The State of the City's Economy and Finances, 2008

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

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I. Executive Summary

The fiscal challenges facing New York City in the coming years have deepened with every month that the paralysis facing the nation's credit markets continues. Waves of negative economic developments during the City's 2008 fiscal year–including the near-collapse of Bear Stearns–swelled into a tsunami in September 2008 as spasms of financial anxiety brought down Lehman Brothers, forced AIG into a federal bailout, caused Merrill Lynch to merge with Bank of America, and led Goldman Sachs and Morgan Stanley to reorganize as bank holding companies.

In this environment, the Mayor submitted a modification to the FY 2009 Budget and Four-Year Financial Plan on November 5, 2008. The modification projected increases to outyear gaps of over $1 billion each year, reflecting the mounting impacts of the recession and financial crisis on expected tax revenues. The modification laid out a plan to compensate for declining revenues in FY 2009 and to take steps toward closing a projected gap of $3.749 billion in FY 2010 and to narrow gaps that were projected to reach $6.710 billion in FY 2011 and $6.840 billion in FY 2012.

The Comptroller's Office expects that the impact of the recession on FY 2009 will be even greater than the Mayor is projecting, resulting in a tax revenue risk to FY 2009 of $935 million. Real-estate transactions will be hit harder in the current fiscal year than envisioned in the modification, resulting in a $525 million shortfall in the real-estate-related taxes. Furthermore, the deepening crisis will reduce personal income and business taxes by a combined $345 million, and property taxes are projected to be $65 million less than stated in the budget modification.

The Mayor also has asked the City Council to take two actions to increase property tax revenues. The first action would cancel this year's scheduled property tax rebate to homeowners. The second would result in a 7.0 percent property tax increase effective January 2009, six months earlier than had been indicated at the time of the Adopted Budget. These two items would increase property tax revenue $832 million in FY 2009 but have not been acted on at the time of release of this report. The Comptroller has stated that this year's property tax rebate should be granted to taxpayers as promised.

The Comptroller has identified expenditure risks in FY 2009 of $86 million. This includes higher projected overtime costs of $139 million in FY 2009 and public assistance costs of $5 million. These risks are partly offset by judgment and claims payments that are likely to be less than the Mayor is projecting. In recent years, this category of spending has stabilized due to more aggressive risk management and innovations in claims settlements.

Complicating the assessment of risks to the FY 2009 budget is the dramatic deterioration in the State's budget. Since roughly 70 percent of State spending is in the form of aid to localities, any solution to the State's daunting problems will most likely involve reduced resources to municipalities. Shortly after this report is released, the Governor will release his Executive Budget proposal and initiate negotiations with the

State Legislature. Since the State fiscal year ends March 31, there is a narrowing window for actions to be taken that affect local governments in SFY 2008-2009. However, it is possible that actions could be taken either in that time frame or during the first quarter of SFY 2009-2010, which coincides with the last quarter of City FY 2009. For that reason, the Comptroller has indicated a risk to the current year budget of $100 million stemming from State actions.

As unpleasant as is the FY 2009 fiscal situation, the City has $1.8 billion in its Budget Stabilization Account (BSA) scheduled to be transferred via prepayments to FY 2010. These resources could if necessary be used to ensure budget balance in FY 2009. Furthermore, additional reserves in the form of a draw-down of the General Reserve and the write-off of certain prior payables, actions that typically occur at the time of the Preliminary Budget in the winter, will provide an additional cushion to FY 2009. Their used in the current year, however, would reduce resources available to address the FY 2010 gap.

In the outyears of the Plan period, risks and offset identified by the Comptroller's Office result in a net increase to the Mayor's projected budget gaps of $237 million in FY 2010 and $130 million in FY 2011, and virtually no change in the gap in FY 2012. However, these adjustments reflect large expenditure risks on one hand, and large net revenue offsets on the other.

While expecting that the national recession will continue through the middle of Calendar Year (CY) 2009, the Comptroller's Office projects that the local real estate market will recover somewhat from a sharp decline in FY 2009. Thawing credit markets and housing price declines will lead to more transactions and refinancings than assumed in the Mayor's modification. The resulting tax revenues—nearly $1 billion by FY 2012—will more than compensate for additional weakness in the personal income and business taxes identified in the Comptroller's analysis. However, State aid is also a continuing risk. The Comptroller's Office has included a risk of $300 million in gap-opening State actions for each of the outyears.

In addition to underestimation of overtime expense throughout the Plan period and persistence of the small public assistance risk identified for FY 2009, the outyears include two large risks to spending. First, since January 2008, the Mayor has included in successive financial plan modifications a $200 million expense offset from "health insurance restructuring" in the outyears. However, no concrete proposal has been made public. Additionally, such a restructuring would almost certainly be accomplished as part of a collective bargaining agreement. Since virtually every municipal union has contracts in place that extend through the end of FY 2010, achieving such savings in FY 2010 is uncertain.

Second, the City was granted a reprieve by the State Financial Control Board in implementing Generally Accepted Accounting Board (GASB) Statement 49. GASB 49 requires localities to report certain expenditures for environmental remediation as operating expense, rather than capital, items. New York City is prevented by State law from borrowing for operating expense items. The City's budget office has estimated preliminarily that compliance with the State law would cost approximately $500 million annually in general fund expenditure. The FCB action meant that the City would be able to borrow for these purposes through FY 2010, despite the implementation of the GASB reporting requirement for FY 2009. In FY 2011, this allowance will no longer be in effect. Thus, the City will have to accommodate these expenses in its operating budget, barring other action by the FCB or the State Legislature.

The current situation underscores the underlying volatility in the City's revenues and reveals the stubbornness in its cost structure. The so-called "uncontrollables"–largely pension costs, employee health insurance, and debt service–are slated to grow 24 percent during the Plan period. Debt service alone is slated to grow nearly 30 percent over the Plan period, which, when taken in concert with slow growth in tax revenues, will result in debt service absorbing roughly one out of every six City tax dollars by FY 2012. In an effort to slow the growth of debt service, the Mayor called for a 20 percent reduction in the FY 2008 to FY 2012 capital plan from its May 2008 City-funds base of $49.16 billion. Our analysis suggests that the resulting reduction was closer to 14 percent, to $42.44 billion.

From 2002 to 2008, tax revenues grew 9.8 percent annually on average, compared to annual average inflation of 3.5 percent and annual personal income growth of 5.7 percent. This rapid revenue growth stemmed from the combined influence of tax increases and economic prosperity. To an unprecedented degree, the City put some of this bounty aside to prepare for an inevitable downturn and strengthen its balance sheet, along the way earning an upgrade to AA ratings on its bonds, the highest bond ratings ever. The extent to which our prosperity was built on sand was not understood by most observers. Thus, despite its efforts, the laudable actions taken by the City to cushion the budgets of the current and coming years will attenuate only slightly the inevitable pain of bringing the City's spending and revenues into balance.

One of the balance sheet actions taken by the City was the establishment of the Retiree Health Benefit Trust Fund (RHBT) in FY 2006. Pursuant to changes in GASB reporting requirements for post-employment benefits for retirees, the RHBT was established as a vehicle to accumulate assets to offset the large and growing liability generated by the City's contractual agreement with its unions to provide certain health care benefits to retirees. GASB did not establish a requirement that such promises be funded, but the City nonetheless took the step of endowing the RHBT with $2.5 billion.

The Mayor is now proposing to draw down $1.149 billion of the RHBT to fund a portion of retiree pay-as-you-go health insurance to offset higher projected pension costs for three years starting in FY 2010. The fund was established with the potential to function also as a rainy day fund. As soon as circumstances permit, the RHBT assets should be replenished and a true rainy day fund established.

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Table 1. FYs 2009-2012 Financial Plan

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	Changes FYs 2009 – 2012 Dollar	Changes FYs 2009 – 2012 Percent
Revenues						
Taxes:						
General Property Tax	$14,749	$16,350	$17,363	$18,170	$3,421	23.2%
Other Taxes	$21,674	$20,275	$21,823	$23,387	$1,713	7.9%
Tax Audit Revenues	$680	$589	$589	$589	($91)	(13.4%)
Miscellaneous Revenues	$5,821	$5,463	$5,506	$5,523	($298)	(5.1%)
Unrestricted Intergovernmental Aid	$340	$340	$340	$340	$0	0.0%
Less: Intra-City Revenues	($1,607)	($1,447)	($1,446)	($1,446)	$161	(10.0%)
Disallowances Against Categorical Grants	($15)	($15)	($15)	($15)	$0	0.0%
Subtotal: City-Funds	$41,642	$41,555	$44,160	$46,548	$4,906	11.8%
Other Categorical Grants	$1,075	$1,019	$1,020	$1,023	($52)	(4.8%)
Inter-Fund Revenues	$464	$425	$420	$420	($44)	(9.5%)
Total City & Inter-Fund Revenues	$43,181	$42,999	$45,600	$47,991	$4,810	11.1%
Federal Categorical Grants	$5,816	$5,299	$5,280	$5,290	($526)	(9.0%)
State Categorical Grants	$11,668	$11,946	$12,805	$13,108	$1,440	12.3%
Total Revenues	$60,665	$60,244	$63,685	$66,389	$5,724	9.4%
Expenditures						
Personal Service						
Salaries and Wages	$21,912	$22,725	$24,163	$24,458	$2,546	11.6%
Pensions	$6,296	$6,904	$7,277	$7,643	$1,347	21.4%
Fringe Benefits	$6,726	$6,877	$7,158	$7,493	$767	11.4%
Subtotal-PS	$34,934	$36,506	$38,598	$39,594	$4,660	13.3%
Other Than Personal Service						
Medical Assistance	$5,644	$5,756	$5,916	$6,089	$445	7.9%
Public Assistance	$1,191	$1,172	$1,172	$1,172	($19)	(1.6%)
All Other	$18,685	$17,936	$18,591	$19,094	$409	2.2%
Subtotal-OTPS	$25,520	$24,864	$25,679	$26,355	$835	3.3%
Debt Service						
Principal	$1,567	$1,649	$1,963	$2,022	$455	29.1%
Interest & Offsets	$2,314	$2,744	$2,854	$3,327	$1,013	43.8%
Subtotal Debt Service	$3,881	$4,393	$4,817	$5,349	$1,468	37.8%
FY 2007 BSA	($34)	($31)	$0	$0	$34	(100.0%)
FY 2008 BSA	($4,079)	$0	$0	$0	$4,079	(100.0%)
FY 2009 BSA	$1,803	($1,257)	$0	$0	($1,803)	(100.0%)
FY 2010 BSA	$0	$350	($350)	$0	$0	N/A
Prepayments*	$0	($2,036)	$0	$0	$0	N/A
Debt Retirement						
Call 2009/2010 G.O. Debt	($278)	($277)	$0	$0	$278	(100.0%)
Defease NYCTFA Debt	($363)	($382)	$0	$0	$363	(100.0%)
Subtotal Debt Retirement	($641)	($659)	$0	$0	$641	(100.0%)
Transfer for NYCTFA Debt Service	($546)	($546)	$0	$0	$546	(100.0%)
NYCTFA						
Principal	$475	$497	$575	$634	$159	33.3%
Interest & Offsets	$658	$646	$539	$524	($134)	(20.4%)
Subtotal NYCTFA	$1,134	$1,144	$1,114	$1,158	$24	2.1%
General Reserve	$300	$300	$300	$300	$0	0.0%
	$62,272	$63,028	$70,158	$72,756	$10,484	16.8%
Less: Intra-City Expenses	($1,607)	($1,447)	($1,446)	($1,446)	$161	(10.0%)
Total Expenditures	$60,665	$61,581	$68,712	$71,310	$10,645	17.5%
Gap To Be Closed	**$0**	**($1,337)**	**($5,027)**	**($4,921)**	**($4,921)**	**N/A**

***** The $1.986 billion prepayment of FY 2010 debt service in FY 2008 is expected to generate $50 million in interest savings for FY 2010.

Table 2. Plan-to-Plan Changes
November 2008 Plan vs. June 2008 Plan

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Revenues				
Taxes:				
General Property Tax	$832	$256	$256	$256
Other Taxes	($384)	($1,272)	($1,106)	($1,025)
Tax Audit Revenues	$103	$10	$10	$10
Miscellaneous Revenues	$150	$160	$141	$140
Unrestricted Intergovernmental Aid	$0	$0	$0	$0
Less: Intra-City Revenues	($69)	$6	$6	$6
Disallowances Against Categorical Grants	$0	$0	$0	$0
Subtotal: City Funds	$632	($840)	($693)	($614)
Other Categorical Grants	$46	$14	$14	$13
Inter-Fund Revenues	$1	$0	$1	$1
Total City & Inter-Fund Revenues	$679	($826)	($678)	($600)
Federal Categorical Grants	$450	$16	$7	$8
State Categorical Grants	$142	$7	$2	$5
Total Revenues	$1,271	($803)	($669)	($587)
Expenditures				
Personal Service				
Salaries and Wages	($30)	($249)	($261)	($236)
Pensions	$0	$82	$387	$649
Fringe Benefits	$7	($131)	($449)	($716)
Subtotal-PS	($23)	($298)	($323)	($303)
Other Than Personal Service				
Medical Assistance	$42	$0	$0	$0
Public Assistance	$14	($4)	($4)	($4)
All Other	$345	($525)	($499)	($495)
Subtotal-OTPS	$401	($529)	($503)	($499)
Debt Service				
Principal	$0	$7	$99	$52
Interest & Offsets	($29)	($5)	($79)	($30)
Subtotal Debt Service	($29)	$2	$20	$22
FY 2007 BSA	$0	$0	$0	$0
FY 2008 BSA	$0	$0	$0	$0
FY 2009 BSA	$991	($445)	$0	$0
FY 2010 BSA	$0	$0	$0	$0
Prepayments	$0	$0	$0	$0
Debt Retirement				
Call 2009/2010 G.O. Debt	$0	$0	$0	$0
Defease NYCTFA Debt	$0	$0	$0	$0
Subtotal Debt Retirement	$0	$0	$0	$0
Transfer for NYCTFA Debt Service	$0	($546)	$0	$0
NYCTFA	$0	$0	$0	$0
Principal	$0	$0	$0	$0
Interest & Offsets	$0	$0	$0	$0
Subtotal NYCTFA	$0	$0	$0	$0
General Reserve	$0	$0	$0	$0
	$1,340	($1,816)	($806)	($780)
Less: Intra-City Expenses	($69)	$6	$6	$6
Total Expenditures	$1,271	($1,810)	($800)	($774)
Gap To Be Closed	**$0**	**$1,007**	**$131**	**$187**

Table 3. Risks and Offsets to the FYs 2009 – 2012 Financial Plan

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
City Stated Gap	**$0**	**($1,337)**	**($5,027)**	**($4,921)**
Tax Revenue Assumptions				
Economic (Risks)/Offsets				
Property Tax	($65)	$70	$210	$475
Personal Income Tax	(150)	(40)	(200)	(170)
Business Taxes	(195)	(50)	(140)	(375)
Sales Tax	0	0	0	10
Real-Estate-Related Taxes	(525)	285	945	985
Subtotal	**($935)**	**$265**	**$815**	**$925**
City Council Actions				
Mid-Year Rescission of 7% Property Tax Cut	(576)	0	0	0
Elimination of $400 rebate	(256)	0	0	0
Subtotal	**($832)**	**$0**	**$0**	**$0**
State Aid	**(100)**	**(300)**	**(300)**	**(300)**
Subtotal Revenue(Risks)/Offsets	**($1,867)**	**($35)**	**$515**	**$625**
Expenditure (Risks)/Offsets				
Health Insurance Restructuring	$0	($200)	($200)	($200)
Overtime	(139)	(100)	(100)	(100)
Public Assistance	(5)	(10)	(10)	(10)
Judgments and Claims	58	108	165	226
GASB 49	0	0	(500)	(500)
Subtotal	**($86)**	**($202)**	**($645)**	**($584)**
Total Risk/Offsets	**($1,953)**	**($237)**	**($130)**	**$41**
Restated (Gap)/Surplus	**($1,953)**	**($1,574)**	**($5,157)**	**($4,880)**

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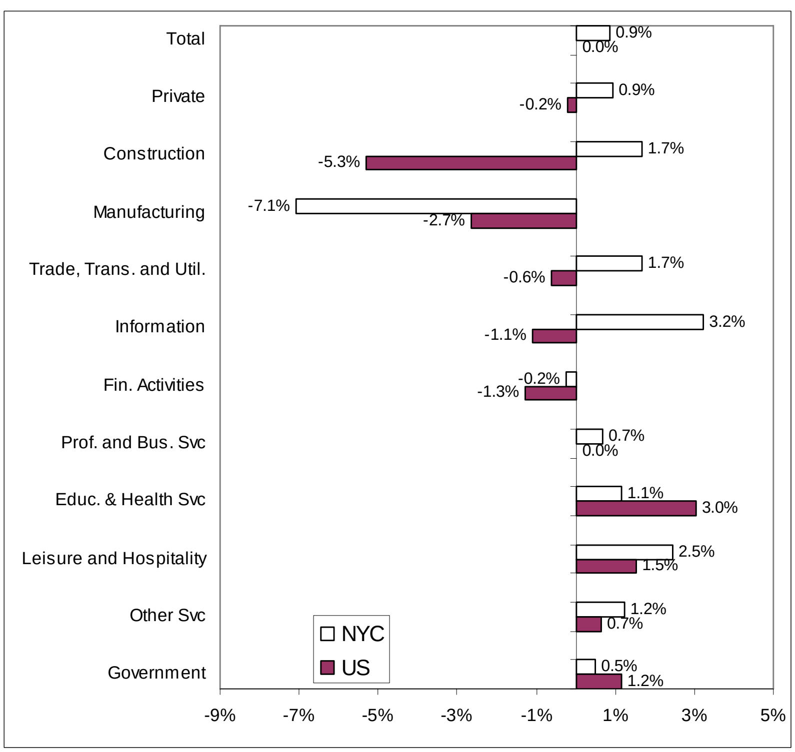
II. State of the City's Economy

Both the national and local economies are now clearly in recession and the global economy may be as well. The financial problems that emerged in August, 2007, have since mushroomed beyond the worst fears of nearly all observers, and have spread from the financial system to the rest of the economy. Despite numerous stabilization programs implemented by the Federal Reserve and the Treasury Department, credit conditions remain extremely tight, the financial industry remains under tremendous strain, and consumer spending has contracted to an alarming extent. The incoming federal administration appears to favor a fiscal stimulus package of unprecedented scale; however, even if that stimulus is effective in halting the downward trajectory of the economy, it will not spare the nation and city from the effects of a recession that has already begun.

A. NYC'S ECONOMIC PERFORMANCE IN 2008

In many respects New York City's economy has performed better than the nation's since the onset of the credit crunch more than a year ago. However, the city's economic momentum has dissipated continuously since the beginning of 2008, and the serious blows sustained by some of its major private employers portend a more rapid deterioration in conditions through the rest of the year and well into 2009.

Chart 1. **Change in NYC and U.S. Payroll Jobs, First 10 Months of 2008 vs. First 10 Months of 2007**

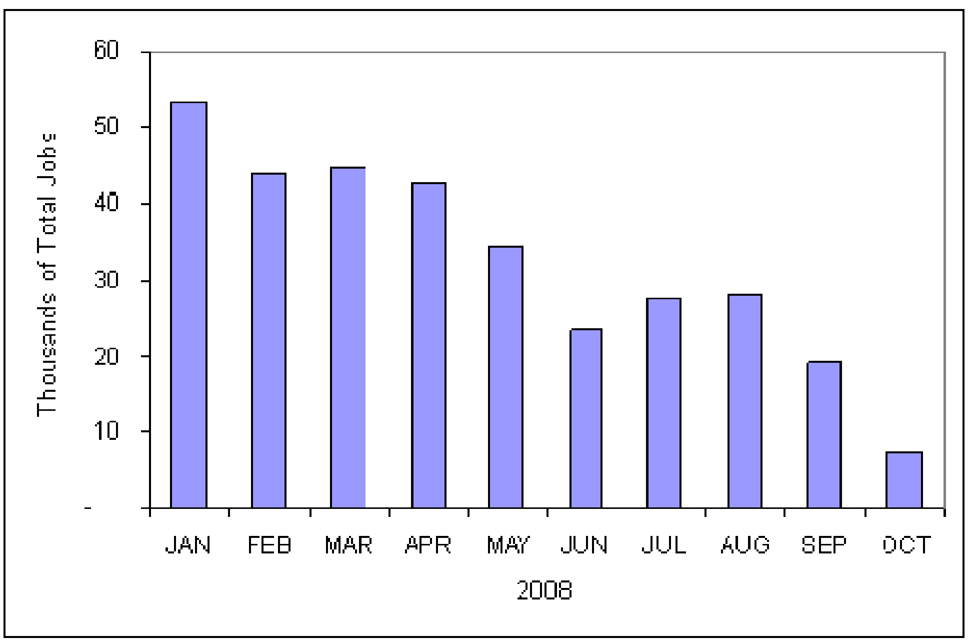


SOURCE: Monthly Data from U.S. Department of Labor and NYC Comptroller's Office.

As Chart 1 on the previous page shows, job growth in the city continued well after the housing and financial crises had begun to cause significant job losses in the rest of the nation. For the first ten months of 2008, total private sector payroll jobs within the city were up 0.9 percent over the same period of the previous year, while private payroll employment fell 0.2 percent nationwide. Local job growth continued in key industries such as information, professional and business services, and leisure and hospitality, as well as in industries that serve primarily the local population, such as construction, trade, transportation and utilities, and education and health services. Even the city's financial activities sector, while incurring huge revenue declines and operating losses, maintained employment levels comparatively better than the sector nationwide. The divergence from the national trend could not continue indefinitely, however, and during the past several months a negative trend has become unmistakable.

Total private payroll employment in the City in January, 2008, was more than 50,000 above the level of January 2007. That figure declined in five of the following seven months, so that by August the year-over-year gain had fallen to 29,000, a clear sign of slowing momentum. In September and October, significant seasonally-adjusted payroll job losses were evident, and the October jobs level was only 5,300 above that of October, 2007. By October, year-over-year payroll employment had declined in several professional and business services sectors, and in the arts, entertainment and recreation, but by far the biggest drop was in financial activities, where year-over-year employment fell more than 13,000. Chart 2 shows the year-over-year decline in the NYC payroll job gains since January of 2008.

***Chart 2*. NYC Jobs Compared to Same Month in Prior Year Since January**



SOURCE: NYS Department of Labor.

A similar pattern was evident in the city's real estate economy. The city's housing prices have proven slower to decline than those in most other cities but recent shocks to the local economy may further test that buoyancy. According to the 20-city S&P/Case-Shiller Home Price Index, through September 2008 national home prices dropped by nearly 23 percent from their peak reached in June 2006. In some metro areas, including Miami, Phoenix and Las Vegas, the fall has exceeded 30 percent. In the New York metropolitan area, however, prices have declined only about 11 percent. Moreover, for the year ending September 2008, the national rate of decline was 18 percent, while the New York metropolitan rate was 7.0 percent. A stronger regional economy, a large pool of middle- and upper-income renters, and a housing market less dependent on easy credit were all factors supporting the metro area housing market.

As was the case during the previous housing cycle, the city's housing market appears to have fared better than the overall metropolitan area, with prices in and near Manhattan holding up better than other locations. According to Prudential Douglas Elliman Real Estate, the median Manhattan apartment sales price during the third quarter of 2008 was up 7.4 percent from the same quarter of the previous year, while the median Brooklyn 1- to 3-family house price fell 3.2 percent and the median Queens house price fell 6.5 percent. Brooklyn and Queens home prices appeared to stabilize in the third quarter, according to the Prudential Douglas Elliman data, but Manhattan prices weakened significantly. Total residential sales volume fell by one-third in the three boroughs during the third quarter of 2008, however, and the lingering effects of the credit market shocks that occurred in September will put added downward pressure on residential prices.

The city's residential construction industry continued to expand right through the middle of 2008, nearly three full years after the national housing construction cycle had peaked and begun a steep slide. After three successive years in which new residential building permits in the City exceeded 30,000 units, permits crested at 17,490 in June 2008. The June figure was inflated, however, by developers seeking to qualify for 421-a tax exemption benefits before new rules took effect, and in the third quarter permits averaged only 1,382 per month. It is likely that many of the permits for construction of new units will be put on hold given the downturn in the local economy. In addition, the absorption of the already completed units will challenge the market during the next several years.

Manhattan's commercial real estate market also has shown a recent cooling. The office vacancy rate hit a low of 5.3 percent in the second quarter of 2007, but has trended upward since that time. The vacancy rate reached 7.4 percent in the third quarter of 2008, and for the first time in almost eight years the Midtown vacancy rate (7.8 percent) surpassed that of Downtown (7.3 percent). More than 6.7 million square feet of space was placed in the market in the third quarter, of which over 4 million square feet were in Midtown. Despite the rise in vacancy rates, asking rents continued to increase.

While the city's labor and real estate markets outperformed those of the nation for most of 2008, the adversities experienced by its largest industry make this one of the grimmest economic periods for the City in many years. The problems originating in the subprime mortgage market, which quickly spread to other mortgage-backed assets and to credit markets worldwide, have taken an immense toll on the city's financial industry. In March, Bear Stearns, one of Wall Street's five major independent investment banks, nearly collapsed and was saved, in part, through a federally-sponsored merger with JPMorgan Chase. In September, another spasm of financial anxiety brought down Lehman Brothers, forced AIG into a federal bailout, caused Merrill Lynch to merge with Bank of America, and led Goldman Sachs and Morgan Stanley to reorganize as bank holding companies. In November, yet another crisis necessitated a federal rescue of Citibank, the city's largest for-profit private employer. Meanwhile, stock prices, one of the single best indicators of the state of the city's economy, has fallen approximately 40 percent since the beginning of the year. These events will affect the city's economic condition for years to come.

B. ECONOMIC OUTLOOK

The outlook for the city's economy is grim, with strong downside risks for the remainder of this year, 2009 and 2010. The evidence is now persuasive that the U.S. economy has fallen into outright recession and that the recession is likely to last into 2009. We expect that GDP will fall at an annual rate of 2 to 3 percent in the fourth quarter of 2008 and in the first quarter of 2009. Whether the economy begins a slow recovery thereafter or descends into a truly epic slump depends on whether additional shocks to the financial system occur. Our forecasting assumption is that the cumulative effect of Federal Reserve, Treasury Department, and FDIC actions, combined with an anticipated federal fiscal stimulus program of significant magnitude, will be sufficient to stabilize financial markets and reverse the downward economic trajectory. The events of recent months, however, suggest that additional financial traumas cannot be ruled out and that economic recovery could be delayed further.

The current economic downturn is already far worse than most forecasters expected. While many analysts had argued that a housing price cycle was nearing its end and that, indeed, a housing price bubble had formed, relatively few anticipated that house prices would fall so far or so fast. In previous housing price cycles, several years of rapid price gains were followed by long periods of price stagnation, during which real incomes caught up to prices. Only in unique regional markets, usually characterized by highly volatile local economies, had nominal housing price declines of any significant degree occurred. In retrospect, what made this price cycle so dangerous was the degree of credit quality deterioration that had occurred during the years of price build-up. In theory, sub-prime loans price risk more accurately, make credit markets more efficient, and make home-ownership opportunities more widely available. What became evident only later was the degree to which irresponsible underwriting and outright fraud had infected the loan origination business, primarily because of the widening gap between those who profited from loan origination and those who ultimately owned the loan and incurred the risk of its default.

Also unanticipated was the degree to which major financial institutions held in their own portfolios, or in specialized investment vehicles, securities based on these irresponsibly or fraudulently-underwritten mortgages. The market's discovery of where those securities are held, and of the quality of loans of which they are comprised, remains an on-going process that is primarily responsible for the periodic episodes of credit market panic that has characterized the past year.

These unique features of the current downturn—rapidly falling home prices and financial institution exposure to securities based on them—have fed on one another to deprive the economy of a major automatic stabilizer that has limited past recessions. Traditionally, when economic activity contracts, interest rates fall and home buying and homebuilding increase, thereby stimulating the economy and helping to end the contraction. In this cycle, however, recovery in the housing market has been stymied by disruptions in the flow of credit, which has in turn been disrupted by further housing market deterioration. Moreover, the resulting disruptions in the flow of credit have curtailed consumer and business spending outside of the housing market, spreading and intensifying the adverse impact on the economy.

During the first half of 2008, export trade provided an offset to weakening domestic demand. From May 2007 through May 2008, the dollar declined in value against major trading currencies by about 9.0 percent, making imported goods more expensive to Americans and U.S. exports less expensive to foreign buyers. It also made New York City a less expensive destination for foreign tourists and shoppers. In recent months, however, as the financial crisis spread to Europe and to many emerging markets, the U.S. dollar has again strengthened, undercutting the surge in exports and limiting the trade sector's contribution to economic growth. Moreover, it has become apparent that the recession has spread throughout the world, further reducing demand for American-produced goods.

It is difficult to see how the vicious cycle can be broken soon without massive government intervention in the economy. Already, the Federal Reserve has taken unprecedented steps to provide liquidity to the market and to guarantee the safety of interbank and other corporate lending. The Treasury Department has also attempted in to stabilize the financial system, primarily through the $700 billion Troubled Asset Relief Program (TARP), enacted by Congress in October. To avert an even deeper and prolonged recession, however, additional steps are necessary. Through the first year of the crisis, the federal government has taken only modest steps to stabilize the housing market and stem the flood of foreclosures that is depressing it. That is apparently changing; in late November, the Federal Reserve announced that it would purchase up to $600 billion of debt issued or backed by government-sponsored enterprises (GSEs) and Federal Home Loan banks. That measure represents the largest effort to date to directly affect the flow and cost of mortgage credit. The in-coming administration also appears likely to step-up federal efforts to modify home mortgages that are in default or that are otherwise in jeopardy of foreclosure.

The federal government is also likely, within the next several months, to implement another, much larger fiscal stimulus package than that provided earlier in the year. A bipartisan consensus has been growing that another stimulus package, more weighted to direct spending than to tax rebates, is necessary. A number of influential economists and public officials have called for stimulus on the order of $500 billion to

$700 billion over two years. A stimulus package of that size would have a material impact on the course of the economy in 2009 and 2010 and we expect that it will be enacted.

With more vigorous steps to stabilize the housing market combined with a large fiscal stimulus, there is reason to believe that the recession could reach a trough in the Spring of 2009. We anticipate, therefore, the nation's real economic growth to be significantly negative in the fourth quarter of 2008, and in the first two quarters of 2009, with positive, if slow, growth resuming in the third quarter of 2009.

Table 4 provides a comparison of the forecasts for real GDP, the unemployment rate, and the inflation rate by the Comptroller's Office, Mayor, and the Blue Chip consensus.

Table 4. Percent Change in Real GDP, Inflation Rate, and Unemployment Rate, Projections, 2008 and 2009

	GDP Growth		Unemployment Rate		Change in CPI	
	2008	2009	2008	2009	2008	2009
1. NYC Comptroller's Office	1.4	(1.2)	5.7	7.4	4.3	1.6
2. Mayor	1.8	0.7	5.5	6.2	4.6	2.5
3. Blue Chip Consensus	1.4	(0.4)	5.7	7.4	4.2	1.5

SOURCE: OMB, NYC Comptroller's Office and Blue Chip Economic Indicators, November 10, 2008.
CPI=Consumer Price Index.

Table 5 provides summary projections for seven U.S. indicators in 2008 and 2009.

Table 5. Seven U.S. Indicators, Actual 2007, and Comptroller's Projections, 2008-2009

	Actual 2007	Projected 2008	Projected 2009
Real GDP Growth, (2000 $)	2.0	1.4	(1.2)
Payroll Jobs, Percent Change	1.1	(0.2)	(1.7)
Consumer Price Index (1982=100), % Change	2.9	4.3	1.6
Wage-Rate Growth	4.5	3.2	2.6
Unemployment Rate	4.6	5.7	7.4
Fed Funds Rate	5.0	1.9	0.6
10-Yr T-Notes	4.6	3.8	3.8

SOURCE: NYC Comptroller's Office and data from BLS, BEA, and the Federal Reserve Board of Governors. Actual data are shown in the 2007 column. The Comptroller's projections (averages for the year) are in the 2008 and 2009 columns.

Table 6 provides a summary of Comptroller's projection for five NYC indicators in 2008 through 2012.

Table 6. Selected City Indicators, Actual 2007 and Comptroller's Forecasts, 2008-2012

	2007	2008	2009	2010	2011	2012
Real GCP, (2000 $), % Change	3.2	0.4	(2.8)	(1.4)	1.9	3.1
Payroll Jobs (Annual Change), '000s	79.0	27.0	(71.0)	(72.0)	5.0	44.0
Wage-Rate Growth, %	8.9	(1.0)	(5.3)	2.4	3.5	3.5
Consumer Price Index (1982=100), % Change	2.8	4.2	2.3	2.5	2.5	2.9
Unemployment Rate, %	5.0	5.3	6.7	7.4	7.1	6.9

SOURCE: NYC Comptroller's Office based on BLS and BEA. GCP=Gross City Product.

Table 7 provides a summary of the Mayor's projection for five NYC indicators in 2008 through 2012.

Table 7. Selected City Indicators, Actual 2007 and Mayor's Forecasts, 2008-2012

	2007	2008	2009	2010	2011	2012
Real GCP, (2000 $), % Change	3.9	(5.6)	(4.7)	2.0	3.8	2.4
Payroll Jobs (Annual Change), '000s	79.0	17.0	(116.0)	(11.0)	40.0	36.0
Wage-Rate Growth, %	8.9	(0.2)	(5.1)	2.7	4.4	4.7
Consumer Price Index (1982=100), % Change	2.8	4.4	2.9	2.2	2.5	2.5
Unemployment Rate, %	NA	NA	NA	NA	NA	NA

SOURCE: NYC Comptroller's Office based on BLS and BEA. GCP=Gross City Product.

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III. The City's Fiscal Outlook

Since the Adopted Budget in June, the weakening economy has taken a turn for the worse as the impacts of the national housing market collapse and the ensuing financial market meltdown continue to spread. With its heavy dependence on Wall Street, the City's fiscal outlook has consequently deteriorated. The projected FY 2009 budget surplus of $812 million at budget adoption is expected to shrink by $303 million while gaps in the outyears are expected to increase by $1.4 billion in FY 2010, $1.6 billion in FY 2011, and $1.7 billion in FY 2012.[1]

As shown in Table 8, the City has lowered its revenue estimates $280 million in FY 2009 and more than $1 billion in each of FYs 2010 through 2012. Almost all the reductions are in tax revenues. The bulk of the decrease in tax revenue projections is due to revisions in the economically sensitive personal income and business tax revenues. As discussed in "Tax Revenues" beginning on page 17, deterioration in the financial market and the broader economy is expected to weaken year-over-year tax revenue receipts in FYs 2009 and 2010.

Table 8. Changes to the City-Funds Estimates

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Gaps to be Closed - June 2008 Plan	**$0**	**($2,344)**	**($5,158)**	**($5,108)**
Tax Revenues	(285)	(1,272)	(1,105)	(1,025)
Non-Tax Revenues	5	(40)	(29)	(10)
Subtotal Revenue Changes	**($280)**	**($1,312)**	**($1,134)**	**($1,035)**
Reserve for Pension Losses	$0	($82)	($395)	($672)
Debt Service	(5)	(2)	(20)	(22)
Other Expenses	(18)	(9)	(3)	(3)
Subtotal Expense Changes	**($23)**	**($93)**	**($418)**	**($697)**
Total Change Since June 2008	**($303)**	**($1,405)**	**($1,552)**	**($1,732)**
Gaps to be Closed November 2008 Plan	**($303)**	**($3,749)**	**($6,710)**	**($6,840)**
Gap Closing Actions				
Agency Gap Closing Programs	462	1,083	1,032	991
Accelerate Rescission of 7% Property Tax Cut	576	0	0	0
Eliminate $400 Property Tax Rebate	256	256	256	256
Reduce Payment for Retiree Health Insurance	0	82	395	672
Total Gap Closing Actions	**$1,294**	**$1,421**	**$1,683**	**$1,919**
Prepayments	**($991)**	**$991**	**$0**	**$0**
Remaining Gaps	**$0**	**($1,337)**	**($5,027)**	**($4,921)**

[1] The projected budget surplus was used to fund a FY 2009 BSA to prepay FY 2010 debt service.

Pension investment losses in FY 2008 and expectations of steeper losses in FY 2009 have prompted the City to increase its reserve for pension investment losses. As discussed in “Pensions” beginning on page 26, the City’s estimates of pension contributions in the June 2008 Financial Plan were based on the assumption of a zero percent return on FY 2008 pension investments. Actual pension investment returns on June 30, 2008 were an aggregate negative 5.4 percent. In addition, the City now expects pension investment for FY 2009 to suffer a loss of 8.0 percent instead of the 8.0 percent gain assumed in the June 2008 Financial Plan. Consequently, the City has increased its reserve for pension losses by $82 million in FY 2010, $395 million in FY 2011 and $672 million in FY 2012. All other expenditures including debt service were revised moderately reflecting primarily technical adjustments.

The reduction in revenue projections together with increased expenditure estimates have widened the budget gaps to $303 million in FY 2009, $3.75 billion in FY 2010, $6.7 billion in FY 2011, and $6.84 billion in FY 2012. To address the budget gaps, the City has proposed agency gap closing programs totaling $462 million in FY 2009, $1.08 billion in FY 2010, $1.03 billion in FY 2011, and $991 million in FY 2012. The Mayor has proposed accelerating to January 1, 2009, a previously proposed rescission of the 7.0 percent property tax reduction scheduled to begin on July 1, 2009. This is expected to generate $576 million in additional property tax revenue in FY 2009. Another $256 million of additional property tax revenue is expected to be realized annually with the proposed elimination of the $400 property tax rebate. Finally, the City plans to fund the incremental pension investment shortfall by reducing its spending on retiree pay-as-you-go health insurance. The shortfall in retiree health insurance funding will be paid out of the Retiree Health Benefit Trust asset, as discussed in “Health Insurance” beginning on page 27.

If all the proposed gap closing initiatives are successfully implemented, the City expects to end FY 2009 with an additional surplus of $991 million. This additional surplus would increase the projected FY 2009 BSA to $1.8 billion. Planned prepayment of debt service with the BSA together with the gap-closing actions would reduce the FY 2010 gap to $1.3 billion. In the absence of significant prepayments, sizeable gaps of about $5 billion remain in the outyears of the Financial Plan despite these gap-closing actions.

Program to Eliminate the Gap (PEG)

The agency programs to eliminate the gap total $462 million in FY 2009, $1.08 billion in FY 2010, $1.03 billion in FY 2011, and $991 million in FY 2012. The FY 2009 PEGs are comprised of 212 initiatives (163 expenditure and 49 revenue initiatives) of which 172 initiatives (81 percent) are expected to produce $415 million of gap closing benefits in FY 2009 and recurring benefits of $868 million in FY 2010, $849 million in FY 2011, and $797 million in FY 2012. Seventy-four additional agency gap closing initiatives (61 expenditure and 13 revenue initiatives) generating $215 million of budget relief are expected to be implemented in FY 2010. Of these, 59 initiatives (80 percent) are expected to produce recurring benefits of $175 million in each of FYs 2011 and 2012.

As Table 9 shows, agency reductions make up the bulk of the gap closing actions. Agency reductions, or expenditure PEGs, comprise $393 million of FY 2009 PEGs. These initiatives include library and cultural institution subsidy reductions, headcount reductions, agency other-than-personal-service spending cuts, and program consolidations.[2] Revenue PEGs are expected to provide $69 million of relief in FY 2009 and include increased enforcement of block-the-box violations, fee increases and new fees, and additional audit revenues.

Table 9. November Plan PEGs

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
REVENUE PEGs*				
Recurring				
FY 2009 Agency PEGs	$45	$149	$133	$112
FY 2010 Agency PEGs	0	44	44	44
Total Recurring	$45	$193	$117	$156
Non-Recurring				
FY 2009 Agency PEGs	$24	$0	$0	$0
FY 2010 Agency PEGs	0	7	0	0
Total Non-Recurring	$24	$7	$0	$0
Total Revenue PEGs	**$69**	**$200**	**$177**	**$156**
EXPENDITURE PEGs				
Recurring				
FY 2009 Agency PEGs	$370	$719	$716	$685
FY 2010 Agency PEGs	0	135	131	131
FY 2011 Agency PEGs	0	0	8	18
FY 2012 Agency PEGs	0	0	0	1
Total Recurring	$370	$854	$855	$835
Non-Recurring				
FY 2009 Agency PEGs	$23	$0	$0	$0
FY 2010 Agency PEGs	0	29	0	0
Total Non-Recurring	$23	$29	$0	$0
Total Expenditure PEGs	**$393**	**$883**	**$855**	**$835**
Total PEGs	**$462**	**$1,083**	**$1,032**	**$991**

SOURCE: NYC Office of Management and Budget and NYC Office of the Comptroller.

*The value of revenue PEGS are net of any offsetting expenditures.

RISKS AND OFFSETS

As Table 3 on page 3 shows, the Comptroller's Office has identified risks of $1.96 billion, $237 million, and $130 million in FYs 2009, 2010 and 2011, respectively, and offsets to risks of $41 million in FY 2012. Most of the risks to the City's FY 2009

[2] Details of agency gap-closing initiatives can be found at http://www.nyc.gov/html/omb/downloads/pdf/agypgm11_08.pdf

budget projections derive from the Comptroller's lower projections for tax revenues. As discussed in "Risks and Offsets to the City's Tax Revenue Assumptions" beginning on page 20, the Comptroller's Office expects tax revenues to be $1.77 billion below the City's forecast. Almost half the tax revenue risks in FY 2009 stem from the City's plans to eliminate the $400 property tax rebate to homeowners and accelerate the rescission of the 7.0 percent property tax cut to January 1, 2009. Risks to the City's expenditure estimates make up the remainder of FY 2009 risks. The Comptroller's Office estimates overtime spending in FY 2009 will be $139 million more than budgeted. In addition, as discussed in "Public Assistance" beginning on page 36, the City could face public assistance risk of $5 million in FY 2009 and $10 million in each of the outyears. However, the Comptroller's Office expects that lower judgments and claims costs will partially offset these risks.

In the outyears of the Financial Plan, the Comptroller's Office expects overall tax revenues to be higher than the City's forecast in each of FYs 2010 through FY 2012. The Comptroller's higher revenue projections are driven mainly by a more optimistic outlook for the recovery in real-estate-related taxes. However, the Comptroller's more favorable revenue outlook in the outyears is tempered by expectations of reduction in unrestricted State aid and higher spending than projected by the City. The November Plan does not account for the implication of the State's budget woes and its impact on aid to the City. The Comptroller's Office estimates that the City could face risks to State aid of $300 million in each of FYs 2010 through 2012 as a result of the State's fiscal trouble.

The risks to expenditure assumptions result mainly from the City's proposal to restructure employees' health insurance, higher overtime spending, reduced State aid, and GASB statement 49 requirements. The November Plan includes the assumption that a proposed restructuring of employees' health insurance will produce annual savings of $200 million beginning FY 2010. However, there are no details yet regarding the nature of the restructuring and how the savings would be achieved. As such, the health insurance restructuring proposal poses a risk to the budget.

Finally, beginning in FY 2011, the City could face additional operating costs as a result of the requirements of GASB statement 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which requires governments to report most pollution remediation as operating expenses. GASB statement 49 becomes effective for financial reporting purposes for the City's FY 2009 financial statements. Under State law, New York City is prohibited from borrowing for operating expenses and therefore the affected pollution remediation expenses would normally have to be funded in the operating budget; however, the New York State Financial Control Board for the City of New York has acted to permit the City to continue to borrow for pollution remediation costs associated with capital projects authorized prior to July 1, 2010. The City currently accounts for some pollution remediation in the capital budget. The City has estimated the cost of pollution remediation affected by GASB 49 at $500 million annually but has not included this cost in its FYs 2011 and 2012 projections.

IV. Revenue Assumptions

In the November Modification, City-fund revenue projection increased by $632 million in FY 2009. The increase reflects $832 million in anticipated tax revenues from a planned acceleration of a previously proposed rescission of the 7.0 percent property tax cut and the elimination of the $400 property tax rebate. Non-property tax revenue projection for FY 2009 declined by $281 million while miscellaneous revenue projection, including gap closing actions increased by $150 million. The expected drop in non-property tax collections results from the current slowdown in the national and local economies and the impact of the credit crisis on Wall Street. The City projects tax revenues to decline 4.3 percent in FY 2009 to $37.1 billion and to increase 13.6 percent over the Plan period mostly due to growth in expected property tax revenues. Total revenues are expected to reach $60.7 billion in FY 2009 and grow 9.4 percent throughout the Plan period to $66.4 billion in FY 2012.

Tax Revenues

Excluding the proposed repeal of the property tax rebate and the mid-year rescission of the 7.0 percent property tax cut, the November Modification projects $36.3 billion in total tax revenue for FY 2009, a $2.5 billion decline from FY 2008.[3] To make up for the shortfall, the City included the above proposals in the November Modification and expects to generate an additional $832 million in tax revenues in FY 2009, and $256 million each year from FYs 2010 to 2012. Including the proposed revenue initiatives, tax revenue is expected to reach $37.1 billion in FY 2009, $37.2 billion in FY 2010, $39.8 billion in FY 2011, and $42.1 billion in FY 2012. Total tax revenue is expected to decline 4.3 percent in FY 2009, and then to grow 0.3 percent in FY 2010, 6.9 percent in FY 2011, and 6.0 percent in FY 2012.

Changes from Adopted Budget

Tax revenue projections for FY 2009 have increased $550 million, or 1.5 percent, since the Adopted Budget. The increase is attributable to additional tax revenues expected from the two property tax initiatives, partially offset by downward revisions to non-property tax revenue projections. Forecasts of total tax revenues have been revised downward by $1.005 billion for FY 2010, $840 million for FY 2011 and $759 million for FY 2012. Without the property tax initiatives, tax revenue projections in the current plan would be lower by $282 million in FY 2009, $1.27 billion in FY 2010, $1.1 billion in FY 2011, and $1.02 billion in FY 2012 compared with the June 2008 Plan.

[3] The definition of personal income tax (PIT) revenue used in this section includes School Tax Relief (STAR) reimbursement and the portion of PIT retained for New York City Transitional Finance Authority (NYCTFA) debt service. Property tax revenue includes STAR reimbursement. Total tax revenue includes STAR, NYCTFA, and tax audit revenues.

Real property tax revenue is estimated to rise $832 million for FY 2009 as a result of the elimination of the $400 rebates to homeowners and the acceleration of the repeal of the 7.0 percent tax cut. Early rescission of the 7.0 percent property tax cut for the second half of FY 2009 is expected to generate an additional $576 millon in property tax revenues in the current fiscal year. The elimination of the $400 rebate to homeowners will generate projected revenues of $256 million in each of FYs 2009 through 2012, accounting for all the increase in outyear property tax revenue forecasts.

The City has lowered its FY 2009 personal income tax (PIT) forecast $165 million, or 1.9 percent, in the November Plan due to the impact of the economic downturn and the financial crisis on Wall Street compensation. The downward revisions to the forecasts are mainly due to a decline in extensions and an increase in refunds. Compared with the Adopted Budget, PIT extensions have been reduced by $165 million, while refunds have been increased by $110 million for FY 2009. PIT collection forecasts have been reduced $363 million, $293 million and $256 million for FY 2010, FY 2011, and FY 2012, respectively, reflecting diminished Wall Street bonuses and an anticipated slow recovery of the local economy.

The business tax revenue projection for FY 2009 has decreased $234 million, or 4.7 percent, from the Adopted Budget. The decrease is attributable to two of the three business taxes, with declines of $104 million from the general corporation tax (GCT) and $130 million from the banking corporation tax (BCT). The downward revisions reflect the expected impact of the current financial crisis on business profitability. The estimated collections for business taxes have been reduced $470 million, $523 million, and $403 million for FY 2010, FY 2011, and FY 2012, respectively.

The FY 2009 sales tax revenue forecast has increased $85 million or 1.8 percent from the Adopted Budget, based on better-than-expected collections in the first four months of FY 2009. Collection forecasts have been revised downward by $181 million, $72 million, and $149 million for FYs 2010-2012, respectively.

The November Modification also reflects a $33 million decrease in projected real-property transfer tax revenue for FY 2009 from the Adopted Budget, as well as a $76 million decrease in anticipated revenue from the mortgage recording tax, reflecting a lower level of expected commercial and residential real estate transaction activities. Overall, the forecasts for real-estate-related taxes are reduced by $219 million, $167 million, and $153 million for FY 2010, FY 2011, and FY 2012, respectively. The revision of the City’s tax revenue forecasts are illustrated in Table 10.

Table 10. Revisions to the City's Tax Revenue Assumptions

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Adopted Budget – Total	**$36,552**	**$38,220**	**$40,615**	**$42,905**
Revisions:				
Property	832	256	256	256
Personal Income (PIT)	(165)	(363)	(293)	(256)
Business	(234)	(470)	(523)	(403)
Sales	85	(181)	(72)	(149)
Real-Estate Related	(109)	(219)	(167)	(153)
All Other	142	(28)	(41)	(54)
Revisions – Total	**$550**	**($1,005)**	**($840)**	**($759)**
Revisions - Percent	**1.5%**	**(2.6%)**	**(2.1%)**	**(1.8%)**

SOURCE: NYC Office of Management and Budget.

Projected Tax Revenue Growth, FYs 2009-2012

The $37.1 billion in expected total tax revenue for FY 2009 represents a decrease of $1.7 billion, or 4.3 percent, from FY 2008. Collections are expected to grow 0.3 percent in FY 2010, 6.9 percent in FY 2011, and 6.0 percent in FY 2012, respectively. Total tax revenue is forecast to grow 4.3 percent annually from FY 2009 through FY 2012.

Real property tax revenue for FY 2009 will be $1.6 billion, or 12.1 percent, greater in FY 2009 than FY 2008 with the implementation of the two previously mentioned real property tax proposals. Revenues are forecast to expand by 23.2 percent from FYs 2009 to 2012, an average annual rate of 7.2 percent. If the tax programs are not approved, the revenue increase in FY 2009 drops to $754 million, a 5.7 percent gain from FY 2008. Revenue growth from FYs 2009 to 2012 would then be 28.7 percent, with 8.8 percent average yearly growth.

Non-property tax revenues are expected to decrease $3.2 billion, or 12.6 percent in FY 2009. Large declines are expected in all major taxes in FY 2009, as a result of the deterioration in the national and City economic climate. Non-property tax collections are expected to grow 2.4 percent annually in the Plan period, reflecting a recovery expected in the outyears.

PIT revenue is expected to decrease $1.3 billion, or 13.5 percent, in FY 2009. The decline reflects the City's anticipation of a drop in financial-sector bonus payments and capital gains realizations for CY 2008, as well as the increase in the unemployment rate. For the outyears, PIT revenues are expected to decline 8.4 percent in FY 2010, followed by a 10.5 percent rebound in FY 2011 and an additional 6.9 percent increase in FY 2012. Overall, PIT growth is forecast to average 2.7 percent annually from FY 2009 to FY 2012.

Business tax collections are expected to decline by $709 million, or 13.1 percent, in FY 2009 compared with FY 2008, primarily due to a drop in corporate profits. General corporation tax revenue is expected to decline 14.1 percent, banking corporation tax revenue is expected to decline 17.7 percent, and unincorporated business tax revenue is forecast to decline 10 percent in FY 2009. Overall, business tax collections are expected to decline 5.6 percent in FY 2010, and to increase 8.2 percent and 11.2 percent in FY 2011 and FY 2012, respectively. During the Plan period, business taxes are expected to grow at an average of 4.3 percent annually.

Sales tax revenue is projected at $4.7 billion in FY 2009, a decline of $119 million, or 2.4 percent, from FY 2008. The decrease is anticipated because of an expected slowdown in aggregate income growth and a decline in household spending. Sales tax revenues are expected to grow at an annual average rate of 1.8 percent from FY 2009 to FY 2012.

Real-estate-related tax revenues are forecast to drop 28.3 percent to $1.8 billion in FY 2009. Mortgage recording tax collections are expected to decrease 30.1 percent to $795 million, while real property transfer tax collections are forecast to drop 26.8 percent to $1 billion. The City expects both sales and the average price of single-family homes to decline in CYs 2008 and 2009. The real-estate-related taxes are forecast to drop 8.8 percent in FY 2010, and to revert to annual positive growth averaging 4.4 percent in FY 2011 and FY 2012.

Table 11. Tax Revenue Forecast, Growth Rate, FYs 2009-2012

	FY 2009	FY 2010	FY 2011	FY 2012
Property	11.7%	10.9%	6.2%	4.6%
PIT	(13.5%)	(8.4%)	10.5%	6.9%
Business	(13.1%)	(5.6%)	8.2%	11.2%
Sales	(2.4%)	(5.6%)	6.2%	5.2%
Real-Estate Related	(28.3%)	(8.8%)	1.7%	7.2%
All Other	(11.4%)	(3.4%)	2.3%	2.4%
Total	**(4.3%)**	**0.3%**	**6.9%**	**6.0%**

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

Risks and Offsets to the City's Tax Revenue Assumptions

The Comptroller's projection of risks and offsets to the City's tax revenue assumptions is based on current year collections and economic growth projections. For FY 2009, the Comptroller's Office is projecting a risk of $1.8 billion to the City's estimates, reflecting lower forecasts in both property and non-property tax revenues. The Comptroller's Office expects offsets of $265 million in FY 2010, $815 million in FY 2011, and $925 million in FY 2012.

The City's real property tax projections include an assumption of a repeal of the $400 rebate beginning in FY 2009 and a rescission of the 7.0 percent property tax cut in the current fiscal year. However, both the repeal of the rebate in FY 2009 for FY 2008 property tax and the rescission of the property tax cut require the approval of the City Council. It is unclear whether the City Council will approve the Mayor's proposed rebate repeal for FY 2009 and the mid-year property tax increase, our estimated risk to property tax revenue has also increased in FY 2009 compared to our July 2008 report. In the outyears, the estimated risks to property tax remain unchanged from our previous analysis.[4] Excluding the tax programs, annual average growth from FYs 2009 to 2012 is 9.9 percent. It is 8.3 percent if we include the tax initiatives. Market values will likely decrease for the next two fiscal years, but the Comptroller's Office does not believe they will fall enough to reduce revenue. Rapid buildup of pipeline values in previous years, especially in FY 2008, support expected increases in billable values.

For FY 2009, non-property tax projections by the Comptroller's Office are lower than the City's estimates. The differences stem from a projected decrease in the growth of real-estate-related taxes, business taxes, and property tax as a result of a more pessimistic estimate of local real-estate transaction activities and corporate profits. The Comptroller believes that the turmoil in financial markets will have a particularly severe impact on the volume of real-estate transactions during the current fiscal year. For the outyears, the Comptroller's Office estimates lower PIT and business taxes revenues, as a result of an anticipated slower recovery of the local economy. The Comptroller expects an earlier rebound in the real-estate transaction market from FY 2010 to FY 2012, which results in large offsets in FY 2011 and FY 2012.

Table 12. Comptroller's Office Projections of Tax Revenue Risks and Offsets

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Property	($897)	$70	$210	$475
PIT	(150)	(40)	(200)	(170)
Business	(195)	(50)	(140)	(375)
Sales	0	0	0	10
Real-Estate Related	(525)	285	945	985
Total	**($1,767)**	**$265**	**$815**	**$925**

Miscellaneous Revenues

Compared with the June FY 2009 Adopted Budget, the City's latest FY 2009 miscellaneous revenue forecast has grown $81 million, or just under 2.0 percent. As Table 13 shows, fines and forfeitures, charges for services and other miscellaneous revenue categories show the most gain in the revised forecast included in the November Modification.[5] Miscellaneous revenue gap-closing initiatives account for $77 million of the forecast increase.

[4] See "Comptroller's Forecast of Tax Revenues" in the *Comptroller's Comments on the Adopted Budget for FY 2009 and Financial Plan for Fiscal Years 2009-2012 July 2008.*

[5] Analysis of miscellaneous revenues excludes intra-City revenues.

Table 13. Changes in FY 2009 Estimates Nov 2008 vs. June 2008

($ in millions)

	November	June	Change
Licenses, Franchises, Etc.	$469	$460	$9
Interest Income	90	85	5
Charges for Services	619	591	28
Water and Sewer Charges	1,307	1,319	(12)
Rental Income	219	218	1
Fines and Forfeitures	776	748	28
Other Miscellaneous	734	712	22
Total	**$4,214**	**$4,133**	**$81**

SOURCE: NYC Office of Management and Budget

The only category of the miscellaneous revenue forecast that has been lowered since budget adoption is water and sewer revenues. However, less than 20 percent of these revenues are available for general operating purposes. The bulk of it is dedicated to the cost of providing water and sewer services. The remaining proceeds represent rental payments from the Water Board for the use of the City's water supply, distribution and treatment plant.

Increases in projected charges for services are mainly due to additional expected revenue from the 2.0 percent tax on fire insurance premiums worth $5.5 million, $7 million in additional expected Section 421-a tax-exemption fees, $5.9 million in PEG restoration and a $2.7 million increase in projected multi-space parking meter revenues.[6] The forecast for fines and forfeitures, which also increased by $28 million since budget adoption, includes $5 million in additional enterprise billing and collections revenue, $5 million in additional collections from the Environmental Control Board (ECB), $8.3 million in additional "block the box" violation revenue, and an additional $5 million in penalties and other fines. Enforcement of "block the box" violations is expected to generate over $74 million annually beginning in FY 2010.

Projected revenues from the "other miscellaneous" category, which includes sale of City property, mortgages, cash recoveries and other revenues, increased by $22 million. In this category, the City anticipates increased revenues stemming primarily from audit ($6 million), asset sales ($6.7 million), settlement payments ($4.3 million) and litigation reimbursement ($4.6 million). Non-recurring resources, which are mostly grouped in this category, are expected to yield less than $200 million in FY 2009, a considerable decline from the previous year.

Overall, miscellaneous revenues are expected to decline slightly over the Financial Plan period and remain stable at approximately $4 billion annually.

[6] Section 421-a is a program administered by the NYC Department of Housing Preservation and Development (HPD) to promote multi-family residential construction by providing a declining property tax exemption on the new value created by the improvement.

Federal and State Aid

The November Plan projects Federal and State aid of $17.48 billion for FY 2009, an increase of nearly $600 million from the Adopted Budget estimates. The increase mainly reflects the transfer of unspent Federal grants from FY 2008, a normal process in the first quarter of a fiscal year. In the outyears of the Plan, the City's Federal and State aid assumptions are basically unchanged since the June Plan. The November Plan projects Federal and State support to dip slightly to $17.25 billion in FY 2010 before rising to $18.09 billion in FY 2011 and $18.40 billion in FY 2012. Together, these two funding sources comprise almost 29 percent of the City's overall revenues. The growth in Federal and State aid in the outyears of the Plan is almost entirely attributable to State education aid, which is estimated to rise about 19 percent or $1.61 billion between FY 2009 and FY 2012 based on the Governor's Educational Investment Plan.

The City's baseline Federal and State aid assumptions, however, do not reflect potential risks that will likely result from the State's fiscal difficulties. Since the adoption of the State budget, the Governor has repeatedly downgraded the State's fiscal outlook primarily due to deteriorating tax collections. In November, after the release of the City's budget modification, the Governor proposed $5.2 billion in expense reductions over two years as a response to projected deficits of about $1.5 billion in the current fiscal year and $12.5 billion in the coming year.

Based on State estimates, the Governor's proposals would reduce support to the City about $310 million in FY 2009 and at least $255 million in FY 2010. The largest component is a $255 million reduction in the City's FY 2009 education aid that is expected to recur next year. This would further tighten spending at the Department of Education, which is already coping with significant cuts under the City's November Plan PEG program. The State also seeks a $41 million reduction in revenue sharing aid this year, even though this was already posted as an FY 2008 revenue in the City's books. If approved, the City will likely reflect this as a FY 2009 charge in lieu of restating its FY 2008 revenues. The remainder of the impact is primarily from recoupment of early intervention overpayment of $11 million and a reduction in alcohol and substance abuse prevention funding of $3 million. Moreover, the State estimates that Medicaid actions could negatively affect HHC revenues by about $50 million in FY 2009 and by more than $100 million in FY 2010. Under the Governor's proposal, City public libraries would also face a cut of $15 million in library aid. However, since the money represents a direct payment from the State to the libraries, it is not reflected in the City budget impact.

Efforts to reach agreement on a gap-closing plan have stalled in Albany, thus putting many of the Governor's proposals in question. A special legislative session scheduled in late November ended without any resolution of how to address the State's current year budget gap. The Governor has indicated that the issue will likely be revisited in January 2009. If so, the State will need to identify alternatives to actions requiring an implementation date before January. Thus, it remains to be seen what steps the State could still take during December, if any, that could yield the aforementioned savings. Also, the Governor remains committed publicly to a release date of December 16th for the State FY 2010 Executive Budget, a month earlier than the norm, to jump-start negotiations on next year's budget.

V. Expenditures Estimates

All-fund FY 2009 expenditures in the November Modification total $60.67 billion, $1.5 billion or 2.4 percent less than FY 2008 spending.[7] However, the estimated FY 2009 expenditures include a net prepayment and benefits from other prior-year actions totaling $3.5 billion. After adjusting for prepayments, FY 2009 expenditures are expected to be $64.17 billion, an increase of $3.5 billion from the adjusted FY 2008 spending.

Expenditures, after adjusting for prepayments and prior-year actions, are projected to grow 11.1 percent over the Plan period, an annual growth of 3.6 percent. As shown in Table 14, expenditure increases are dominated by growth in spending on pension, health insurance, debt service, and judgments and claims (J&C). The combined growth in these areas over the Financial Plan period is projected to be 23.8 percent, or 7.4 percent annually. Growth in pension contribution which had moderated in recent financial plans, is projected to accelerate to almost 22 percent over the Plan period. This shift is fueled primarily by pension investment losses suffered in FY 2008 and projected for FY 2009. Spending in all other areas is projected to grow 5.6 percent over the Financial Plan period, an annual growth rate of 1.8 percent.

Table 14. FY 2009 –FY 2012 Expenditures Adjusted for Prepayments and Other Prior Year Actions

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	Growth FY 09-12	Annual Growth
Pensions	$6,171	$6,780	$7,153	$7,519	21.8%	6.8%
Health Insurance	3,659	3,917	4,076	4,350	18.9%	5.9%
Debt Service	5,025	5,537	5,931	6,507	29.5%	9.0%
J & C	658	708	765	826	25.6%	7.9%
Subtotal	$15,513	$16,942	$17,925	$19,202	23.8%	7.4%
Wages and Salaries	$20,156	$20,192	$21,583	$21,878	8.5%	2.8%
Health Insurance Restructuring	0	(200)	(200)	(200)	N/A	N/A
Other Fringe Benefits	3,066	3,158	3,282	3,343	9.0%	2.9%
Public Assistance	1,191	1,172	1,172	1,172	(1.6%)	(0.5%)
Medicaid[a]	5,644	5,756	5,916	6,089	7.9%	2.6%
Other OTPS	17,125	16,484	17,082	17,524	2.3%	0.8%
Subtotal	$47,182	$46,562	$48,835	$49,806	5.6%	1.8%
CFE Supported Expenditures	$1,476	$2,256	$2,302	$2,302	56.0%	16.0%
Total Expenditure	$64,171	$65,760	$69,062	$71,310	11.1%	3.6%

SOURCE: NYC Office of the Comptroller.
NOTE: Expenditures are total-fund expenditures and include New York City Transitional Finance Authority (NYCTFA) debt service.

[7] Expenditures include NYCTFA debt service.

Pensions

The December Plan projects that the City's contributions to the pension funds will be $6.2 billion in FY 2009, $6.8 billion in FY 2010, $7.2 billion in 2011, and $7.5 billion in FY 2012, reflecting net increases from the FY 2009 Adopted Budget of $82 million in FY 2010, $386 million in FY 2011, and $649 million in FY 2012. Contributions will increase to offset pension investment losses relative to the actuarial investment return assumption (AIRA) of 8.0 percent.[8]

The financial and economic crisis that is ravaging financial markets throughout the world has taken its toll on pension investments. In its projections of pension expenditures, the City assumes that the pension funds will experience a combined loss of 8.0 percent for the current fiscal year resulting in additional pension costs of $243 million in FY 2011 and $447 million in FY2012. Every percentage point loss in excess of this assumption will require additional contribution of $15 million in FY 2011 and $28 million in FY 2012.

In addition, pension investments in FY 2008 suffered a loss of 5.4 percent, greater than the zero percent return assumed by the City in the June 2008 Plan. The difference results in incremental cost of $82 million in FY 2010, $152 million in FY 2011, and $225 million in FY 2012. In total, the City has revised pension contribution spending upward by $82 million in FY 2010, $395 million in FY 2011, and $672 million in FY 2012 to phase in pension investment losses in FY 2008, and projected losses in FY 2009.

The City plans to fund the additional pension cost by reducing its spending on retiree pay-as-you-go health insurance in FYs 2010 through 2012 by the amount of the incremental pension contributions. As discussed in "Health Insurance" beginning on page 27, because payments for other-than-pension post employment benefits (OPEB) are paid out of the Retiree Health Benefit Trust (RHBT), the shortfall in health insurance payments will be met with funds from the RHBT. Thus, the incremental pension contributions from investment losses will have no impact on the budget gaps.

The current pension projections also include $200 million, beginning in FY 2010, to fund any additional costs that may arise from revisions to actuarial assumptions and methodology used to calculate the City's pension contributions. The City's Chief Actuary has reviewed the recommendations and findings of the biennial independent actuarial audits completed in 2006. However, as required under the City Charter, the Comptroller has recently engaged another independent actuarial firm, to conduct the current round of

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[8] The actuarial asset valuation method used to calculate employer contributions includes and actuarial investment return assumption (AIRA) of 8.0 percent. Returns above or below the AIRA for a given fiscal year are phased in over a six-year period in conjunction with the One Year Lag Methodology (OYLM) implemented beginning in FY 2006.

audits. With the first audit expected to be completed sometime in the first quarter of FY 2010, it is unlikely that the Chief Actuary will present any recommendations for revising the actuarial assumptions and methods before its completion. However, to the extent that the Actuary does recommend changes in assumptions/methods, the changes could impact pension contributions beginning in FY 2010.

Health Insurance

Pay-as-you-go health insurance expenses for employees and retirees are projected to be $3.2 billion in FY 2009, $3.7 billion in FY 2010, $3.9 billion in FY 2011, and $4.2 billion in FY 2012. The current projection for FY 2009 reflects a prepayment in FY 2008 of $460 million of FY 2009 pay-as-you-go retiree health expenses. After adjusting for the impact of this prepayment, FY 2009 health insurance is expected to cost approximately $3.7 billion, almost 11 percent higher than the actual FY 2008 costs of $3.3 billion.

Over the Financial Plan period health insurance spending is projected to grow 19 percent, or 6.0 percent annually. This growth reflects savings beginning in FY 2010 from as yet undefined cost containment initiatives of $200 million annually, and planned reductions in payments for retiree pay-as you go health insurance. The City plans to tap the Retiree Health Benefits Trust (RHBT) to pay $1.15 billion of retiree pay-as-you-go health insurance cost over the next three fiscal years.[9] The savings from the reduced retiree health insurance spending will be used to fund required additional pension contributions to the five actuarial pension systems to offset investment losses resulting from the financial market meltdown, as discussed in "Pensions" beginning on page 26.

Health insurance costs for the outyears after adjusting for these reductions are expected to be $4.0 billion in FY 2010, $4.5 billion in FY 2011, and $5 billion in FY 2012 as shown in Table 15.

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[9] The RHBT was established in FY 2006 to fund other-than-pension post employment benefits (OPEB) for eligible retirees. The City deposited $1 billion and $1.5 billion in the Trust in FYs 2006 and 2007, respectively, as a reserve to offset the future OPEB cost of active employees. In addition, since, with the establishment of the RHBT, all OPEB costs are to be funded by the Trust, the City has been depositing the full cost of retiree pay-as-you-go health insurance into the Trust. However, the City is under no legal obligation to reimburse the Trust. The City's decision to fund only a portion of the retiree pay-as-you-go health insurance over the next three fiscal years will reduce the funds in the RHBT, which currently has a balance of approximately $3 billion, by almost 40 percent.

Table 15. Pay-As-You-Go Health Expenditures

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Department of Education	$1,377	$1,523	$1,722	$2,008
CUNY	37	38	42	46
All Other	1,785	2,156	2,112	2,096
Total Pay-As-You-Go Health Insurance Costs	$3,199	$3,717	$3,876	$4,150
Reduction to RHBT	0	82	395	672
Health Insurance Cost Containment	0	200	200	200
Prepayment	460	0	0	0
Adjusted Pay-As-You-Go Health Insurance Costs	**$3,659**	**$3,999**	**$4,471**	**$5,022**

Labor

The City's November Plan contains funding in the labor reserve of $717 million in FY 2009, $1.407 billion in FY 2010, $1.805 billion in FY 2011, and $2.236 billion in FY 2012. Funding for labor agreements is budgeted in the labor reserve prior to being transferred to various agencies to cover the cost associated with collective bargaining agreements. Since the FY 2009 Adopted Budget, transfers totaling $269 million in FY 2009, $344 million in FY 2010, $374 million in FY 2011, and $377 million in FY 2012 were made out of the labor reserve to various agency budgets to fund recent labor agreements.

After the FY 2009 Budget was adopted, the City reached contract agreements with District Council 37 (DC37), the Patrolmen's Benevolent Association (PBA), the Lieutenants Benevolent Association (LBA), the Uniformed Firefighters' Association (UFA), the Correction Officers' Benevolent Association (COBA), the Teamsters Local 237, the Organization of Staff Analysts (OSA), and the Communications Workers of America (CWA). Both the UFA and the COBA contracts include re-openers to prior contracts which provide retroactive wage increases to the top wage brackets as described below.

The agreements provide for wage increases and benefits as follows:

1. *DC37: 24-month contract covering the period from March 3, 2008 through March 2, 2010 for approximately 100,000 employees:*

    - *Wage increases*

        - ❖ 4.0 percent, effective March 3, 2008

        - ❖ 4.0 percent, compounded, effective March 3, 2009

    - *Additional Benefits* – An additional 0.1 percent equity award effective March 2, 2010 to be applied toward member benefits as assignment differentials, uniform allowances, longevity, and service increments.

2. *PBA: 48-month agreement covering the period from August 1, 2006 through July 31, 2010 for approximately 23,000 uniformed officers:*

    - *Wage increases*

        ❖ 4.0 percent, effective August 1, 2006

        ❖ 4.0 percent, compounded, effective August 1, 2007

        ❖ 4.0 percent, compounded, effective August 1, 2008

        ❖ 4.0 percent, compounded, effective August 1, 2009

    - *Longevity* – Effective July 31, 2008, each step will be increased $313 and from then on will be increased by any future general wage increases. Effective July 31, 2010, each step will be increased $1,230.

    - *Welfare Fund* – Effective July 31, 2008, the City will make a one-time payment of $400 per retiree to the fund. The annual rate of contributions for actives and retirees will be increased by any future general wage increase. Effective July 31, 2010, an additional one-time lump sum payment of $100 per retiree shall be made to fund.

    - *Vacations* – Effective July 31, 2010, employees hired on or after July 1, 2008, shall be entitled to thirteen vacation days during their third, fourth, and fifth years of service. The number of vacation days was reduced to ten days during the first five years of service in the recent Public Employment Relations Board (PERB) award for the PBA's labor contract of 2004 to 2006.

    - *Other* – Other provisions include allowing officers to qualify at the shooting range on a regular work day and will not use a vacation day or any other time leave for this qualification. A pilot program will be introduced that will require no home visitation for officers on sick leave outside the hours of their scheduled tour. Finally, effective February 20, 2010, officers assigned to Detective-track commands shall work the same length of tour and number of appearances as currently worked by Detectives.

3. *LBA: 24-month contract covering the period from November 1, 2009 through October 31, 2011 for approximately 1,700 employees:*

    - *Wage increases*

        ❖ 4.0 percent, effective November 1, 2009

        ❖ 4.0 percent, compounded effective November 1, 2010

- ❖ $500 longevity increase on the 15 and 20 year steps, effective October 31, 2011

- ❖ $892 lump sum annuity payment, effective October 31, 2011

- ❖ $1,784 lump sum payment to Savings Incentive Plan, effective October 31, 2011.

4. *UFA: 24-month contract covering the period from August 1, 2008 through July 31, 2010 for approximately 9,000 uniformed employees:*

    - *Wage increases*

        - ❖ 4.0 percent, effective August 1, 2008

        - ❖ 4.0 percent, compounded, effective August 1, 2009

        - ❖ A re-opener to the 2002-2006 contract, providing retroactive increases of 3.4 percent in the basic maximum salaries for firefighters, fire marshals and wipers dating back to 2006 that match the wage increases provided to PBA members over the same period. The 2002-2006 contract contained a re-opener clause which allowed the union to renegotiate its contract in the event that the PBA was awarded a more generous contract.[10] This increase is funded in part through a reduction of two paid holidays for all employees, an annuity reduction of $494 per year for firefighters hired prior to April 1, 2007, and a lower starting salary of $39,370 effective August 1, 2009 compared with $41,975 for police officers on that date. The firefighters and police officers will maintain pay parity of $76,488 at maximum salary.

    - *Longevity* – Effective July 31, 2010 the longevity schedule will be increased by future wage increases and by $253 at each step.

    - *Off-line Holiday Pay* – Effective September 1, 2009, all members working “off the line,” who have a work schedule that provides for a regular day off (RDO) during the work week will forego the RDO during weeks with holidays.

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[10] The PBA 2004 to 2006 contract is discussed in greater detail in “Labor” beginning on page 30 of “*The Comptroller’s Comments on the Fiscal Year 2009 Executive Budget,” May 2008*.

- *Other provisions* – In this agreement, the union applied available funding to restore the "holiday" and "annuity" reductions that were part of the 2002-2006 contract re-opener.

5. *COBA: 24-month contract covering the period from November 1, 2009 through October 31, 2011 for approximately 8,300 uniformed officers:*

    - *Wage increases*

        ❖ 4.0 percent, effective November 1, 2009

        ❖ 4.0 percent, compounded, effective November 1, 2010

        ❖ A re-opener to the 2005-2007 contract providing retroactive increases of 3.4 percent in the basic maximum salaries for officers that match the wage increases provided to PBA members. Funding for this increase was provided through a modified salary schedule that will reach basic maximum of $76,488 after five and one-half years instead of five years, a reduction of three annual vacation days for the first five years of service for new hires, and reductions of $464 and $50 annually in the City's contribution to the annuity fund and the Civil Legal Representation Fund for all employees. Effective December 1, 2010, the reductions to these two funds will be restored with money provided in the current two-year contract.[11]

    - *Longevity* – Effective December 1, 2010, the longevity schedule will be increased by $506 at each step.

    - *Welfare Fund* – Effective December 1, 2010, the City will contribute an additional $100 annually to the fund per active employee and retiree.

    - *Other provisions* – For correction officers hired on January 1, 2009 or after, the union provided funding to enhance the starting salary. Effective December 1, 2011, the starting salary will be $39,755.

6. *Local 237: 24-month 13 day contract covering the period from September 13, 2008 through September 25, 2010 for approximately 9,000 employees:*

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[11] Since the PBA's award, COBA, the UFA, and the Uniformed Sanitationmen's Association (USA) are the latest unions that have settled their re-opener clauses. Other unions which negotiated and accepted the 3.5 percent re-opener were the Lieutenants Benevolent Association (LBA), the Sergeants Benevolent Association (SBA), the Corrections Captains' Association (CCA), and the Uniformed Fire Officers Association (UFOA).

- *Wage increases*

  ❖ 4.0 percent, effective October 10, 2008

  ❖ 4.0 percent, compounded, effective October 10, 2009

- *Welfare Fund* – Effective April 10, 2009, the City will make a one-time payment of $200 per retiree to the fund.

- *Additional Compensation* – Effective September 13, 2010, an additional compensation of 0.25 percent is available to purchase recurring benefits other than enhancing the general wage increases to be agreed to by both parties.

7. *OSA: 24-month contract covering the period from August 25, 2008 through August 24, 2010 for approximately 3,500 employees:*

   - *Wage increases*

     ❖ 4.0 percent, effective August 25, 2008

     ❖ 4.0 percent, compounded, effective August 25, 2009

   - *Additional Benefits* – An additional 0.1 percent equity award to be applied towards member benefits such as longevity.

8. *CWA: 24-month contract covering the period from October 6, 2008 through October 5, 2010 for approximately 8,000 employees:*

   - *Wage increases*

     ❖ 4.0 percent, effective October 6, 2008

     ❖ 4.0 percent, compounded, effective October 6, 2009

   - *Additional Benefits* – An additional 0.1 percent equity award effective October 5, 2010 to be applied toward member benefits as assignment differentials, uniform allowances, longevity, and service increments.

With the recent agreements, the United Federation of Teachers (UFT), Council of School Supervisors and Administrators (CSA), New York State Nurses Association (NYSNA), and Communications Workers of America (CWA) remain the only major unions who have not yet reached contract agreements on the current round of collective bargaining. The labor reserve contains funding for wage increases of 8.16 percent over a 24 month period for these unions patterned after the increases provided in the current round of collective bargaining. Beyond the term of the current round of collective bargaining, the City continues to fund wage increases averaging 1.25 percent annually, approximately half the expected inflation rate.

Headcount

In response to the budgetary stress brought about by the deteriorating economy, the City has reduced its full-time headcount plan by 1,446 positions for FY 2009; 3,114 positions for FY 2010, 3,307 positions for FY 2011; and 2,414 positions for FY 2012 since the June 2008 Financial Plan.[12] The City now expects headcount to total 240,573 in FY 2009, 239,094 in FY 2010, 240,394 in FY 2011, and 241,273 in FY 2012, as shown in Table 16 on page 34.

The downward revision of planned headcount since the last plan is in large part the result of gap closing actions. The most significant reductions in planned headcount will be at the Police Department (NYPD), the Department of Correction (DOC), the Department of Sanitation (DOS), the Department of Education (DOE), the Department of Parks and Recreation, the Administration for Children's Services (ACS), and the Department of Social Services (DSS). The NYPD will reduce planned uniformed headcount by more than 400 positions in FY 2009, and over 1,000 positions in FYs 2010 and 2011 due primarily to the elimination of the January 2009 recruit class and capping class size at 2,000 recruits in the outyears. In addition, the agency will utilize attrition to avoid filling 292 civilian vacancies in FY 2009. This projected reduction in civilian headcount will be partially offset by hiring more traffic agents to expand the "Block the Box Violation" enforcement which will enhance traffic mobility and generate increased revenue via summonses. DOC will focus on maximizing city-state prison capacity and efficiencies, along with vacancy reductions via attrition, thus eliminating the need for 72 uniformed jobs in FY 2009, and 665 uniformed jobs in each of the outyears. DOS will utilize attrition to reduce planned uniformed headcount for cleaning programs by 187 jobs in FY 2010.

Most of DOE's PEGs will result in the reduction of administrative and field-operations support positions. DOE expects the full impact of its PEGs to be realized beginning in FY 2009, and has lowered its forecast of these non-pedagogical positions by 475 jobs throughout the Plan period. Partial hiring freezes which account for reductions of 83 positions in FY 2009 and 194 positions in the outyears constitute the bulk of headcount-related PEGs at the Department of Parks and Recreation. ACS will achieve budgetary savings by immediately increasing the caseloads of Child Protective Level 1 Supervisors, resulting in a downward revision to full-time headcount projections of 127 jobs throughout the Plan period. During the current fiscal year, DSS seeks to eliminate one job center, by reorganizing and consolidating the Hamilton Job Center. Child-only and senior cases will now be centralized, all of which are expected to lower the full-time forecast by 28 jobs in FY 2009, and by 72 jobs in each of the outyears when full-year savings are realized. The budget has also been adjusted to reflect Medicaid reimbursement for 38 fraud investigators beginning in FY 2009, bringing the total decrease in DSS's projected headcount to 66 positions in FY 2009, and 110 positions in each of the outyears.

[12] Full-time headcount excludes full-time equivalent (FTE) headcount.

The Department of Health and Mental Hygiene will lay off 57 full-time and 35 part-time staff in FY 2010 that are currently responsible for directly provided dental services at 44 sites. Both the Department of Homeless Services (DHS) and the Department of Citywide Administrative Services (DCAS) will achieve budgetary savings by replacing contracted staff with in-house full-time staff. DHS will hire 50 Peace Officers in FY 2010 to replace contracted shelter security, while DCAS will eliminate building management contracts at 100 Gold Street and 80 Centre Street and hire 80 people to clean and maintain those venues.[13]

Table 16. City-Funded Full-Time Year-End Headcount Projections

	FY 2009	FY 2010	FY 2011	FY 2012
Pedagogical				
Dept. of Education	95,868	96,466	96,457	96,457
City University	2,686	2,654	2,654	2,654
Sub-total	98,554	99,120	99,111	99,111
Uniformed				
Police	34,878	34,217	35,109	36,002
Fire	11,222	11,222	11,222	11,222
Corrections	8,646	7,890	7,944	7,944
Sanitation	7,452	7,265	7,514	7,514
Sub-total	62,198	60,594	61,789	62,682
Civilian				
Dept. of Education	7,905	7,904	7,904	7,904
City University	1,637	1,477	1,477	1,477
Police	14,407	14,490	14,445	14,445
Fire	4,797	4,797	4,797	4,797
Corrections	1,423	1,502	1,502	1,502
Sanitation	1,895	1,891	1,937	1,937
Admin for Children's Services	6,809	6,805	6,805	6,805
Social Services	11,109	11,054	11,054	11,054
Homeless Services	2,221	2,254	2,254	2,254
Health and Mental Hygiene	4,017	3,913	3,911	3,911
Finance	2,112	2,111	2,111	2,111
Transportation	2,231	2,218	2,264	2,250
Parks and Recreation	3,091	2,957	3,034	3,034
All Other Civilians	16,167	16,007	15,999	15,999
Sub-total	79,821	79,380	79,494	79,480
Total	240,573	239,094	240,394	241,273

As shown in Table 17, City-funded full-time equivalent (FTE) headcount is expected to remain at roughly 26,400 positions from FY 2009 to FY 2012, consistent with the June 2008 Financial Plan.

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[13] The Environmental Control Board (ECB) will now come under the jurisdiction of DCAS, resulting in the transfer of 127 full-time jobs from The Department of Environmental Protection (DEP) to DCAS. Hence, DCAS's projected City-funded full-time headcount will increase by 142 jobs in FY 2009, 206 jobs in FY 2010, and by 222 jobs in each of FYs 2011 and 2012.

Table 17. City-Funded FTE Year-End Headcount Projections

	FY 2009	FY 2010	FY 2011	FY 2012
Pedagogical				
Dept. of Education	1,053	1,053	1,053	1,053
City University	1,440	1,393	1,393	1,393
Sub-total	2,493	2,446	2,446	2,446
Civilian				
Dept. of Education	14,917	14,917	14,917	14,917
City University	738	687	687	687
Police	1,782	1,782	1,782	1,782
Health and Mental Hygiene	1,352	1,343	1,343	1,343
Parks and Recreation	3,552	3,518	3,535	3,535
All Other Civilians	1,744	1,698	1,698	1,698
Sub-total	24,085	23,945	23,962	23,962
Total	26,578	26,391	26,408	26,408

Overtime

The FY 2009 overtime budget in the November Modification totals $836 million, a net increase of about $26 million since the FY 2009 Adopted Budget. The increase stems mainly from an upward revision of $22 million to the uniformed police overtime projection as a result of transfers from the labor reserve to fund collective bargaining increases, intergovernmental grants, and a $12 million increase in civilian overtime estimate.[14] These increases are partially offset by a reduction of $10 million to the overtime budget for correction officers mainly from expected efficiencies and better utilization of City and State prison capacity. Currently, the State's prison facilities are underutilized. The City is negotiating with the State to move additional prisoners from Rikers Island to the State's facilities. Although, the details have not been finalized, this will allow the City to close a facility at Rikers Island. The Comptroller's Office estimates that FY 2009 overtime expenditures will be approximately $975 million or $139 million more than the City's projection, as shown in Table 18 on page 36.

The overtime budget faces the largest risk from expected overtime spending for uniformed police officers. During the last five fiscal years, police overtime spending has grown at an annual rate of more than 3.0 percent to $406 million in FY 2008. Through October 2008, the department has spent $135 million for uniformed overtime and is on target to spend at least $400 million for FY 2009 or $87 million more than current projections. Police civilian overtime spending has increased to $69 million in FY 2008 from $60 million in FY 2007. The Comptroller's Office expects this spending to be about $60 million for FY 2009.

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[14] The increase from collective bargaining has no impact on the City's budget gap as it was already budgeted in the labor reserve as part of the cost of collective bargaining.

Table 18. Projected Overtime Spending, FY 2009

($ in millions)

	City Planned Overtime FY 2009	Comptroller's Projected Overtime FY 2009	FY 2009 Risk
Uniformed			
Police	$313	$400	($87)
Fire	173	173	0
Correction	53	85	(32)
Sanitation	61	61	0
Total Uniformed	$600	$719	($119)
Others			
Police-Civilian	$40	$60	$(20)
Admin for Child Svcs	13	13	0
Environmental Protection	21	21	0
Transportation	30	30	0
All Other Agencies	132	132	0
Total Civilians	$236	$256	$(20)
Total City	**$836**	**$975**	**($139)**

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

Uniformed overtime spending at the Department of Corrections (DOC) was $98 million in FY 2008, up from $91 million in FY 2007 and $64 million in FY 2006. The department has been experiencing higher overtime as a result of a decline in uniformed headcount level. Through October 2008, the City has spent $33 million on uniformed overtime at the DOC. If this trend continues, uniformed overtime spending for FY 2009 would be closer to the FY 2008 level of $98 million. However, the department has been working on recruitment iniatives, which together with enhancement to the starting salary may increase headcount level. As such, the Comptroller's Office projects that uniformed overtime spending will approximate the $85 million average for the last three fiscal years.

Public Assistance

In FY 2009, the City's public assistance caseload has averaged 337,395 recipients per month through October. Compared with the same period in the previous fiscal year, average caseload has fallen by 5.0 percent, or about 18,000 recipients, in FY 2009. The City's welfare caseload has fallen by more than 70 percent since the peak of 1,160,593 in FY 1995. Even more astonishing, public assistance caseload has retraced to levels not seen since the early 1960's, a span of almost 45 years. Meanwhile, monthly grant expenditures have stabilized primarily in the $96-$98 million range over the past 18 months, representing a decline of more than 60 percent from the historical peak of $252 million.

The City's public assistance caseload and grant projections remain the same as in the June Plan. The November Plan maintains an average caseload projection of 342,509 over the course of the Plan period. Total baseline grants expenditures are projected at about $1.14 billion annually for FYs 2009-2013. While actual caseload is currently below the projections, the City may have underfunded its public assistance budget in the November Plan. Barring a significant drop in monthly grants expenditures over the near term, the City could face risks in its public assistance spending projections of $5 million in FY 2009 and $10 million annually in FYs 2010-2012.

Department of Education

The budget outlook for the Department of Education (DOE) has become more uncertain as it faces significant cuts in both City and State support. The November Plan reflects additional reduction proposals that would lower City funding by $181 million in FY 2009 and $385 million in FY 2010. Combined with prior reductions, dating back to the January 2008 Plan, the Department's budget has absorbed PEG actions of $484 million in FY 2009 and average reductions of more than $630 million annually in FYs 2010-12.

The main component in the latest round of cuts is a 1.3 percent reduction in school allocations for non-personal services spending for the current year that is expected to yield savings of $104 million in FY 2009. For FYs 2010-12, the reduction target increases to 3.5 percent, saving $256 million each year. Under the initiative, schools would develop their own reduction plans, based on central budget guidelines, to meet assigned savings goals.

For central and field functions, the November Plan contains a 6.6 percent spending reduction that would save $40 million in FY 2009 and eliminate a total of 338 positions, of which 284 positions will be concentrated in central administration. The Department is still in the process of developing its plan on where the headcount reductions will occur. Savings from this set of actions are expected to grow to $53 million in each of the outyears, amounting to an 8.7 percent cut in funding for these functions. The PEG program will also affect school facilities by cutting resources for custodial services, skilled trades, and maintenance/repair contracts. School facilities savings are projected to total $14 million in FY 2009 and $22 million in each of FYs 2010-12, slashing 95 positions in the process.

In addition, the DOE savings plan would reduce general education spending by $5 million in the current year and $19 million in each of the outyears. The initiative would remove 43 positions in this area, though the Department claims that there will no impact on school-based funding and personnel. Rounding out the plan are fringe benefits savings projected at $8 million in FY 2009 and $12 million annually in FY 2010 and beyond.

The November Plan projections for DOE will also come under pressure from the Governor's plan to close the State's sizable budget gaps. Subsequent to the release of the November Plan, the Governor proposed to reduce education aid to the City by $255 million both in the current school year and the next. This would have raised the combined City and State reductions announced in the current year to a total $436 million in FY 2009 and $640 million in FY 2010. Although the Legislative did not act on these proposals during a special session in November, the Governor indicated that the issue will likely be taken up again in January. Given this later timeframe, any significant cut in education aid for the current year, though it appears less likely now, will become increasingly difficult to implement as the school year progresses.

Total DOE funding in the November Plan still contains budgeted growth of nearly $720 million between FYs 2009-10, increasing from $17.58 billion to $18.3 billion. However, the prospect that these funding levels will be retained appears dim once the State moves forward in its budget process. Aside from the potential reduction of education aid in the current year, the release of the State Executive Budget in December will certainly propose a new layer of cuts that could significantly scale back the FY 2010 assumptions.

Health and Hospitals Corporation

The November Plan shows an improvement in the Health and Hospitals Corporation's (HHC) cash position, though HHC still faces significant structural deficits on an accrual basis throughout the term of the plan. The City projects that HHC will end FY 2009 with a cash balance of $1.41 billion, an improvement of $278 million since the Adopted Budget. The Corporation is expected to retain a significant portion of this cash balance through the following year because of additional revenues recognized in FY 2010 baseline assumptions. Thus, the FY 2010 year-end cash balance has similarly improved by $341 million, compared with previous estimate in the June Plan, to $1.05 billion.

The change in the Corporation's FY 2009 cash balance results mainly from technical adjustments between its accrual and cash plans. The projected deficit in the current year, on an accrual basis, has increased by about $128 million before corrective actions in the November Plan, primarily due to increased non-personal services spending and higher estimate for other post-employment benefits (OPEB) expenses. The re-estimates in these two areas also contribute significantly to the additional expenses of $200 million reflected for FY 2010, though they are more than offset by increased revenues of $300 million. The revenue increase is attributable almost entirely to the recognition of Medicaid Upper Payment Limit (UPL) revenue previously held in HHC's gap closing program. The amount reflected in the November Plan baseline assumptions represents the City's share of funding for expected UPL revenue in FY 2010. The Federal portion of this revenue is still being held below the line since the realization of this funding will require the extension of a Federal moratorium allowing continued claiming of UPL revenues in the future. The current Federal moratorium is set to expire in April 2009.

While the Corporation projects that the ending cash balance in FY 2010 will remain above $1 billion, this estimate is contingent upon achieving a gap closing program of $884 million. Of this total, $729 million is expected from Federal and State actions, with UPL revenue representing a significant portion of these assumptions. The extension of the Federal moratorium will be crucial to the Corporation's financial plan. Moreover, HHC will also need to address a State budget impact that could be severe once the Governor unveils his budget proposals in December, lending more uncertainty to the Corporation's fiscal projections.

Debt Service

As shown in Table 19 below, debt service, after adjusting for the impact of prepayments, totals $5.1 billion in FY 2009, $5.63 billion in FY 2010, $6.02 billion in FY 2011 and $6.6 billion in FY 2012.[15] These represent a decrease of $29 million in FY 2009 followed by increases of $2 million in FY 2010, $19 million in FY 2011, and $21 million in FY 2012 compared to the June Financial Plan. From FY 2009 to FY 2012, total debt service is projected to increase $1.5 billion, or 29.3 percent.

Table 19. November 2008 Financial Plan Debt Service Estimates

($ in millions)

Debt Service Category	FY 2009	FY 2010	FY 2011	FY 2012	Change from 2009 to 2012
G.O.[a]	$3,699	$4,125	$4,565	$5,102	$1,403
NYCTFA [b]	1,134	1,144	1,114	1,158	24
Lease-Purchase Debt	182	269	251	247	65
TSASC, Inc.	89	90	91	92	3
Total	**$5,104**	**$5,628**	**$6,021**	**$6,599**	**$1,495**

SOURCE: November 2008 Financial Plan, November 2008.
NOTE: Debt Service is adjusted for prepayments.
[a] Includes long term G.O. debt service and interest on short term notes.
[b] Amounts *do not* include NYCTFA building aid bonds.

The decrease of $29 million in FY 2009 is due primarily to $27 million of interest savings related to the Hudson Yards Infrastructure Corporation (HYIC) debt combined with $9 million of debt service savings related to Dormitory Authority of the State of New York (DASNY)/HHC lease purchase debt. These savings are offset by a technical adjustment from the June Plan. Increases in the costs from the June 2008 Plan condition in FYs 2010-2012 debt service are due primarily to increases in projected interest rates.

Debt Affordability

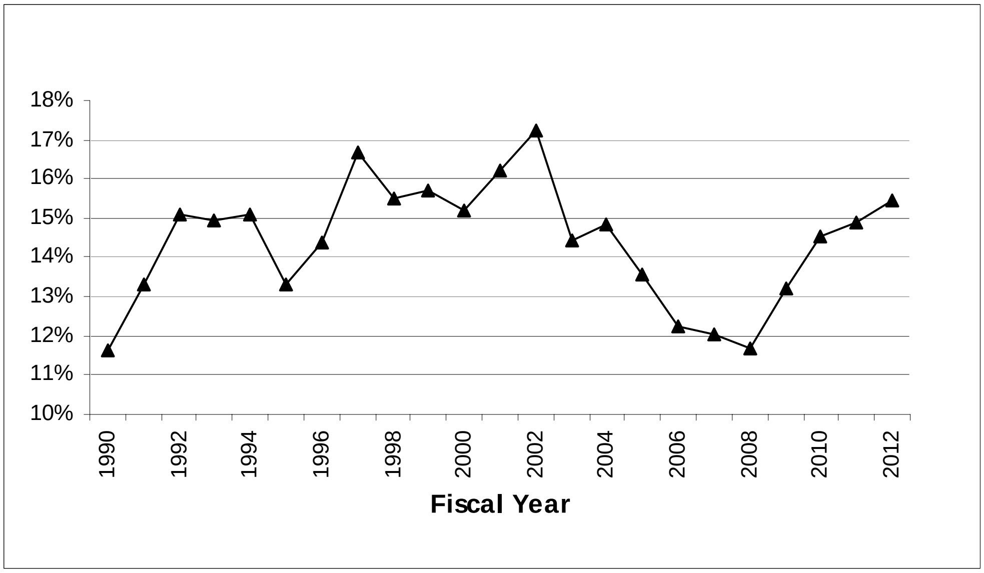
Debt service as a percent of local tax revenues is an accepted measure of affordability used by rating agencies and government officials alike.[16] In FY 2008, debt service as a percent of local tax revenues was 11.7 percent. In FY 2009, the November Plan projects debt service to consume 13.2 percent of local tax revenues and increase to 14.5 percent in FY 2010, 14.9 percent in FY 2011, and 15.4 percent in FY 2012. The average debt service growth of 8.9 percent per year between FYs 2009 and 2012 is significantly above estimated annual tax revenue growth of 3.5 percent over the same

[15] Includes debt service on General Obligation (GO), NYCTFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

[16] Debt service in this discussion is adjusted for prepayments.

period. This growth differential manifests itself in the increased debt service/tax revenue ratio.

***Chart 3.* Debt Service as a Percent of Tax Revenues, 1990 - 2012**



SOURCE: Office of Management and Budget, City of New York, November 2008 Financial Plan.

Financing Program

The November 2008 Financial Plan contains $35.35 billion of planned City and State-supported borrowing in FYs 2009-2012 from combined City and State sources as shown below on Table 20.

Table 20. FY 2008 November Plan, FYs 2009-2012

($ millions)

Description:	Estimated Borrowing and Funding Sources FYs 2009-2012	Percent of Total
General Obligation Bonds	$23,910	67.64%
NYC Water Finance Authority	8,738	24.72%
NYCTFA – BARBs	2,700	7.64%
NYCTFA – General Purposes	0	0.0%
Total	**$35,348**	**100.0%**

SOURCE: November 2008 Financial Plan, Office of Management and Budget.

GO bonds top the list with $23.91 billion of expected borrowing over the period, or 67.6 percent of the total. NYC Water Finance Authority (NYWFA) borrowing is expected to account for $8.74 billion, or 24.7 percent, of capital resources. The remaining 7.6 percent of capital borrowing will come from NYCTFA Building Aid Revenue Bonds

(BARBs). Over the period FYs 2008-2012, total borrowing is estimated to decrease by $373 million from the estimates in the June 2008 Financial Plan due primarily to a reduction in capital commitments. Specifically, this represents a decrease in planned borrowing from the June Financial Plan of $1.034 billion in FY 2008, an increase of $969 million in FY 2009, followed by decreases of $255 million in FY 2010, $25 million in FY 2011, and $28 million in FY 2012.[17] Notably, borrowing in FYs 2009 and 2010 is projected to reach $10.2 and $9.3 billion, respectively, before declining to an estimated $8.3 billion in FY 2011, and $7.5 billion in FY 2012.

The City has exhausted the $13.5 billion cap on NYCTFA borrowing for general purposes that are supported by PIT revenues. The City has pending State legislative proposals that would increase the cap on NYCTFA borrowing. NYCTFA debt has traditionally been a less expensive means of financing than GO bonds and the administration would seek its use to supplant GO borrowing if additional debt capacity were approved by the State legislature.

Capital Plan

In May 2008, the FY 2009 Executive Budget Capital Commitment Plan (May Commitment Plan) was released. The May Commitment Plan contained forecasts for the period FYs 2008-2012. The City-funded authorized plan was $49.16 billion over FYs 2008-2012, and $34.89 billion over FYs 2009-2012. After the reserve for unattained commitments, City-funded commitments totaled $46.285 billion over FYs 2008-2012 and $35.81 billion over FYs 2009-2012.

The May Plan also included a proposed 20 percent reduction in capital commitments. The reduction program was included in the summary of the May Plan but was not in the agency details. The reduction program was computed for FYs 2009-2012 alone and excluded FY 2008. Specifically, City-funded capital commitments less DEP were multiplied by 20 percent and produced estimated reductions of $2.2 billion in FY 2009, $1.15 billion in FY 2010, $989 million in FY2011, and $744 million in FY 2012 for a total of $5.086 billion over the period.

The FY 2009 Adopted Capital Plan (November Commitment Plan), which is normally released in September of each year, was delayed until November 2008. Another unprecedented nuance of the November Plan is the inclusion of a fifth year, FY 2013. For consistency purposes, when comparing to the May Plan, the November Plan figures used will not include FY 2013 and will include FY 2008 actual commitments wherever relevant. Thus, the November Plan over FYs 2009-2012, contains City-funded authorized commitments of $33.32 billion, a decrease of $1.57 billion, or 4.5 percent from the May Plan. After the reserve for unattained commitments and the impact of the capital reduction program, the November Plan’s City funded commitments over FYs 2009

[17] The decline of $373 million includes the impact of a timing delay from a lowered FY 2008 borrowing plan that results in $1.03 billion less borrowing than planned in May and the resultant borrowing increase of $969 million in FY 2009.

through 2012 are projected to total $30.63 billion, a decrease of $93 million, or 0.3 percent.[18] When the FY 2008 actual is included, City-funded authorized commitments total $39.752 billion over FYs 2008-2012, a decrease of $6.72 billion from the May Plan, or 13.7 percent, as shown in Table 21.

Table 21. Changes in the Capital Commitment Plan from May to November, City Funds

($ in millions)

Description	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2008-FY 2012	FY 2009-2012
May City Authorized Commitments	$14,268	$14,340	$7,827	$7,435	$5,288	$49,158	$34,890
May City Commitments after Reserve for Unattained Commitments excluding the Reduction Program	$10,472	$13,678	$8,376	$7,709	$6,050	$46,285	$35,813
November City Authorized Commitments	$9,118	15,995	7,042	5,864	4,422	$42,441	$33,323
November City Commitments after Reserve for Unattained Commitments	$9,118	$11,537	8,043	6,059	$4,995	$39,752	$30,634
Change from May in City Authorized	($5,150)	$1,655	($785)	($1,571)	($866)	($6,717)	($1,567)
Change from May In City Authorized after reserve	($1,354)	($2,141)	($333)	($1,650)	($1,055)	($6,533)	($5,179)

SOURCE: May Executive Commitment Plan and Adopted November 2008 Commitment Plan, OMB & NYC Comptroller.

While net City-funded capital commitments in the November Commitment Plan are $93 million below the May Plan in FYs 2009-2012, the current Plan contains a $1.26 billion reduction to DEP in FYs 2009-2012 that was not anticipated in May. Thus, reductions to other programmatic areas were less than $4 billion compared to the $5.086 billion projected in May. Projections for DEP are 13.4 percent lower over FYs 2009-2012 than the May Plan. This is in line with the estimated 13.7 percent reduction Citywide over FYs 2009-2012. When FY 2008 is factored in, the decline is about 19 percent Citywide from $49.16 billion authorized City-funded commitments in the May Plan to net City commitments of $39.75 billion in the November Plan.

[18] Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded in the Commitment Plan.

November Plan

After adjusting for the reserve for unattained commitments of $3.61 billion, the Capital Plan over FYs 2009-2013 totals $46.75 billion in all-funds commitments, and $37.345 billion in City-funds commitments as shown on Table 22. The plan is front-loaded with all-fund commitments totaling $14.8 billion in FY 2009 or 32 percent of the total, decreasing to $10.2 billion in FY 2010, and decreasing further to $7.54 billion in FY 2011, $6.21 billion in FY 2012, and $8.0 billion in FY 2013.

Table 22. FYs 2009 – 2013 Capital Commitments, All-Funds

($ in millions)

Project Category	**November 2008 Commitment Plan**	**Percent of Total**
Education & CUNY	$11,798	23.4%
Environmental Protection	10,064	20.0
Dept. of Transportation & Mass Transit	6,885	13.7
Housing and Economic Development	5,218	10.4
Administration of Justice	3,694	7.3
Technology and Citywide Equipment	2,565	5.1
Parks Department	2,667	5.3
Hospitals	854	1.7
Other City Operations and Facilities	6,619	13.1
Total	**$50,363**	**100.0%**
Reserve for Unattained Commitments	($3,613)	n/a
Adjusted Total	**$46,750**	**n/a**

SOURCE: Office of Management and Budget, FY 2009 Adopted Capital Commitment Plan, November 2008.

The Department of Education (DOE) and City University of New York (CUNY), account for $11.8 billion, making up 23.4 percent of the total. The education component is followed by the Department of Environmental Protection (DEP) at 20 percent, Department of Transportation (DOT) and Mass Transit at 13.7 percent, and Housing and Economic Development at 10.4 percent.[19] These four major program areas constitute $33.96 billion, or 67 percent, of the Plan.

[19] DEP capital commitments are primarily funded through the issuance of Water Finance Authority Debt.

Table 23. FYs 2009 – 2013 Capital Commitment, City-Fund

($ in millions)

Project Category	November 2008 Commitment Plan	Percent of Total
Environmental Protection	$9,833	24.0%
Education & CUNY	5,857	14.3
Dept. of Transportation & Mass Transit	5,024	12.3
Housing and Economic Development	4,248	10.4
Administration of Justice	3,690	9.0
Technology and Citywide Equipment	2,548	6.2
Parks Department	2,420	5.9
Hospitals	854	2.1
Other City Operations and Facilities	6,484	15.8
Total	**$40,958**	**100.0%**
Reserve for Unattained Commitments	($3,613)	n/a
Adjusted Total	**$37,345**	**n/a**

SOURCE: Office of Management and Budget, FY 2008 January Capital Commitment Plan, November 2008.

The City-funded portion of the Plan totals $40.96 billion over FYs 2009-2013. DEP's capital projects account for the largest share of the City-fund Plan at 24 percent, followed by DOE and CUNY at 14.3 percent, DOT and Mass Transit at 12.3 percent, and Housing and Economic Development at 10.4 percent. Similarly to all funds commitments, these four major program areas constitute 61 percent of the City-funds plan as shown in Table 23 above. The significant difference between the DOE's 14.3 percent share of the City-funded capital plan and its 23.4 percent of all-funds capital plan reflects the State-supported commitments of $5.9 billion in FYs 2009-2013. This State support for the education portion of the commitment plan comprises 63 percent of the total State and Federal support to the entire commitment plan over FYs 2009-2013.

Also included in the November 2008 (Adopted) Capital Commitment Plan are commitments for non-City owned facilities. These commitments are included in various agencies and project types such as: 1) the Department of Cultural Affairs; 2) Public Works; 3) HPD; 4) Dept. of Health; 5) Economic Development; 6) Children's Services; 7) Homeless Services; 8) the Parks Department; 9) HRA; and 10) Dept. of Education. Funding of these organizations is allocated by the Mayor, City Council, and borough presidents.

VI. Appendix – Revenue and Expenditure Details

Table A1. *FYs 2009-2012 Financial Plan Revenue Detail*

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY 2009-12 Percent	Changes FY 2009-12 Dollar
Taxes:						
Real Property	$14,749	$16,350	$17,363	$18,170	23.2%	$3,421
Personal Income Tax	$8,529	$7,815	$8,633	$9,232	8.2%	$703
General Corporation Tax	$2,519	$2,340	$2,545	$2,883	14.5%	$364
Banking Corporation Tax	$517	$570	$662	$707	36.8%	$190
Unincorporated Business Tax	$1,668	$1,530	$1,598	$1,751	5.0%	$83
Sale and Use	$4,749	$4,485	$4,765	$5,012	5.5%	$263
Commercial Rent	$556	$563	$581	$603	8.5%	$47
Real Property Transfer	$1,030	$939	$956	$1,022	(0.8%)	($8)
Mortgage Recording Tax	$795	$725	$737	$793	(0.3%)	($2)
Utility	$388	$417	$435	$446	14.9%	$58
Cigarette	$102	$99	$97	$94	(7.8%)	($8)
Hotel	$389	$397	$418	$443	13.9%	$54
All Other	$431	$396	$397	$401	(7.0%)	($30)
Tax Audit Revenue	$680	$589	$589	$589	(13.5%)	($92)
Total Taxes	**$37,102**	**$37,214**	**$39,775**	**$42,146**	**13.6%**	**$5,044**
Miscellaneous Revenue:						
Licenses, Franchises, Etc.	$469	$471	$472	$476	1.5%	$7
Interest Income	$90	$55	$114	$141	56.7%	$51
Charges for Services	$619	$619	$616	$616	(0.5%)	($3)
Water and Sewer Charges	$1,307	$1,245	$1,271	$1,287	(1.5%)	($20)
Rental Income	$219	$210	$207	$207	(5.5%)	($12)
Fines and Forfeitures	$776	$852	$846	$826	6.4%	$50
Miscellaneous	$734	$564	$534	$524	(28.6%)	($210)
Intra-City Revenue	$1,607	$1,447	$1,446	$1,446	(10.0%)	($161)
Total Miscellaneous	**$5,821**	**$5,463**	**$5,506**	**$5,523**	**(5.1%)**	**($298)**
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**
Other Categorical Grants	**$1,075**	**$1,019**	**$1,020**	**$1,023**	**(4.8%)**	**($52)**
Inter Fund Agreements	**$464**	**$425**	**$420**	**$420**	**(9.5%)**	**($44)**
Reserve for Disallowance of Categorical Grants	**($15)**	**($15)**	**($15)**	**($15)**	**0.0%**	**$0**
Less: Intra-City Revenue	**($1,607)**	**($1,447)**	**($1,446)**	**($1,446)**	**(10.0%)**	**$161**
TOTAL CITY FUNDS	**$43,180**	**$42,999**	**$45,600**	**$47,991**	**11.1%**	**$4,811**

Table A1 (Con't.). ***FYs 2009-2012 Financial Plan Revenue Detail***

($ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	Changes FY2009-12 Percent	Changes FY2009-12 Dollar
Federal Categorical Grants:						
Community Development	$283	$252	$248	$248	(12.4%)	($35)
Welfare	$2,548	$2,457	$2,457	$2,457	(3.6%)	($91)
Education	$1,758	$1,766	$1,774	$1,783	1.4%	$25
Other	$1,227	$824	$801	$802	(34.6%)	($425)
Total Federal Grants	**$5,816**	**$5,299**	**$5,280**	**$5,290**	**(9.0%)**	**($526)**
State Categorical Grants						
Social Services	$2,004	$1,941	$1,940	$1,931	(3.6%)	($73)
Education	$8,517	$8,951	$9,814	$10,123	18.9%	$1,606
Higher Education	$211	$211	$211	$211	0.0%	$0
Department of Health and Mental Hygiene	$485	$470	$471	$474	(2.3%)	($11)
Other	$451	$373	$369	$369	(18.2%)	($82)
Total State Grants	**$11,668**	**$11,946**	**$12,805**	**$13,108**	**12.3%**	**$1,440**
TOTAL REVENUES	**$60,664**	**$60,244**	**$63,685**	**$66,389**	**9.4%**	**$5,725**

Table A2. *FYs 2009-2012 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	Changes FYs 2009 - 2012 Percent	Changes FYs 2009 - 2012 Dollar
Mayoralty	$89,346	$82,502	$82,452	$82,469	(7.7%)	($6,877)
Board of Elections	$89,374	$77,142	$77,198	$77,256	(13.6%)	($12,118)
Campaign Finance Board	$11,587	$10,922	$10,925	$10,928	(5.7%)	($659)
Office of the Actuary	$5,191	$5,162	$5,163	$5,165	(0.5%)	($26)
President, Borough of Manhattan	$4,796	$3,136	$3,139	$3,143	(34.5%)	($1,653)
President, Borough of Bronx	$5,941	$4,472	$4,475	$4,479	(24.6%)	($1,462)
President, Borough of Brooklyn	$5,536	$3,929	$3,933	$3,937	(28.9%)	($1,599)
President, Borough of Queens	$4,596	$3,609	$3,612	$3,616	(21.3%)	($980)
President, Borough of Staten Island	$3,992	$3,108	$3,111	$3,114	(22.0%)	($878)
Office of the Comptroller	$68,017	$66,695	$66,695	$66,695	(1.9%)	($1,322)
Dept. of Emergency Management	$52,008	$8,560	$8,560	$8,561	(83.5%)	($43,447)
Tax Commission	$4,000	$3,852	$3,853	$3,855	(3.6%)	($145)
Law Dept.	$124,263	$123,930	$123,733	$124,654	0.3%	$391
Dept. of City Planning	$31,513	$23,175	$23,175	$23,175	(26.5%)	($8,338)
Dept. of Investigation	$18,152	$17,203	$17,059	$17,059	(6.0%)	($1,093)
NY Public Library - Research	$24,220	$22,404	$22,404	$22,404	(7.5%)	($1,816)
New York Public Library	$116,167	$107,253	$107,253	$107,253	(7.7%)	($8,914)
Brooklyn Public Library	$86,390	$79,744	$79,744	$79,744	(7.7%)	($6,646)
Queens Borough Public Library	$84,769	$78,239	$78,239	$78,239	(7.7%)	($6,530)
Dept. of Education	$17,565,449	$18,287,109	$19,787,806	$20,117,884	14.5%	$2,552,435
City University	$663,976	$618,040	$624,483	$626,133	(5.7%)	($37,843)
Civilian Complaint Review Board	$11,142	$10,776	$10,776	$10,776	(3.3%)	($366)
Police Dept.	$4,205,400	$4,175,787	$4,298,982	$4,334,593	3.1%	$129,193
Fire Dept.	$1,558,588	$1,531,106	$1,543,915	$1,544,468	(0.9%)	($14,120)
Admin. for Children Services	$2,702,318	$2,653,841	$2,649,894	$2,649,895	(1.9%)	($52,423)
Dept. of Social Services	$8,528,482	$8,587,414	$8,747,083	$8,920,591	4.6%	$392,109
Dept. of Homeless Services	$679,089	$631,773	$631,773	$631,773	(7.0%)	($47,316)
Dept. of Correction	$984,917	$961,914	$973,088	$979,381	(0.6%)	($5,536)
Board of Correction	$934	$934	$934	$934	0.0%	$0
Citywide Pension Contribution	$6,171,362	$6,780,040	$7,152,624	$7,518,569	21.8%	$1,347,207
Miscellaneous	$6,352,496	$7,065,234	$7,597,850	$8,207,658	29.2%	$1,855,162
Debt Service	$3,881,395	$4,393,263	$4,816,603	$5,348,873	37.8%	$1,467,478
N.Y.C.T.F.A. Debt Service	$1,133,541	$1,143,877	$1,114,032	$1,157,812	2.1%	$24,271
Pre-payments	$0	($2,036,374)	$0	$0	N/A	$0
FY 2007 BSA	($33,905)	($30,865)	$0	$0	(100.0%)	$33,905
FY 2008 BSA	($4,079,419)	$0	$0	$0	(100.0%)	$4,079,419
FY 2009 BSA	$1,803,208	($1,257,461)	$0	$0	(100.0%)	($1,803,208)
FY 2010 BSA	$0	$350,000	($350,000)	$0	N/A	$0
Transfer for N.Y.C.T.F.A. Debt Service.	($545,747)	($545,747)	$0	$0	(100.0%)	$545,747
Defeasance of N.Y.C.T.F.A. Debt	($363,000)	($382,000)	$0	$0	(100.0%)	$363,000
Call 2009/2010 G.O. Debt	($278,334)	($276,634)	$0	$0	(100.0%)	$278,334
Public Advocate	$2,834	$1,959	$1,961	$1,963	(30.7%)	($871)
City Council	$52,304	$52,260	$52,260	$52,260	(0.1%)	($44)
City Clerk	$4,654	$4,554	$4,554	$4,554	(2.1%)	($100)
Dept. for the Aging	$298,370	$263,836	$262,836	$262,836	(11.9%)	($35,534)
Dept. of Cultural Affairs	$149,663	$137,238	$137,238	$137,238	(8.3%)	($12,425)
Financial Information Services. Agency	$60,119	$49,385	$51,522	$51,522	(14.3%)	($8,597)
Dept. of Juvenile Justice	$132,332	$132,120	$133,870	$137,740	4.1%	$5,408
Office of Payroll Admin.	$14,315	$11,376	$11,383	$11,383	(20.5%)	($2,932)
Independent Budget Office	$3,156	$3,049	$3,050	$3,051	(3.3%)	($105)
Equal Employment Practices Comm.	$800	$800	$800	$800	0.0%	$0

Table A2 (Con't). *FYs 2009-2012 Financial Plan Expenditure Detail*

($ in thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	Changes FYs 2009 - 2012 Percent	Changes FYs 2009 - 2012 Dollar
Civil Service Commission	$644	$644	$644	$644	0.0%	$0
Landmarks Preservation Comm.	$4,652	$4,357	$4,357	$4,357	(6.3%)	($295)
Taxi & Limousine Commission	$30,085	$27,872	$27,872	$27,872	(7.4%)	($2,213)
Commission on Human Rights	$7,106	$6,994	$6,994	$6,994	(1.6%)	($112)
Youth & Community Development	$348,773	$254,049	$254,049	$254,049	(27.2%)	($94,724)
Conflicts of Interest Board	$1,959	$1,942	$1,942	$1,942	(0.9%)	($17)
Office of Collective Bargain	$1,876	$1,876	$1,876	$1,876	0.0%	$0
Community Boards (All)	$14,412	$13,284	$13,286	$13,286	(7.8%)	($1,126)
Dept. of Probation	$79,917	$78,512	$78,207	$78,207	(2.1%)	($1,710)
Dept. Small Business Services	$174,869	$107,226	$94,264	$94,174	(46.1%)	($80,695)
Housing Preservat'n & Developm'nt	$649,300	$481,431	$476,538	$476,273	(26.6%)	($173,027)
Dept. of Buildings	$105,365	$92,189	$91,947	$91,947	(12.7%)	($13,418)
Dept. of Health & Mental Hygiene	$1,690,124	$1,594,291	$1,598,861	$1,610,009	(4.7%)	($80,115)
Health and Hospitals Corp.	$111,638	$101,498	$101,114	$101,254	(9.3%)	($10,384)
Dept. of Environmental Protection	$1,031,570	$926,055	$921,048	$920,823	(10.7%)	($110,747)
Dept. of Sanitation	$1,278,989	$1,331,000	$1,433,341	$1,441,429	12.7%	$162,440
Business Integrity Commission	$6,249	$6,149	$6,149	$6,149	(1.6%)	($100)
Dept. of Finance	$210,637	$201,341	$199,948	$199,954	(5.1%)	($10,683)
Dept. of Transportation	$788,577	$656,511	$657,405	$657,256	(16.7%)	($131,321)
Dept. of Parks and Recreation	$308,706	$290,152	$286,305	$286,305	(7.3%)	($22,401)
Dept. of Design & Construction	$105,015	$102,788	$102,788	$102,788	(2.1%)	($2,227)
Dept. of Citywide Admin. Services	$361,093	$346,282	$346,637	$346,697	(4.0%)	($14,396)
D.O.I.T.T.	$257,504	$242,661	$241,876	$242,642	(5.8%)	($14,862)
Dept. of Record & Info. Services	$6,287	$4,852	$4,853	$4,855	(22.8%)	($1,432)
Dept. of Consumer Affairs	$21,165	$15,695	$15,480	$15,480	(26.9%)	($5,685)
District Attorney – N.Y.	$85,100	$72,377	$72,377	$72,377	(15.0%)	($12,723)
District Attorney – Bronx	$47,318	$42,960	$42,960	$42,960	(9.2%)	($4,358)
District Attorney – Kings	$74,942	$72,167	$72,167	$72,167	(3.7%)	($2,775)
District Attorney - Queens	$42,822	$42,662	$42,662	$42,662	(0.4%)	($160)
District Attorney - Richmond	$7,584	$7,058	$7,058	$7,058	(6.9%)	($526)
Office of Prosecut'n. & Spec. Narc.	$16,645	$15,239	$15,239	$15,239	(8.4%)	($1,406)
Public Administrator - N.Y.	$1,242	$1,130	$1,130	$1,130	(9.0%)	($112)
Public Administrator - Bronx	$501	$409	$409	$409	(18.4%)	($92)
Public Administrator - Brooklyn	$582	$502	$502	$502	(13.7%)	($80)
Public Administrator - Queens	$455	$382	$382	$382	(16.0%)	($73)
Public Administrator - Richmond	$366	$297	$297	$297	(18.9%)	($69)
Prior Payable Adjustment	$0	$0	$0	$0	N/A	$0
General Reserve	$300,000	$300,000	$300,000	$300,000	0.0%	$0
Fleet Reduction	$0	($20,000)	($2,000)	($2,000)	N/A	($2,000)
Energy Adjustment	$0	$83,258	$92,518	$92,358	N/A	$92,358
Lease Adjustment	$0	$28,952	$59,062	$128,089	N/A	$128,089
OTPS Inflation Adjustment	$0	$0	$55,519	$111,038	N/A	$111,038
City-Wide Total	**$60,664,366**	**$61,580,685**	**$68,712,103**	**$71,310,363**	**17.5%**	**$10,645,997**

Glossary of Acronyms

ACS	Administration for Children's Services
AIRA	Actuarial Investment Return Assumption
BARB	Building Aid Revenue Bond
BCT	Banking Corporation Tax
BSA	Budget Stabilization Account
CCA	Correction Captains' Association
COBA	Corrections Officers' Benevolent Association
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
CWA	Communications Workers of America
CY	Calendar Year
DASNY	Dormitory Authority of the State of New York
DCAS	Department of Citywide Administrative Services
DC37	District Council 37
DEP	Department of Environmental Protection
DHS	Department of Homeless Services

DOC	Department of Correction
DOE	Department of Education
DOS	Department of Sanitation
DOT	Department of Transportation
ECB	Environmental Control Board
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
GSE	Government-Sponsored Enterprise
HHC	Health and Hospitals Corporation
HPD	NYC Department of Housing Preservation and Development
HYIC	Hudson Yard Infrastructure Corporation
J&C	Judgments and Claims
LBA	Lieutenants Benevolent Association

NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department
NYSNA	New York State Nurses Association
NYWFA	New York City Municipal Water Finance Authority
OMB	Office of Management and Budget
OPEB	Other Post Employment Benefits
OSA	Organization of Staff Analyst
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Services
RHBT	Retiree Health Benefit Trust
SBA	Sergeants Benevolent Association
SFY	State Fiscal Year
STAR	School Tax Relief Program

TSASC	Tobacco Settlement Asset Securitization Corporation
TARP	Troubled Asset Relief Program
UFA	Uniformed Firefighters' Association
UFOA	Uniformed Fire Officers Association
UFT	United Federation of Teachers
UPL	Medicaid Upper Payment Limit
U.S.	United States
USA	Uniformed Sanitation Association