 million for FY 2007. Between FY 2005 and FY 2007, City-funded Medicaid spending is projected to range from $3.63 billion to $4.02 billion, respectively. On average, these projections represent growth of about five percent annually over the out-years. The City has bolstered the out-year growth of its funding for Medicaid, especially for FY 2007, while at the same time coming off a higher base for FY 2004. In doing so, the City has eliminated substantial risks in its Medicaid projections that previously existed in the out-years of the financial plan.

Debt Service

The November Modification projects total debt service to be $3.94 billion in FY 2004, $4.36 billion in FY 2005, $4.8 billion in FY 2006, and $5.04 billion in FY 2007 after adjustments for prepayments.[16] This represents decreases of $162 million in FY 2004, $158 million in FY 2005, $112 million in FY 2006, and $56 million in FY 2007 compared with the June Financial Plan.

Major changes in the November Modification include the elimination of formerly planned TSASC borrowing thereby greatly decreasing TSASC debt service in FYs 2005-2007. Changes also include the incorporation of $65 million in refunding savings in FY 2005, $66 million of assumed savings on lower than anticipated interest costs on variable rate debt in FY 2004, and $35 million in savings in FY 2004 from lower than anticipated interest on short-term notes. GO borrowing of approximately $1.2 billion in FYs 2005-06 will support capital expenditures previously assumed to be funded through TSASC.

In FY 2004, the $162 million reduction in debt-service is attributable to a $103 million decrease in GO debt service, followed by a $45 million decrease in NYCTFA debt service, and a $14 million decrease in TSASC debt service. In FY 2005, the $158 million change in debt service is due to a $78 million decrease in GO debt service, followed by a modest $8 million decrease in NYCTFA debt service, and a $72 million decrease in TSASC debt service. In FY 2006, the $112 million decrease in debt-service is due to an $11 million decrease in NYCTFA debt service and a $108 million decrease in TSASC debt service. This collective decrease is offset by an increase of $7 million in GO debt. In FY 2007, the $56 million overall decrease is due to a $13 million decrease in NYCTFA debt service and a $108 million decrease in TSASC debt service. This collective decrease is offset by a $65 million increase in GO debt.

Municipal Assistance Corporation

In accordance with a provision in the State budget requiring the State to assume the City's responsibility for MAC's debt service, the City has not included funding for MAC debt-service in its November Modification. However, the constitutionality of the State legislation authorizing the creation of a local development corporation (LDC) to issue bonds, the proceeds of which would pay off MAC's remaining debt, is currently being litigated. The appeal is pending in the NY State (NYS) Appellate Division for the Third Department. It is likely that following a decision by the Appellate Division, which may not come until some time in early 2004, the losing party will appeal the matter to the NYS Court of Appeals. It is unclear as to when this matter will be resolved.

If the matter is resolved in the City's favor before June 2004, there will be no budget impact. However, any delay beyond June 2004 will create a $492 million FY 2004 deficit that will need to be offset by other revenue sources. Already in FY 2004, the failure to reach a compromise has forced the State, on behalf of the City, to retain sales taxes for the payment of MAC debt service in the amount of $117.3 million in August and $127.3 million in November. If the matter is not resolved by January, another $127.3

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[16] Includes debt service for GO, NYCTFA, TSASC, lease-purchase debt, and interest on short-term notes.

million of sales taxes will be retained in February 2004, with the balance of $120 million scheduled to be retained in May 2004.

III. The State of the City's Economy

While the national economy continued to improve in 2003, the labor market remained weak prompting many economists to label the upturn a "jobless recovery." However job gains since July 2003 offer a promise of a turnaround in the labor market. The problem so far is that these job gains are not fully substantiated in the cyclically sensitive industries. Nevertheless, any job gain is a boost to consumer confidence, which is one of the key ingredients for economic growth.

After stalling for two-and-a-half years, the City's economy appears to have recovered from the recession in the third quarter of 2003. The City's economy was weighted down by the damage from the September 11 terrorist attacks, prolonged job losses, a rise in the price of energy and housing, fare increases, cuts in services, and an increase in cost of living as a result of increases in state and local tax rates. On the positive side, Wall Street profits rose to $12 billion in the first three quarters of 2003 and are expected to be about $16 billion for the year.

A. ECONOMIC OUTLOOK

The national economy is expected to continue its growth in 2004. The decline in the yield spread and a weak dollar could lead to increases in private investment and labor demand. However, higher oil prices, prolonged war and possibly deteriorating trade relations or global economic conditions pose potential risks to the pace of economic growth.

Similarly, the City's economy is expected to strengthen in 2004. National job recovery and higher Wall Street profits are expected to help the City recover. However, Wall Street decentralization and outsourcing could slow the City's economic recovery. Table 12 provides a summary of the economic forecasts for 2004.

Table 12. Comptroller's Forecast of Five Key Economic Indicators, NYC and U.S., 2004

	Gross-Product Growth	Payroll-Jobs Growth	Wage-Rate Growth	Inflation Rate	Unemployment Rate
NYC	(GCP) 2.6%	1.0%	5.7%	2.9%	7.9%
U.S.	(GDP) 4.3%	1.2%	4.0%	2.0%	6.0%

SOURCE: NYC Comptroller's Office, based on data from the U.S. Department of Labor and the U. S. Department of Commerce.

B. THE U.S. ECONOMY

In 2003, the national economy got a boost from the short-term stimulative effects of the Federal tax cuts. Consumer spending has been up despite a weak job market and private investment began to pick up in the third quarter. The economic highlights of the first ten months include the following:

- The National Bureau of Economic Research officially declared that the 2001 U.S. recession lasted only nine months, from March to November 2001.

- The Federal Open Market Committee cut the target Federal funds rate to one percent in June. This was the 13th cut since January 2001 and the lowest level in more than 40 years. Since January 2001, the Federal funds rate has fallen by 5.5 percentage points.

- The administration enacted its third tax cut in two years, boosting both consumer income and consumer confidence. However, the Federal budget has reversed from a $236.4 billion surplus in FY 2000 to an estimated $304.2 billion deficit in FY 2003.

Gross Domestic Product (GDP) grew at an average annualized rate of 4.3 percent during the first three quarters of 2003 (1.4 percent in the first quarter, 3.3 percent in the second quarter, and 8.2 percent in the third quarter). During the same period, personal consumption rose four percent, government expenditure increased by 3.3 percent and private domestic investment grew 4.5 percent. At the same time, the trade deficit widened to $526.9 billion on an annualized basis.

The national economy is projected to grow 3.1 percent in 2003, an increase over the 2.4 percent growth in 2002. GDP is expected to increase by 3.9 percent in the fourth quarter. Consumer spending, which has fueled the economic growth at least since the beginning of 2001, is expected to moderate. As the short-term stimulus from the tax cuts tapers off in 2004 and long-term yields rise because of Federal budget deficits, consumer incomes will be squeezed.

Despite strong GDP gains, job growth has been anemic. The nation gained 328,000 jobs in the four-month period spanning July through November, averaging 82,000 jobs per month. At this rate, it will take about two and half years to recover the 2,714,000 jobs lost since the beginning of the recession in February 2001 to July 2003.

The Comptroller's Office predicts GDP will increase by 4.3 percent in 2004 as private investment rebounds. Yield spreads as measured by the difference between Baa bonds and 20-year Treasuries are narrowing. Also, both the Institute of Supply Management (ISM) Index and productivity measures were at their highest in two decades. In addition, consumer confidence reached its highest level in November 2003 since September 2002. Details of these economic indicators are shown in Appendix II.

Finally, a weaker dollar could promote exports or at least stop the growth of imports. During the first 10 months of 2003, the dollar has depreciated 10.2 percent against the yen and 13 percent against the Euro.

However, the 2004 economy faces many risks including the possibility of weaker consumer spending if job recovery stalls and expenses rise because of an increase in oil prices. The price of West Texas intermediary crude oil was $31.09 per barrel in November of 2003 compared with $26.28 in November of 2002. Oil prices hit $35.87 in

February of 2003, the highest since $35.92 in October of 1990. Table 13 provides a summary of the Comptroller's projections for eight U.S. indicators in 2003 and 2004.

Table 13. Eight U.S. Indicators, Actual 2002 and Comptroller's Projections, 2003-2004

	2002	2003	2004
Real GDP Growth, (1996 $), %	2.4	3.1	4.3
Payroll Jobs, Percent Change	(1.0)	(0.4)	1.2
Consumer Price Index (1982=100), % Change	1.6	2.3	2.0
Wage-Rate Growth, %	2.1	2.5	4.0
Unemployment Rate, %	5.8	6.0	6.0
Fed Funds Rate, %	1.7	1.2	1.2
10-Yr T-Notes, %	4.6	4.0	4.8

SOURCE: NYC Comptroller's Office. Actual data are shown in 2002 column, and projections (averages for the year) are in the 2003 and 2004 columns.

Table 14 compares the Comptroller's forecast for 2003 and 2004 with the Mayor's forecast and the Blue Chip Economic Indicators.

Table 14. Percent Change in Real GDP, Inflation Rate, and Unemployment Rate, Projections, 2003 and 2004

	GDP Growth		Unemployment Rate		Change in CPI	
	2003	2004	2003	2004	2003	2004
1. NYC Comptroller's Office	3.1	4.3	6.0	6.0	2.3	2.0
2. Mayor	3.0	4.4	6.1	6.1	2.3	1.7
3. Blue Chip Consensus	2.9	4.2	6.0	5.9	2.3	1.9

SOURCE: OMB, NYC Comptroller's Office and Blue Chip Economic Indicators, November 10, 2003.
CPI=Consumer Price Index.

C. THE NYC ECONOMY

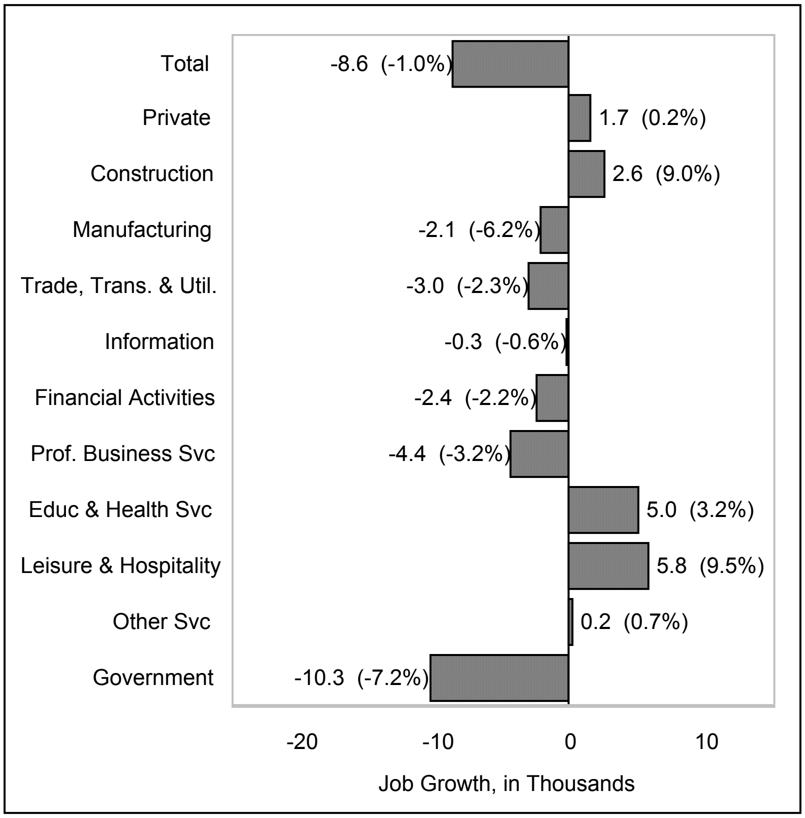
The City's economy appears to have reversed course, with positive growth in the third quarter of 2003, although major data revisions could erase this growth. The City's economy is expected to grow in 2004, but less than the nation's.

D. ECONOMIC PERFORMANCE IN 2003

Despite the national economic recovery, the City's economy has continued to struggle. The negative Gross City Product (GCP) growth that began in the first quarter of 2001 continued for 10 quarters into the second quarter of 2003. In the third quarter, the City's GCP showed a small uptick of 0.3 percent.

Payroll jobs continued to decline in the third quarter of 2003 for the 11th consecutive quarter. Unfortunately, almost all the private-sector job gains in the third quarter were in sectors that are not cyclically sensitive, as shown in Chart 5.

Chart 5. Change in NYC Payroll Jobs, Seasonally Adjusted Annual Rate
Third Quarter 2003



SOURCE: Monthly Date from U.S. Department of Labor. Changes from the same period in 2003 computed by NYC Comptroller's Office.

From its peak in December 2000 to October 2003, payroll jobs declined by 231,400 or 6.2 percent. Payroll jobs fell by 12,900 in the first ten months of 2003. Also, civilian employment, the number of NYC residents with jobs, fell. In 2003 so far, 81,400 (2.3 percent) of NYC residents lost their jobs, but at the same time the number of unemployed residents fell by 18,800. As a result, the City's labor force (the sum of the number of residents with a job and the number of unemployed residents looking for a job) fell by 100,200. The contraction in the labor force, against a backdrop of reduction in unemployment and drop in civilian employment, is partly due to unemployed residents who have given up looking for work.

This is further emphasized by the labor-force-participation rate (labor force as a percent of population), which fell 8.1 percentage points to 57.3 percent in July 2003, from 65.4 percent in December 2002. Had the labor-force-participation rate remained at 65.4 percent, the same as in December 2002, then the unemployment rate would be at least 19.6 percent in October 2003, instead of 8.2 percent.

Another sign of weakness in the City's economy is the rise in commercial real estate vacancy rates in Manhattan in the first three quarters of 2003. Manhattan's commercial vacancy rate rose to 12.5 percent in the third quarter of 2003 compared with 11.8 percent in the third quarter of 2002. However, the good news is that for the first time since the first quarter of 2001 i.e., after 10 consecutive quarters of increase, the commercial vacancy rate remained unchanged on a quarter-over-quarter basis.

The hotel-occupancy rate averaged 73.1 percent during the first nine months of 2003, slightly below the 73.7 percent in the first nine months of 2002. However, the hotel industry seems to be bouncing back. The hotel-occupancy rate averaged 78.3 percent in the third quarter of 2003, compared with 74.2 percent in the same period in 2002.

Finally, Wall Street profits soared. Wall Street profits were $12 billion in the first three quarters of 2003 and are expected to reach $16 billion for the year. Wall Street profits were $6.9 billion for all of 2002.

E. COMPTROLLER'S NYC FORECAST FOR 2004

The City's economy is expected to post positive growth in 2004, both in GCP and jobs. Most of the economic indicators point to recovery in September and October 2003. The City's leading economic indicators are on balance also signaling improvements in the fourth quarter of 2003 and into 2004.

- The total number of building permits authorized was 80,757 during the first ten months of 2003, 6.4 percent more than the total permits authorized in the first ten months in 2002.

- The City's Business Conditions Index (BCI) averaged 232.6 during the first 11 months of 2003. While this is nine percent lower than the average for the same period in 2002 the BCI has been showing signs of improvement. Between August 2003 and November 2003, the BCI posted a modest gain of 5.6, increasing from 221.7 to 227.3.

- The average of the help-wanted-ads index fell 16 percent to 17.8 during the first 10 months of 2003. However, a trend toward greater use of Internet advertising could partly explain this decline. Table 15 shows the forecast for selected City indicators.

Table 15. Selected City Indicators, Actual 2002 and Forecasts, 2003-2004

	2002	2003	2004
Real GCP, (1996 $), % Change	(3.8)	(1.9)	2.6
Payroll Jobs (Annual Change), '000s	(117.4)	(46.4)	35.2
Consumer Price Index (1982=100), % Change	2.5	3.1	2.9
Wage-Rate Growth, %	(3.5)	1.7	5.7
Unemployment Rate, %	7.9	8.3	7.9

SOURCE: NYC Comptroller's Office. GCP=Gross City Product.

The Comptroller's Office forecast for the NYC economy shows more job growth and higher inflation rates than the Mayor's as illustrated in Table 16.

Table 16. Comparison of Forecasts of Real GCP, Employment, and Inflation, 2003-2004

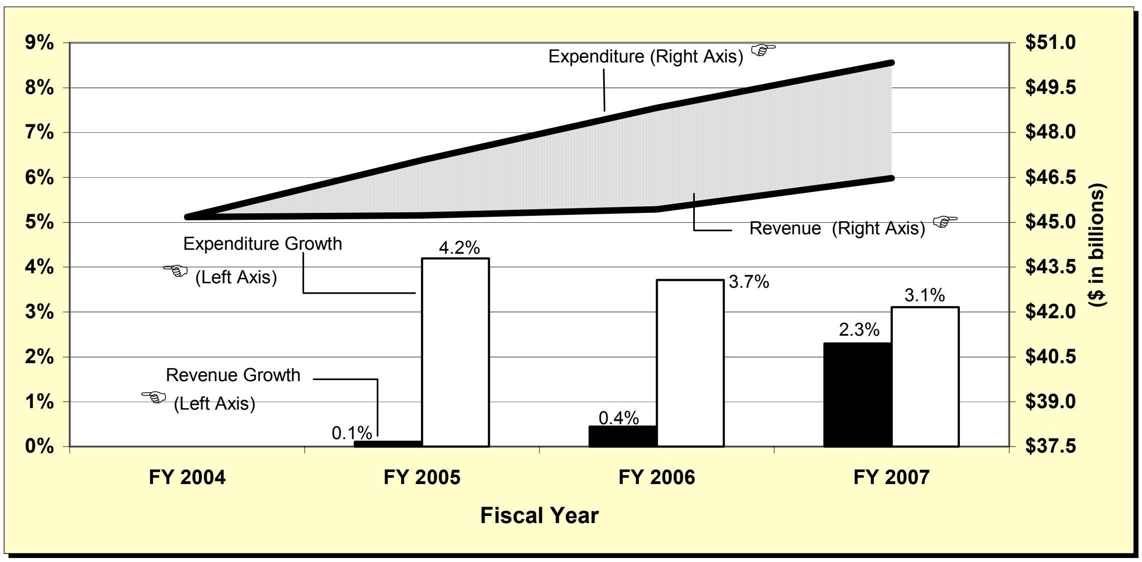
	GCP Growth		Change in Payroll Jobs		Change in CPI	
	2003	**2004**	**2003**	**2004**	**2003**	**2004**
NYC Comptroller's Office	(1.9)	2.6	(46.4)	35.2	3.1	2.9
Mayor	4.7	3.0	(54.0)	26.0	2.6	1.7

SOURCE: NYC, November 2003 Plan and NYC Comptroller's Office.

IV. The FYs 2004-2007 Financial Plan

The FY 2004 November Modification assumes that revenues will grow by 2.9 percent, from $45.2 billion in FY 2004 to $46.5 billion in FY 2007.[17] Over the same period, expenditures are projected to increase by 11.4 percent, from $45.2 billion to $50.3 billion, far outpacing the growth in revenues.[18] Consequently, the City expects to be confronted with increasing deficits beginning at $1.8 billion in FY 2005 and growing to $3.9 billion by FY 2007 as shown in Chart 6.

Chart 6. The City's Outyear Gaps



The City has lowered its projection of the FY 2005 gap by $168 million compared with the June Financial Plan. This was achieved through a combination of improved revenue outlooks and additional gap-closing programs that the City expects will generate sufficient surplus in FY 2004 to fund a budget stabilization account (BSA) of $413 million. The surplus will be used to prepay $213 million of FY 2005 expenditure as well as fund a BSA of $200 million in FY 2005 that will be used to provide some budgetary relief for FY 2006. While these measures reduce the FY 2005 budget gap projected, budget gaps for FYs 2006 and 2007 have widened by $152 million and $578 million since budget adoption.

As Chart 6 shows, the persistence of budget gaps in the outyears is driven by the underlying structural imbalance between revenue and expenditure growth. Revenues are

[17] Includes PIT revenue that is retained to service NYCTFA debt.

[18] Includes NYCTFA debt service funded by PIT revenue.

projected to grow by 2.9 percent between FYs 2004-2007, an average annual growth of 0.9 percent. In contrast, expenditures are expected to grow by 11.4 percent over the same period at an average annual growth of 3.6 percent, almost four times the growth in revenue.

Revenue growth over the financial plan period is derived solely from projected increases in tax revenues. As Table 17 shows, over the four-year period between FYs 2004-2007 tax revenues are projected to grow by 8.6 percent from $26.6 billion to $28.9 billion. In contrast, all other revenues, including miscellaneous revenue and intergovernmental aid, are expected to decline by 5.3 percent, falling from $18.6 billion to $17.6 billion.

Table 17. Projected Revenue Growth, FYs 2004-2007

($ in millions)

	FY 2004	FY 04-05	FY 05—06	FY 06--07	FY 04-07	FY 2007
Property Tax Revenue	$11,274	2.7%	3.7%	3.7%	10.4%	$12,443
PIT revenue	5,310	1.2%	1.3%	1.3%	3.9%	5,516
Other Non-Property Tax Revenue	10,014	0.5%	3.9%	4.4%	9.1%	10,922
Total Tax Revenues	**26,598**	**1.6%**	**3.3%**	**3.5%**	**8.6%**	**28,881**
Miscellaneous Revenue	3,140	20.0%	(17.6%)	(1.0%)	(2.1%)	3,075
Others	1,228	(11.3%)	1.2%	1.0%	(9.4%)	1,113
IGA	831	(29.6%)	0.0%	0.0%	(29.6%)	585
Federal Categorical Grant	5,056	(10.7%)	(0.4%)	0.2%	(10.9%)	4,506
State Categorical Grant	8,328	(0.8%)	(0.2%)	0.9%	(0.1%)	8,317
Total Non-Tax Revenues	**$18,583**	**(2.0%)**	**(3.8%)**	**0.4%**	**(5.3%)**	**$17,596**
Total Revenue	**$45,181**	**0.1%**	**0.4%**	**2.3%**	**2.9%**	**$46,477**

Property tax collections, which account for 42 percent of estimated FY 2004 tax revenue, is expected to show the strongest growth with a 10.4 percent increase between FY 2004 and FY 2007. PIT revenue is projected to grow 3.9 percent over the same period, driven by improving economic outlook, despite the sunset of this year's PIT increase at the end of CY 2005. Similarly, continued economic growth is expected to support other non-property tax revenue growth of 9.1 percent even as the sales tax increases enacted in FY 2004 are scheduled to expire.[19]

The drop in miscellaneous revenue and intergovernmental aid reflect mainly the receipts of significant non-recurring revenues in FYs 2004 and 2005 that result in a contraction in non-tax revenues in the subsequent years. As discussed in "Department of Education" beginning on page 15, the City is also recognizing a one-time receipt, in FY 2004, of $198 million in unrestricted aid from the State. Because this revenue is non-

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[19] The reinstatement of sales tax on clothing and footwear items below $110 will expire on May 31, 2004. The current sales tax of 4.125 percent will revert to the prior rate of four percent on May 31, 2005.

recurring, unrestricted intergovernmental aid drops by 29.6 percent the following year. Similarly, miscellaneous revenue shows an increase of 20 percent in FY 2005 and a drop of 17.6 percent in FY 2006 mainly as a result of a one-time receipt of $690 million in FY 2005. The City expects to receive this lump sum payment as part of a tentative agreement reached on October 15, 2003 between the City and the Port Authority of New York and New Jersey on lease payments and back rents for the John F. Kennedy International and LaGuardia airports. The decline in Federal categorical aid in FY 2005 is mainly the result of a one-time boost to FY 2004 Federal categorical aid from the roll-over of unused FY 2003 Federal funds. Otherwise, Federal categorical aid is projected to be relatively flat at about $4.5 billion.

Expenditures are projected to grow by 11.4 percent between FYs 2004-2007, a rate of almost four times the growth of revenue. As Table 18 shows, non-discretionary outlays for pensions, health insurance, debt service, Medicaid and judgments and claims exhibit the fastest growth, with projected spending in this area growing by 35 percent, or $4.7 billion, over this period.[20] All other expenditures are projected to grow by 1.5 percent, or $488 million, between FYs 2004 and 2007, well below the projected rate of inflation and about half the projected growth in revenues.

Table 18. Projected Expenditure Growth, FYs 2004-2007

($ in millions)

	FY 2004	FY 04-05	FY 05-06	FY 06-07	FY 04-07	FY 2007
Pensions	$2,419	25.2%	26.2%	9.9%	73.6%	$4,199
Health Insurance	2,373	11.8%	9.6%	8.8%	33.6%	3,166
Debt Service	3,780	12.7%	5.8%	9.8%	30.9%	4,948
Medicaid	4,123	10.1%	4.5%	4.2%	19.9%	4,944
Judgements and Claims	643	5.2%	5.4%	5.4%	16.9%	752
Subtotal	**$13,338**	**13.7%**	**10.1%**	**7.8%**	**35.0%**	**$18,009**
Fringe Benefits	$2,401	0.0%	1.5%	1.7%	3.2%	$2,479
Salaries and Wages	16,419	(1.4%)	(0.0%)	0.0%	(1.4%)	16,181
Public Assistance	2,351	(4.5%)	0.4%	0.0%	(4.1%)	2,255
Other OTPS	10,672	3.9%	1.5%	1.4%	7.0%	11,416
Subtotal	**$31,843**	**0.2%**	**0.7%**	**0.6%**	**1.5%**	**$32,331**
Total Expenditures	**$45,181**	**4.2%**	**3.7%**	**3.1%**	**11.4%**	**$50,340**

There is clearly a need for controlling non-discretionary spending if the City is to address the structural imbalance between revenues and expenditures. However, the City will need the cooperation and support of other levels of government as well as the labor unions to control spending in these areas. While the City has proposed various initiatives to curb spending in these areas, including creation of a new pension tier, State legislative

[20] Spending in these areas is discussed in greater details in "Expenditure Analysis" beginning on page 10.

tort reform, Medicaid reform, and health insurance co-payments, it appears that these proposals have stalled.

A. OUTYEAR RISKS

While the City has presented a reasonable projection of its revenues and expenditures, some risks still exist in the November Financial Plan Modification. As Table 3 on page 3 shows, the City could face a gap of $423 million in FY 2004 with the deficit rising to $4.4 billion by FY 2007. The single largest risk to the FYs 2004-2007 Financial Plan is the City's assumption of a State takeover of MAC debt service. As discussed in "Municipal Assistance Corporation" beginning on page 19, the constitutionality of the State legislation authorizing the State takeover is being challenged in the State Appellate Division by the Governor. Because of the uncertainty surrounding the ruling of the State Appellate Division as well as the time frame in reaching final resolution, the assumption of a State takeover of MAC debt service in the financial plan poses risks of about $490 million in each of FYs 2004 through 2007.

The remaining risk stems from an underestimation of overtime spending and the elimination of private bus subsidy beginning in FY 2005. As discussed in "Overtime" beginning on page 13, year-to-date spending indicates that overtime will exceed the City's projection by $128 million in each year of the financial plan. The elimination of subsidies in the outyears of the plan assumes that the takeover of some private bus companies by the MTA. However, absent any strong indication that the MTA will agree to the takeover, the Comptroller is holding the assumed savings at risk.

The Comptroller's more optimistic revenue projections help mitigate some of the expenditure risks. The Comptroller expects FY 2004 revenues to be $197 million above the City's estimates. For FYs 2005-2007 the Comptroller expects revenues to exceed the City's forecast by $301 million, $234 million and $195 million respectively.

In addition to the risks and offsets identified above, the City faces potential exposure to the cost of collective bargaining. As discussed in "Labor" beginning on page 14, all but one of the City's contracts with its labor unions have expired.[21] The City has not included any funding for wage increases for FY 2004 and beyond.[22] Every one-percent increase in wages and salaries would cost the City $220 million.

[21] The Detective Endowment Association contract expires on February 14, 2004.

[22] Other than the $200 million placed in the Labor Reserve at the end of FY 2003.

Appendix I – Revenue ad Expenditure Details

Table A1. FY 2004 November Modification Revenue Detail

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Taxes:						
Real Property Tax	$11,406	$11,708	$12,131	$12,575	10.2%	$1,169
Personal Income Tax	$5,831	$5,920	$6,024	$6,120	5.0%	$289
General Corporation Tax	$1,391	$1,437	$1,541	$1,604	15.3%	$213
Banking Corporation Tax	$211	$331	$385	$427	102.4%	$216
Unincorporated Business Tax	$870	$916	$951	$1,006	15.6%	$136
Sale and Use Tax	$3,912	$3,887	$3,976	$4,189	7.1%	$277
Commercial Rent Tax	$407	$417	$427	$442	8.6%	$35
Real Property Transfer Tax	$429	$424	$452	$491	14.5%	$62
Mortgage Recording Tax	$501	$381	$403	$436	(13.0%)	($65)
Utility Tax	$294	$278	$278	$284	(3.4%)	($10)
All Other Taxes	$801	$808	$826	$801	0.0%	$0
Tax Audit Revenue	$545	$506	$506	$506	(7.2%)	($39)
Total Taxes	**$26,598**	**$27,013**	**$27,900**	**$28,881**	**8.6%**	**$2,283**
Miscellaneous Revenues:						
Licenses, Franchises, etc.	$356	$351	$349	$348	(2.2%)	($8)
Interest Income	$12	$34	$55	$60	400.0%	$48
Charges for Services	$497	$500	$501	$495	(0.4%)	($2)
Water and Sewer Charges	$903	$893	$915	$935	3.5%	$32
Rental Income	$88	$862	$175	$178	102.3%	$90
Fines and Forfeitures	$685	$700	$699	$699	2.0%	$14
Miscellaneous	$599	$429	$412	$360	(39.9%)	($239)
Intra-City Revenue	$1,179	$1,100	$1,099	$1,098	(6.9%)	($81)
Total Miscellaneous Revenues	**$4,319**	**$4,869**	**$4,205**	**$4,173**	**(3.4%)**	**($146)**
Unrestricted Intergovernmental Aid:						
N.Y. State Per Capita Aid	$327	$327	$327	$327	0.0%	$0
Other Federal and State Aid	$504	$258	$258	$258	(48.8%)	($246)
Total Unrestricted Intergovernmental Aid	**$831**	**$585**	**$585**	**$585**	**(29.6%)**	**($246)**
Other Categorical Grants	$901	$778	$798	$813	(9.8%)	($88)
Inter-Fund Agreements	$342	$326	$319	$315	(7.9%)	($27)
Reserve for Disallowance of Categorical Grants	($15)	($15)	($15)	($15)	0.0%	$0
Less: Intra-City Revenue	($1,179)	($1,100)	($1,099)	($1,098)	(6.9%)	$81
TOTAL CITY FUNDS	**$31,797**	**$32,456**	**$32,693**	**$33,654**	**5.8%**	**$1,857**

Table A1 (Con't). *FY 2004 November Modification Revenue Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Federal Categorical Grants:						
Community Development	$293	$258	$241	$241	(17.7%)	($52)
Welfare	$2,371	$2,191	$2,193	$2,201	(7.2%)	($170)
Education	$1,566	$1,526	$1,526	$1,526	(2.6%)	($40)
Other	$826	$538	$535	$538	(34.9%)	($288)
Total Federal Grants	**$5,056**	**$4,513**	**$4,495**	**$4,506**	**(10.9%)**	**($550)**
State Categorical Grants						
Welfare	$1,618	$1,603	$1,607	$1,604	(0.9%)	($14)
Education	$5,752	$5,759	$5,763	$5,828	1.3%	$76
Higher Education	$166	$167	$168	$168	1.2%	$2
Department of Health and Mental Hygiene	$466	$463	$468	$477	2.4%	$11
Other	$326	$269	$239	$240	(26.4%)	($86)
Total State Grants	**$8,328**	**$8,261**	**$8,245**	**$8,317**	**(0.1%)**	**($11)**
TOTAL REVENUE	**$45,181**	**$45,230**	**$45,433**	**$46,477**	**2.9%**	**$1,296**

SOURCE: OMB

Table A2. FY 2004 November Modification Expenditure Detail

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Change FYs 2004-07 Dollar
Mayoralty	$71,412	$68,976	$68,976	$68,976	(3.4%)	($2,436)
Board of Elections	$87,212	$67,966	$68,101	$68,101	(21.9%)	($19,111)
Campaign Finance Board	$18,577	$17,731	$17,731	$17,731	(4.6%)	($846)
Office of the Actuary	$3,713	$3,614	$3,614	$3,614	(2.7%)	($99)
President, Borough of Manhattan	$3,703	$3,011	$3,003	$3,003	(18.9%)	($700)
President, Borough of the Bronx	$5,425	$4,353	$4,289	$4,289	(20.9%)	($1,136)
President, Borough of Brooklyn	$4,983	$3,983	$3,930	$3,930	(21.1%)	($1,053)
President, Borough of Queens	$4,740	$3,811	$3,631	$3,631	(23.4%)	($1,109)
President, Borough of S.I.	$3,688	$3,035	$3,035	$3,035	(17.7%)	($653)
Office of the Comptroller	$53,126	$51,424	$51,424	$51,424	(3.2%)	($1,702)
Dept. of Emergency Management	$10,966	$3,691	$3,691	$3,691	(66.3%)	($7,275)
Tax Commission	$1,922	$1,922	$1,922	$1,922	0.0%	$0
Law Department	$103,863	$101,758	$101,275	$99,429	(4.3%)	($4,434)
Department of City Planning	$19,843	$17,190	$17,190	$17,190	(13.4%)	($2,653)
Department of Investigation	$16,122	$15,863	$15,863	$15,863	(1.6%)	($259)
NY Public Library-Research	$8,986	$15,391	$15,391	$15,391	71.3%	$6,405
New York Public Library	$46,571	$81,517	$81,517	$81,517	75.0%	$34,946
Brooklyn Public Library	$34,588	$60,313	$60,313	$60,313	74.4%	$25,725
Queens Borough Public Library	$32,778	$57,207	$57,207	$57,207	74.5%	$24,429
Department of Education	$12,460,398	$12,533,891	$12,694,018	$12,839,599	3.0%	$379,201
City University	$483,222	$475,812	$472,880	$470,686	(2.6%)	($12,536)
Civilian Complaint Review Bd.	$10,186	$8,805	$8,805	$8,805	(13.6%)	($1,381)
Police Department	$3,359,487	$3,317,175	$3,314,635	$3,314,635	(1.3%)	($44,852)
Fire Department	$1,202,993	$1,113,570	$1,110,746	$1,110,002	(7.7%)	($92,991)
Admin. for Children Services	$2,134,557	$2,051,815	$2,051,175	$2,053,565	(3.8%)	($80,992)
Department of Social Services	$6,214,266	$6,562,219	$6,768,376	$6,977,327	12.3%	$763,061
Dept. of Homeless Services	$633,591	$622,739	$622,125	$622,623	(1.7%)	($10,968)
Department of Correction	$847,997	$835,641	$828,936	$827,003	(2.5%)	($20,994)
Board of Correction	$843	$791	$791	$791	(6.2%)	($52)
Department of Employment	$1,000	$0	$0	$0	(100.0%)	($1,000)
Citywide Pension Contributions	$2,419,209	$3,028,866	$3,821,675	$4,198,849	73.6%	$1,779,640
Miscellaneous	$4,329,985	$4,615,397	$4,883,741	$5,152,109	19.0%	$822,124
Debt Service	$2,995,297	$3,272,009	$3,526,111	$3,964,733	32.4%	$969,436
NYCTFA Debt Service	$160,302	$988,238	$981,445	$982,779	513.1%	$822,477
Public Advocate	$2,434	$1,560	$1,560	$1,560	(35.9%)	($874)
City Council	$47,054	$45,831	$45,831	$45,831	(2.6%)	($1,223)
City Clerk	$3,024	$2,856	$2,856	$2,856	(5.6%)	($168)
Department for the Aging	$215,292	$198,804	$198,804	$198,804	(7.7%)	($16,488)
Department of Cultural Affairs	$119,236	$93,902	$93,902	$93,902	(21.2%)	($25,334)
Financial Info. Serv. Agency	$35,102	$37,209	$37,099	$37,099	5.7%	$1,997
Department of Juvenile Justice	$99,807	$98,048	$102,323	$102,323	2.5%	$2,516
Office of Payroll Admin.	$10,169	$10,403	$10,297	$10,250	0.8%	$81
Independent Budget Office	$2,667	$2,667	$2,667	$2,667	0.0%	$0

Table A2 (Con't). *FY 2004 November Modification Expenditure Detail*

($ in millions)

	FY 2004	FY 2005	FY 2006	FY 2007	Change FYs 2004-07 Percent	Dollar
Equal Employment Practices Com	$507	$503	$503	$503	(0.8%)	($4)
Civil Service Commission	$540	$540	$540	$540	0.0%	$0
Landmarks Preservation Comm.	$3,540	$3,191	$3,191	$3,191	(9.9%)	($349)
Taxi & Limousine Commission	$24,057	$23,379	$23,379	$23,061	(4.1%)	($996)
Commission on Human Rights	$6,858	$6,759	$6,759	$6,759	(1.4%)	($99)
Youth & Community Development	$271,886	$185,682	$185,494	$185,494	(31.8%)	($86,392)
Conflicts of Interest Board	$1,455	$1,357	$1,357	$1,357	(6.7%)	($98)
Office of Collective Barg.	$1,553	$1,553	$1,553	$1,553	0.0%	$0
Community Boards (All)	$12,077	$12,039	$12,039	$12,039	(0.3%)	($38)
Department of Probation	$72,947	$71,166	$68,282	$68,282	(6.4%)	($4,665)
Dept. of Small Business Services	$115,228	$85,880	$87,749	$83,645	(27.4%)	($31,583)
Housing Preservation & Dev.	$413,396	$386,557	$390,970	$388,458	(6.0%)	($24,938)
Department of Buildings	$58,124	$53,012	$51,947	$50,487	(13.1%)	($7,637)
Department of Public Health & Mental Hygiene	$1,424,133	$1,341,583	$1,367,502	$1,395,687	(2.0%)	($28,446)
Health and Hospitals Corp.	$843,320	$857,906	$876,184	$876,184	3.9%	$32,864
Dept. of Environmental Prot.	$729,489	$704,977	$702,387	$702,387	(3.7%)	($27,102)
Department of Sanitation	$995,843	$1,023,701	$1,022,591	$1,022,650	2.7%	$26,807
Business Integrity Commission	$5,227	$5,227	$5,227	$5,227	0.0%	$0
Department of Finance	$205,110	$185,923	$187,149	$188,399	(8.1%)	($16,711)
Department of Transportation	$476,922	$424,599	$423,818	$423,888	(11.1%)	($53,034)
Dept. of Parks and Recreation	$208,274	$187,138	$187,138	$187,138	(10.1%)	($21,136)
Dept. of Design & Construction	$102,216	$86,098	$86,098	$86,098	(15.8%)	($16,118)
Dept. of Citywide Admin. Services	$243,037	$245,410	$242,382	$242,382	(0.3%)	($655)
DOITT	$96,994	$108,290	$105,537	$102,416	5.6%	$5,422
Dept. of Records & Info. Serv.	$3,785	$3,436	$3,436	$3,436	(9.2%)	($349)
Department of Consumer Affairs	$12,916	$12,790	$12,674	$12,786	(1.0%)	($130)
District Attorney - N.Y.	$71,565	$61,660	$61,265	$61,265	(14.4%)	($10,300)
District Attorney – Bronx	$39,067	$36,618	$36,243	$36,243	(7.2%)	($2,824)
District Attorney – Kings	$64,331	$62,940	$62,565	$62,565	(2.7%)	($1,766)
District Attorney – Queens	$34,033	$32,558	$32,248	$32,248	(5.2%)	($1,785)
District Attorney – Richmond	$5,747	$5,492	$5,231	$5,231	(9.0%)	($516)
Off. of Prosec. & Spec. Narc.	$14,464	$13,071	$13,071	$13,071	(9.6%)	($1,393)
Public Administrator - N.Y.	$988	$988	$988	$988	0.0%	$0
Public Administrator – Bronx	$329	$329	$329	$329	0.0%	$0
Public Administrator – Brooklyn	$454	$454	$454	$454	0.0%	$0
Public Administrator – Queens	$353	$353	$353	$353	0.0%	$0
Public Administrator – Richmond	$252	$252	$252	$252	0.0%	$0
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Energy Adjustment	$0	($14,251)	($17,762)	($10,610)	0.0%	($10,610)
Lease Adjustment	$0	$20,303	$36,324	$52,760	0.0%	$52,760
OTPS Inflation Adjustment	$0	$35,948	$72,938	$110,970	0.0%	$110,970
City-Wide Totals	**$45,181,353**	**$47,076,415**	**$48,823,286**	**$50,339,221**	**11.4%**	**$5,157,868**

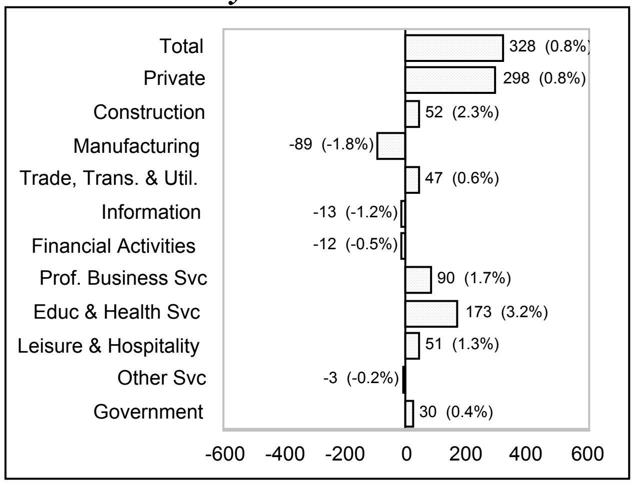
SOURCE: OMB

APPENDIX II – ECONOMIC DATA

Payroll-Job Growth by Sector

Of total job gains, 52.7 percent (or 58.1 percent of private job gains) were in the combined education and health services sectors, which are not related to the economic cycle. Also, sectors that pay highest wages, such as financial activities, continued to lose jobs.

Figure A- 1. Change in Jobs, '000 and SAAR, July-November 2003



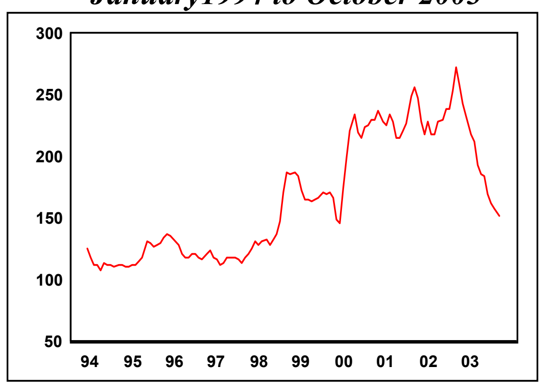
SOURCE: Bureau of Labor Statistics.

Yield Spread

Yield Spread, as measured by the difference between Moody's Baa Corporate Index and 20-year U.S. government treasuries, narrowed in October.

Yield spreads have been consistent indicators of recoveries, peaking at the end of recessions and narrowing substantially during economic booms. The spread in October 2003 was 152 basis points compared with a high of 273 in October 2002, indicating that the U.S. economy is improving.

Figure A- 2. Yield Spread, Baa Corporate Index less 20-Yr Treasuries, Basis points, January1994 to October 2003

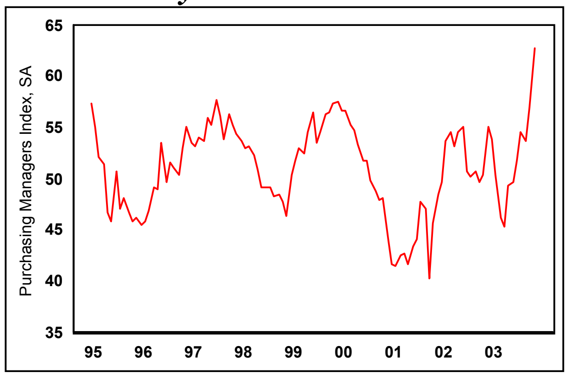


SOURCE: Board of Governors of the Federal Reserve System

Supply Management's Index Rising

The Institute for Supply Management's (ISM) Index jumped to 62.8 in November, the highest since 66.0 in November of 1983. An ISM index above 50 percent level implies an expansionary economy, while a score below 50 implies a sluggish economy.

Figure A- 3. ISM Index, SA January 1995-November 2003

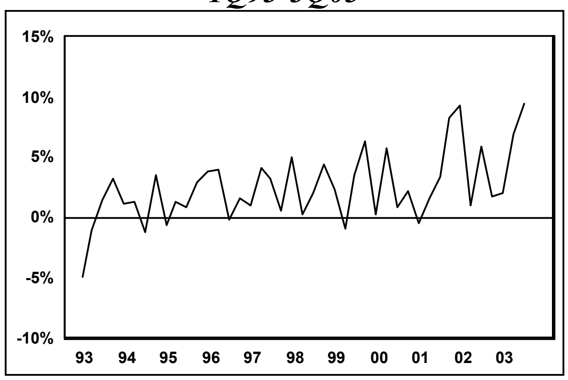


SOURCE: Institute for Supply Management

Productivity High and Rising

Non-farm business productivity, as measured by output per hour, posted an extraordinary annual productivity growth in the third quarter of 2003 of 9.4 percent, the highest since 9.7 percent in the second quarter of 1983. Productivity stood at 5.9 percent in the third quarter of 2002. Higher productivity is conventionally believed to help keep inflation low because it increases output. Higher productivity is important for the United States in the face of competition from lower-cost overseas producers.

Figure A- 4. Productivity, Quarter-over-Quarter, Annual Rate Percent Change, 1Q93-3Q03

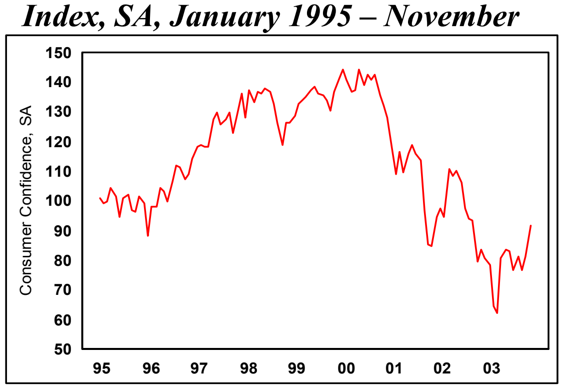


SOURCE: The U.S. Bureau of Labor Statistics

Consumer Confidence Recovering

The Conference Board's Consumer Confidence Index advanced again in November to 91.7 (1985=100), the highest since 93.7 in September of 2002. The Index stood at 81.7 in October and 77.0 in September.

Figure A- 5. Consumer Confidence Index, SA, January 1995 – November



SOURCE: The Conference Board, 1985=100

GLOSSARY OF ACRONYMS

BERS	Board of Education Retirement System
BSA	Budget Stabilization Account
BCT	Banking Corporation Tax
BPC	Battery Park City
CPI	Consumer Price Index
CY	Calendar Year
DOE	Department of Education
DOITT	Department of Information Technology and Telecommunications
DOS	Department of Sanitation
FMAP	Federal Medicaid Assistance Percentage
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GRS	Gabriel, Roeder, Smith & Company

GO Debt	General Obligation Debt
HIP	Health Insurance Premium
ISM	Institute for Supply Management
J&C	Judgments and Claims
LDC	Local Development Corporation
MAC	Municipal Assistance Corporation
MTA	Metropolitan Transportation Authority
MRT	Mortgage Recording Tax
NYC	New York City
NYCERS	New York City Employees' Retirement System
NYCTFA	New York City Transitional Finance Authority
NYS	New York State
OMB	Office of Management and Budget
OTPS	Other Than Personal Services
PA	Public Assistance
PICA	Psychotropic, Injectable, Chemotherapy and Asthma

PEG	Program to Eliminate the Gap (an action that is part of a gap-closing program)
PILOT	Payment-in-lieu-of Taxes
PIT	Personal Income Tax
PS	Personal Services
RPTT	Real Property Transfer Tax
SA	Seasonally Adjusted
SAAR	Seasonally Adjusted Annual Rate
SI	Staten Island
STAR	School Tax Relief Program
TRS	Teachers' Retirement System
TSASC	Tobacco Settlement Asset Securitization Corporation
UBT	Unincorporated Business Tax
U.S.	United States