

Staff Report  
**REVIEW OF FYs 2008-2011  
FINANCIAL PLAN**  
July 19, 2007

***New York State Financial Control Board***

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## I. Overview

The strong tax revenue growth experienced by the city over the past four years has enabled it to balance the FY 2008 budget and shrink the FY 2009 gap to \$1.6 billion. However, substantial budget gaps of \$3.4 billion and \$4.4 billion remain in FYs 2010 and 2011.

The FY 2008 budget is balanced largely due to the extraordinary tax collections during FY 2007 and the ability of the city to prepay \$4.7 billion in FY 2008 expenses. The FY 2008 budget includes expenditure increases in several areas over FY 2007. The Department of Education will receive a \$1.1 billion increase, of which \$693 million is supported by additional state aid. The city's pension contributions increase by \$867 million, primarily as a result of salary increases and benefit enhancements reached in collective bargaining and the phase-in of prior-year investment losses. The city has also chosen to spend \$239 million in FY 2007 and an additional \$632 million in FY 2008 to maximize federal funds for the Health and Hospitals Corporation. In the outyears of the financial plan the city projects that the areas of salaries and wages, employee health insurance, pension and debt service will continue to be the largest growth areas. The growth in debt service is attributable to the burgeoning capital program that the city plans to undertake.

With the conclusion of the fourth year of economic expansion and revenue growth, the city was able to reduce the property tax rate by seven percent, as well as continue the property tax rebate program in FYs 2008-10. In addition, the repeal of the city's sales tax on clothing and footwear has been enacted into law, and several other tax reduction proposals are close to approval by the state. Combined with the tax reduction program, the city is facing a decline in local property transactions along with slower growth in the national economy. Due to these conditions the city has reduced its FY 2008 city-funded revenue forecast by \$1.4 billion. It is projected that at the end of the fiscal year \$2.2 billion will be used to help balance FY 2009, with an additional \$381 million for FY 2010. Our review indicates that even though revenues may be higher than forecasted in FY 2008, mainly due to the higher than expected collections at the end of FY 2007, warning signs exist for the future.

Following four years of expansion, the economy is sending mixed signals as to which path it is taking. National economic growth slowed perceptibly in recent quarters, largely as a result of the downturn in national home sales and the fallout from the subprime mortgage debacle. National job growth appeared to accelerate, giving rise to the perception that the growth slowdown is behind us. Despite the risks posed by higher gasoline prices, overall inflation is moderate. Short-term interest rates have been holding steady at 5.25 percent for one year, but long-term rates have started to move higher. A sustained increase in long-term interest rates could impact the city's financial and real estate markets, which have thus far enabled the city's economy to resist the drag of slower national growth. Because of these mixed signals, the city is being prudent to base its economic plan on an assumption of slow national growth in 2007, followed by a gradual return to trend.

**JULY FINANCIAL PLAN:  
THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2008-2011**

TABLE 1

(\$ in millions)

|   | FY 2008         | FY 2009          | FY 2010          | FY 2011          |
|---|-----------------|------------------|------------------|------------------|
| <b>Revenues</b>   |                 |                  |                  |                  |
| <b>Taxes:</b>   |                 |                  |                  |                  |
| General Property  | \$12,924        | \$14,062         | \$15,152         | \$16,140         |
| Other Taxes <sup>a</sup>                                    | 22,843          | 23,075           | 23,918           | 25,036           |
| Discretionary Transfers                                     | 546             | —                | —                | —                |
| Tax Audit Revenue   | 559             | 559              | 560              | 560              |
| Tax Reduction Program                                       | (290)           | (507)            | (575)            | (634)            |
| Sale of Property Tax Liens                                  | 60              | 38               | 34               | 31               |
| Miscellaneous Revenues                                      | 7,003           | 6,087            | 6,109            | 6,145            |
| Unrestricted Intergovernmental Aid                          | 340             | 340              | 340              | 340              |
| Interfund Revenues  | 436             | 411              | 403              | 398              |
| Less: Intracity Revenues                                    | (1,393)         | (1,364)          | (1,365)          | (1,365)          |
| Disallowances   | (15)            | (15)             | (15)             | (15)             |
| <b>Total City Funds</b>                                     | <b>\$43,013</b> | <b>\$42,686</b>  | <b>\$44,561</b>  | <b>\$46,636</b>  |
| Federal Categorical Grants                                  | 5,295           | 5,380            | 5,364            | 5,351            |
| State Categorical Grants                                    | 10,824          | 11,410           | 12,275           | 12,718           |
| <b>Total Revenues</b>                                       | <b>\$59,132</b> | <b>\$59,476</b>  | <b>\$62,200</b>  | <b>\$64,705</b>  |
| <b>Expenditures</b>   |                 |                  |                  |                  |
| Personal Service  | \$33,081        | \$35,049         | \$36,806         | \$38,250         |
| Other Than Personal Service                                 | 24,642          | 24,539           | 25,117           | 25,682           |
| Debt Service  | 3,825           | 3,963            | 4,353            | 5,053            |
| MAC Debt Service  | 10              | —                | —                | —                |
| NYCTFA Debt Service   | 167             | 775              | 767              | 1,154            |
| Budget Stabilization & Prepayments                          | (1,500)         | (2,236)          | (381)            | —                |
| General Reserve   | 300             | 300              | 300              | 300              |
| Subtotal  | \$60,525        | \$62,390         | \$66,962         | \$70,439         |
| Less: Intracity Expenditures                                | (1,393)         | (1,364)          | (1,365)          | (1,365)          |
| <b>Total Expenditures</b>                                   | <b>\$59,132</b> | <b>\$61,026</b>  | <b>\$65,597</b>  | <b>\$69,074</b>  |
| <b>Gap To Be Closed</b>                                     | <b>\$0</b>      | <b>(\$1,550)</b> | <b>(\$3,397)</b> | <b>(\$4,369)</b> |
| <sup>a</sup> Allocates NYCTFA debt service to expenditures. |                 |                  |                  |                  |

**CHANGES TO THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2008-2011  
JANUARY MODIFICATION COMPARED TO JULY FINANCIAL PLAN**

TABLE 2

(\$ in millions)

|                                    | FY 2008        | FY 2009        | FY 2010      | FY 2011        |
|------------------------------------|----------------|----------------|--------------|----------------|
| <b>Revenues</b>                    |                |                |              |                |
| <b>Taxes:</b>                      |                |                |              |                |
| General Property                   | (\$1,243)      | (\$1,277)      | (\$1,320)    | (\$1,288)      |
| Other Taxes <sup>a</sup>           | 90             | 493            | 408          | 364            |
| Discretionary Transfers            | 546            | --             | --           | --             |
| Tax Audit Revenue                  | 0              | 0              | 0            | 0              |
| Tax Reduction Program              | 1,008          | 896            | 914          | 950            |
| Sale of Property Tax Liens         | 0              | 0              | 0            | 0              |
| Miscellaneous Revenues             | 572            | 266            | 256          | 274            |
| Unrestricted Intergovernmental Aid | 0              | 0              | 0            | 0              |
| Interfund Revenues                 | 30             | 23             | 16           | 12             |
| Less: Intracity Revenues           | (56)           | (20)           | (20)         | (20)           |
| Disallowances                      | 0              | 0              | 0            | 0              |
| <b>Total City Funds</b>            | <b>\$947</b>   | <b>\$381</b>   | <b>\$254</b> | <b>\$292</b>   |
| Federal Categorical Grants         | 77             | 132            | 114          | 96             |
| State Categorical Grants           | 236            | 75             | 163          | 557            |
| <b>Total Revenues</b>              | <b>\$1,260</b> | <b>\$588</b>   | <b>\$531</b> | <b>\$945</b>   |
| <b>Expenditures</b>                |                |                |              |                |
| Personal Service                   | (\$393)        | \$128          | \$373        | \$668          |
| Other Than Personal Service        | 1,387          | 981            | 960          | 1,037          |
| Debt Service                       | (140)          | (329)          | (299)        | 13             |
| MAC Debt Service                   | 0              | --             | --           | --             |
| NYCTFA Debt Service                | (599)          | (379)          | (386)        | (5)            |
| Budget Stabilization & Prepayments | 1,061          | (860)          | (381)        | --             |
| General Reserve                    | 0              | 0              | 0            | 0              |
| <b>Subtotal</b>                    | <b>\$1,316</b> | <b>(\$459)</b> | <b>\$267</b> | <b>\$1,713</b> |
| Less: Intracity Expenditures       | (56)           | (20)           | (20)         | (20)           |
| <b>Total Expenditures</b>          | <b>\$1,260</b> | <b>(\$479)</b> | <b>\$247</b> | <b>\$1,693</b> |
| <b>Gap To Be Closed</b>            | <b>\$0</b>     | <b>\$1,067</b> | <b>\$284</b> | <b>(\$748)</b> |

<sup>a</sup>Allocates NYCTFA debt service to expenditures.

### RISKS TO THE FINANCIAL PLAN

TABLE 3 (\$ in millions, positive numbers are offsets to risks)

|  | FY 2008      | FY 2009          | FY 2010          | FY 2011          |
|--|--------------|------------------|------------------|------------------|
| <b>Stated Financial Plan Gap</b>   | <b>\$0</b>   | <b>(\$1,550)</b> | <b>(\$3,397)</b> | <b>(\$4,369)</b> |
| <b>Estimation</b>  |              |                  |                  |                  |
| Taxes  | \$250        | \$250            | \$250            | \$250            |
| Miscellaneous Revenue  | 125          | 150              | 150              | 150              |
| Uniformed Services Overtime  | (148)        | (150)            | (160)            | (160)            |
| <b>Risk Total</b>  | <b>\$227</b> | <b>\$250</b>     | <b>\$240</b>     | <b>\$240</b>     |
| <b>Total FCB Estimated Surplus/(Gap)</b>   | <b>\$227</b> | <b>(\$1,300)</b> | <b>(\$3,157)</b> | <b>(\$4,129)</b> |
| Note: The city has set aside \$300 million for a general reserve in each year of the financial plan. |              |                  |                  |                  |

## II. Balancing the FY 2008 Budget

The city's financial plan calls for FY 2008 revenues to decline by \$1.5 billion because of tax cuts as well as concerns regarding weaker national economic growth and a slowdown in local property transactions. City-funded revenues are forecast to fall by \$1.4 billion largely because of an expected slowdown in nonproperty tax collections, particularly the real estate transactions taxes and the business and personal income taxes. In addition to these revenue declines, property tax cuts of \$1.3 billion effectively offset nearly all of the growth of the real property tax base in FY 2008. Although some indicators, such as national employment, point to renewed economic growth; other signs, such as decelerating national output and rising long-term interest rates, indicate that weak growth could persist. Given the mixed signals being presented by the economic indicators, the city is being prudent in its conservative revenue outlook.

With a lower revenue forecast, spending for FY 2008 is projected to contract by a net \$1.5 billion compared to FY 2007. Increases in expenditures for certain areas of the budget are more than offset by reductions in spending that reflect transactions facilitated by a revenue windfall in FY 2007. Specifically, expenditures will be lower by \$2.4 billion in FY 2008 compared to FY 2007 because of the net impact of prepayments that were made with surplus revenues from prior years. Further, debt service was higher in FY 2007 by \$1.23 billion mainly because of the use of greater-than-expected revenues for the early retirement of city and New York City Transitional Finance Authority (NYCTFA) debt.

The FY 2008 budget includes spending growth in several areas. The Department of Education increased its budget between FYs 2007 and 2008 by \$1.1 billion to almost \$17 billion (excluding pension and debt service costs). Expanded state aid of \$693 million accounts for part of this increase. The city's pension contribution is expected to rise \$867 million between FYs 2007 and 2008. This is the result of salary increases and benefit enhancements reached through recent collective bargaining agreements and the phase-in of prior-year investment losses. Due to recent contract agreements with the city's unions as well as a rise in overtime, personal service, excluding pension cost, is increasing by \$319 million. The general reserve is budgeted at \$300 million for FY 2008, as it was in FY 2007 before the routine reduction to \$40 million.

With the projected decline in revenues matched by a reduction in spending, the budget for FY 2008 is balanced. The Budget Stabilization Account (BSA) is forecasted to shrink from \$3.3 billion at the opening of FY 2008 to \$2.6 billion at the close. Most of the BSA funding at the end of FY 2008 (\$2.2 billion) will be used toward addressing a budget gap projected for FY 2009.

### THE WEAKER REVENUE OUTLOOK

Total revenue falls to \$59.1 billion in the city's budget for FY 2008, a decrease of \$1.5 billion from the previous year. City funds, which include taxes, intergovernmental aid and miscellaneous revenue, are down by \$1.4 billion, mostly due to a slowdown in nonproperty tax collections. The real property tax gains a relatively modest \$51 million,

after allowing for two major tax cuts totaling \$1.3 billion. The nonproperty taxes are projected to fall by \$1.2 billion, largely because of an expected drop in property transactions taxes. The city also expects that a slowdown in the growth of the national economy, accompanied by a retrenchment in the financial sector, will result in declines of the city's personal and business income taxes, and cause the growth of the sales tax to slow.

The city's tax audit program declines by \$600 million in FY 2008, following an extraordinarily productive FY 2007, which generated estimated collections of nearly \$1.2 billion, or twice as much revenue as in most recent years. Even if audits drop back to the normal level of under \$600 million in FY 2008 and the outyears, the success of the audit program will be measured in improved taxpayer compliance and higher baseline business tax revenues.

In addition to the two major property tax initiatives, which are already included in the tax revenue base, the city's tax program includes several additional proposals that were awaiting legislative approval at the time the city's budget was adopted. These additional tax reduction initiatives start at \$290 million in FY 2008 and exceed \$600 million by FY 2011, and are designed to create jobs and improve the competitive position of the city by easing the tax burden on residents and businesses. The tax cut proposals include a New York City Child Care Credit, several reforms to the unincorporated and general corporation taxes, and the exemption of all purchases of clothing and footwear from local sales taxation. In addition to these older initiatives, the city has also proposed dedicating a portion of personal income tax receipts to the Sustainable Mobility and Regional Transportation (SMART) fund, providing environmental incentives to property owners, and raising the cigarette tax. Although little progress has been made on the city's environment-related tax proposals, many of the other tax cut initiatives have passed both houses of the legislature.

Miscellaneous revenue increases by over \$300 million in FY 2008. Grants channeled through the state's School Tax Relief (STAR) program are up by over \$50 million. Intergovernmental aid increases by over \$300 million in FY 2008 because the state agreed to restore the city's share of the state's Aid and Incentives for Municipalities program, following a cut to this program that affected the previous year. Categorical aid declines by over \$100 million, but these program-specific grants tend to increase as the fiscal year progresses.

### **Property Tax**

The city expects the real property tax to yield nearly \$13 billion in FY 2008, an amount that is only \$51 million higher than the property tax revenue that was collected in FY 2007. A recently enacted seven percent cut in property tax rates, along with an extension of the \$256 million rebate program for owners of homes and apartments, has resulted in the relatively small increase in property tax revenue in FY 2008. Excluding the effects of tax program changes, the property tax would have grown by eight percent, in line with an exceptionally strong eight percent increase in billable assessments.

The city's property tax rate cut reduced the average tax rate by seven percent but, depending on the type of property, some taxpayers will see a greater reduction, and

others will see a smaller reduction. Tax rates for commercial properties decline by 8.5 percent, residential apartment property tax rates are down 6.4 percent, owners of private homes get a tax cut of 4.2 percent, and utility properties are down 3.6 percent. To enable homeowners to participate meaningfully in the city's tax cut program, the state approved legislation authorizing a zero percent limit on increases to the adjusted base proportion of any property class. Without this limit, homeowners would have experienced a slight tax rate increase instead of the promised tax rate reduction.

Tax rate changes are not uniform in order to prevent sudden shifts of the class shares of the property tax levy borne by the four groups of property tax payers. Despite the relatively modest tax cut received by private homeowners, their share of the tax burden declined by 0.7 percent in FY 2008 to 15 percent of the total. The share borne by residential apartment properties increased by 0.6 percent to 37 percent, while the share of commercial properties increased by 1.2 percent to 41 percent. The share of the levy borne by utility properties declined by eight percent to a seven percent share, mainly because this class has been shrinking in size, while the other property classes have been growing larger.

### **Nonproperty Taxes**

The city expects that the nonproperty taxes will decline by \$1.2 billion in FY 2008, to about \$23 billion. Slower national economic growth, affecting the financial sector, is expected to cause several major taxes to decline or grow slowly. The city also expects that a slowdown in property transactions will result in a decline of the property transactions taxes. An attempt to measure the scale of the slowdown in property sales is discussed in "Property Transactions Taxes" beginning on page 17.

The real property transfer and the mortgage recording taxes are projected to fall by \$614 million in FY 2008. The business taxes decline by \$642 million, most of which is from the very volatile banking corporation tax which falls \$439 million. The personal income tax declines by \$69 million. Bucking the downtrend are the sales tax, which grows by \$122 million, and the commercial rent tax, which increases \$43 million. Some of the weakness in the city's FY 2008 forecast reflects the weaker economic conditions in its economic outlook. However, some of this downturn reflects the unexpectedly strong tax collections that were received toward the end of FY 2007, after the city had prepared its estimates for FY 2008.

### **Miscellaneous Revenue**

The city expects miscellaneous revenue to grow by 8.2 percent or \$347 million to \$4.6 billion in FY 2008 from the prior year. The positive growth expected in FY 2008 is largely due to volatile revenue streams (e.g. tobacco settlement revenues) and dedicated funds (e.g. water and sewer charges). As an illustration, after funding operating expenses and debt service on bonds issued by the Tobacco Settlement Asset Securitization Corporation, the remaining proceeds from the master settlement agreement are projected at \$549 million in FY 2008 and about \$140 million annually thereafter. Also, revenue from water and sewer charges, at over \$1 billion annually, accounts for over a quarter of the miscellaneous revenue forecast, but is dedicated to the operation and maintenance of the water and sewer system, and debt service payments.

If these kinds of funds are removed from the city's miscellaneous revenue forecast, leaving the "core categories," FY 2008 collections are expected to fall by 8.9 percent or \$246 million to \$2.5 billion on a year-over-year basis.<sup>1</sup> In the FY 2008 Adopted Budget, all six of the core categories show negative year-to-year variances. The decline of \$246 million projected for the core categories in FY 2008 has more to do with conservative forecasting at the start of the fiscal year, fewer fees related to commercial real estate projects, and the anticipation of less cash available for short-term investment (from a changing economic climate) than a significant fall-off in revenue. We expect that as FY 2008 proceeds, the revenue projections for the core categories will be increased.

## **EXPENDITURE HIGHLIGHTS**

The main sources of spending growth between FYs 2007 and 2008 are overtime, pensions, Medicaid and education. Uniformed overtime is increasing by \$142 million to \$712 million and our analysis projects it to grow further to \$764 million. Pension costs are projected to increase by \$867 million to \$5.7 billion and Medicaid grows by \$492 million also to \$5.7 billion. Most of the increase in Medicaid, or \$393 million, is due to actions taken by the city to augment revenues for the Health and Hospitals Corporation. The Department of Education operating budget increases by \$1.1 billion to just under \$17 billion. Of this increase, \$693 million is due to an increase in state aid.

Debt service drops by \$1.23 billion because of the use of greater-than-expected revenues for the early retirement of debt undertaken to finance the city's capital program. Fringe benefit costs decrease by over \$1 billion because \$1.5 billion was allocated to the Retiree Health Benefits Trust Fund in FY 2007, but no allocations are projected for FY 2008. The New York City Housing Authority's (NYCHA) budget is close to being flat between 2007 and 2008.<sup>2</sup> However, NYCHA is forecasting a deficit of \$224 million in 2008 caused by a structural imbalance between increasing nondiscretionary expenses and decreasing government subsidies.

### **Overtime**

The city's overtime budget for its four uniformed agencies – Police, Fire, Correction, and Sanitation – is fast approaching three-quarters of a billion dollars. The problem of hiring the needed uniformed employees has reached the point that highly successful initiatives, such as the Police Department's Operation Impact, may be in jeopardy of being suspended. This crime fighting operation, which dispatches a large group of newly trained police officers to higher crime areas in the city, has been an effective tool in crime prevention.

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<sup>1</sup>The core categories consist of licenses, charges or fees, fines, rent, interest, and a residual miscellaneous category. Volatile funds such as tobacco settlement revenues, payments for Health and Hospitals Corporation's debt service, and nonrecurring actions are excluded from the analysis. Also excluded are revenues dedicated to programmatic expenditures such as water and sewer charges, because they cannot provide gap-closing assistance.

<sup>2</sup> NYCHA's fiscal year is the same as the calendar year.

The Police Department in particular has found itself at a disadvantage in attracting new recruits as a consequence of the collective bargaining breakdown between uniformed police personnel and the city. Resolution to the impasse came by way of an arbitration panel. The panel's decision to implement a low starting salary that is far below the starting salaries offered by other police departments has put a great amount of pressure on the Police Department to maintain its headcount. The lack of new hires to carry out Department initiatives creates an overtime situation which requires more hours from active officers. Nonetheless, the Department has adopted programs that have helped to contain costs, such as reducing the number of hours required for processing an arrest. This efficiency is part of a joint effort with the District Attorney's Office in each borough that reduces the cost of arrest processing. Additionally, reduced salaries for incoming police officers will somewhat offset overtime costs as new hires will be paid an overtime rate that is less than what a veteran officer would receive at a higher salary. Further, the Department will be able to use its share of homeland security grants to pay for some of its overtime needs. One program that will benefit from the grants, which are being used mainly to pay for overtime, will be Operation Atlas, which is the city's security shield against another terrorist attack.

Overtime is also being driven higher by additional spending in the Fire Department. A substantial amount of the additional spending is to cover increased costs in the Emergency Medical Services unit and to compensate for an unusually high sick rate among firefighters. Many uniformed firefighters have been taken out of rotation due to illness and put into light duty. Thus, their absence must be accounted for, which has heavily impacted the Department's overtime needs.

The city had originally estimated its overtime budget at \$570 million. It now expects to spend \$712 million for the fiscal year. As mentioned earlier, additional funding needs attributable to hiring, attrition, and sick rate problems have contributed to the increase of the \$142 million in the budget since adoption. Included in the budget is \$30 million of federal and state homeland security grants for the Police Department and more than \$11 million for the Fire Department. Our analysis, based upon actual overtime spending for the fiscal year, projects that the city will spend \$52 million more than it has budgeted and will end FY 2007 with overtime expenditures of \$764 million.

### **Pensions**

In the FY 2008 Adopted Budget, pension costs are projected to increase from FY 2007 by more than \$867 million to \$5.7 billion in FY 2008. The additional spending, of nearly 18 percent, is due to salary increases and benefit enhancements reached through recent collective bargaining agreements and the phase-in of prior-year investment losses.

For the end of FY 2007, we expect that the investment return for the pension systems will be in excess of the required rate of return or Actuarial Interest Rate of eight percent and a realized gain on investments will occur. The domestic and foreign stock markets have performed extremely well in light of a confluence of domestic and global economic factors that would normally be thought to have a greater negative effect on the markets. The city has stated that the New York City Retirement Systems has achieved an investment return of 18 percent as of June 2007. For a more detailed analysis of

pension costs over the life of the city's financial plan, see "Pension Costs" beginning on page 21.

### **Fringe Benefits**

In the FY 2008 Adopted Budget, spending on fringe benefits decreases by over \$1.1 billion, or close to 15 percent between FYs 2007 and 2008. This is due to the fact that \$1.5 billion has been allocated to the Retiree Health Benefits Trust Fund in FY 2007 but nothing in FYs 2008-11. For more consistent reporting purposes, we have removed \$1.5 billion from our analysis in order to get baseline numbers in FY 2008. With that adjustment, fringe benefits are forecasted to increase from close to \$6 billion in FY 2007 to around \$6.4 billion in FY 2008. This represents an increase of close to seven percent. Meanwhile, fringe benefits consist of six components, the largest and most important of which is health insurance. It accounts for over half of all spending on fringe benefits and increases by almost 12 percent in FY 2008. For a more detailed analysis of fringe benefit costs over the life of the city's financial plan, see "Fringe Benefit Costs," beginning on page 23.

### **Medicaid**

In the FY 2008 Adopted Budget, the city is projecting Medicaid costs to increase by \$492 million between FY 2007 and FY 2008. However, it should be noted that \$239 million is included in FY 2007, with an additional \$632 million in FY 2008 to cover expenses related to the Upper Payment Limit and Disproportionate Share Hospital federal programs. The city's contribution to these two programs is matched by federal funds, and the city and federal shares become increased revenue for the Health and Hospitals Corporation. If we factor out the cost of these two federal programs, the true growth in total Medicaid costs between FY 2007 and FY 2008 is about \$100 million, or two percent.

While the Medicaid program represents a large portion of its budget, the city continues to rely on the state's implementation of the growth cap to reduce most of its share of the cost, as discussed in "Medicaid" on page 25.

### **Department of Education**

Since the FY 2008 Executive Budget, the New York City Department of Education (DOE) has added \$110 million to its expenditures for an anticipated FY 2008 budget of just under \$17 billion at adoption (excluding pension and debt service costs, which are budgeted separately). This is \$1.1 billion, or just over seven percent, more than the projected spending for FY 2007.

This almost \$17 billion in funding for FY 2008, is made up of city funds (including other categorical and intra-city) of \$7.3 billion, state funds of \$7.9 billion and federal funds of \$1.9 billion. Of the \$1.1 billion increase over FY 2007, \$402 million is being provided by the city, \$693 million by the state, and \$38 million by the federal government.

The DOE has also identified \$91 million in efficiency savings in FY 2008 with \$58 million coming from regional administration and professional development, \$28 million from central administration, \$3 million will be saved from energy efficiencies, and \$2 million is from facilities. These actions will free up a corresponding \$91 million for reallocation to general education and special education.

### **New York City Housing Authority**

The New York City Housing Authority (NYCHA) has an annual budget of approximately \$2.8 billion with a full-time headcount of 12,800 and provides housing assistance to over 650,000 New Yorkers. NYCHA projects budget gaps of nearly \$52 million in 2007 and \$224 million in 2008.

The projected gaps are caused by a structural imbalance between increasing nondiscretionary expenses and decreasing government subsidies. Since 2002, nondiscretionary expenses, such as utilities and fringe benefits, have increased by \$700 million, or over 58 percent. During the same time frame, the federal operating subsidy has been decreasing. In 2007, the federal government only reimbursed NYCHA for 83 percent of eligible costs, causing a shortfall of \$159 million. State operating aid ceased in 1997, though in 2007, the state provided the authority with \$3.4 million in aid. The city provided NYCHA with \$170 million in aid over FYs 2006 and 2007 but has indicated that this amount will be significantly reduced going forward.

NYCHA is taking a number of actions to reduce its 2007 deficit from \$271 million to approximately \$52 million. The most significant actions are the utilization of \$100 million in federal capital funds for maintenance operations and the sale of vacant or surplus NYCHA land to the city for the development of additional affordable housing, which will bring in \$50 million. Plans have also been made for a partial hiring freeze, which is expected to save \$10 million, and a workforce reduction of 500 positions (achieved through leaving open positions vacant and layoffs), which will save \$8 million in 2007, both of which will be effective October 2007.

The authority plans to reduce the 2008 deficit from almost \$224 million to \$124 million. Savings of \$56 million are projected due to earlier workforce reductions. An additional \$36 million will be generated by transitioning 8,400 unfunded city and state constructed units to Section 8, which will secure a stable funding mechanism for these units.<sup>3</sup> This action is pending approval by the U.S. Department of Housing and Urban Development.

In the outyears, NYCHA's financial plan is projecting gaps of almost \$123 million in 2009 and slightly over \$117 million in each of 2010 and 2011. The financial plan also projects that Personal Service as well as utility expenses will remain flat through these years. We feel that this is overly optimistic and that increases in these expenses are likely to result in larger gaps than projected. These larger gaps could put pressure on

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<sup>3</sup> The Section 8 program is a pass-through of federal funds to private landlords administered by NYCHA.

the city to increase its subsidy to NYCHA in the future in order to prevent further service reductions.

### **Debt Service**

City debt service costs, including that for the New York City Transitional Finance Authority (NYCTFA), are projected to total \$4.5 billion in FY 2008 net of prepayments. Unlike the case in FY 2007 when the city used \$1.253 billion of its revenue windfall for the early retirement of general obligation and NYCTFA revenue bonds that will yield savings totaling \$59 million in FY 2008, \$639 million in FY 2009 and \$658 million in FY 2010, no such transaction is currently planned for FY 2008.<sup>4</sup> With the additional \$1.253 billion of early debt retirement in FY 2007, debt service was higher in FY 2007 than the projection for FY 2008 by \$1.23 billion.

Even with a conservative estimate of tax revenues for FY 2008, total debt service is currently forecasted to absorb the lowest share of taxes, at 12.4 percent, within the last fifteen years. The debt service burden is projected to rise over the years covered by the plan to 15.1 percent in FY 2011, as discussed in "Debt Service Costs" beginning on page 38.

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<sup>4</sup> We provided a detailed discussion on the FY 2007 debt retirement transactions in the May 2007 FCB staff report. The debt service costs and savings related to this transaction have been reestimated in the current financial plan.

### **III. The FYs 2008-2011 Financial Plan**

The city's strong tax revenue growth over the past four years has enabled it to balance its FY 2008 budget and shrink its FY 2009 gap to \$1.6 billion. However, substantial gaps of \$3.4 billion and \$4.4 billion remain in FYs 2010 and 2011. The extra revenue also enabled the city to offer to reduce the property and sales taxes and to propose and implement several additional tax-cut programs. The city expects total revenue to grow seven percent, in its financial plan for FYs 2008-2011, primarily because of strong property tax growth and additional state educational aid. The city, however, projects that slower national economic growth and an observed slowdown in local property transactions will cause the nonproperty taxes to weaken in the early years of the plan, after which growth resumes.

On the expenditure side, growth persists in the following areas: Personal service, both salaries and wages as well as fringe benefits, pensions, Medicaid and debt service. The increase in salaries represents the costs of a number of union contract agreements reached in the last year. Fringe benefit costs show a decrease between FYs 2007 and 2008 due to the Retiree Health Benefits Trust Fund being funded in FY 2007 but at this point not for FYs 2008-11. Though fringe benefit costs continue to grow after FY 2008, it is at a slower rate than in recent years. Pension costs increase between FYs 2007 and 2011, however most of the growth is in the first two years of the plan. The growth rate slows significantly between FYs 2009 and 2010 and is almost flat between FYs 2010 and 2011. Medicaid expense growth is quite moderate due largely to the enactment of a state cap.

Debt service, driven by the city's capital program, is a sizable and fast growing component of the expense budget. In this section of the report, we review the major allocation of capital commitments in the ten-year strategy, with attention to new initiatives and the adequacy of funding for maintenance. The associated debt service costs are also assessed.

#### **THE OUTLOOK FOR REVENUE GROWTH**

With the city in its fourth year of economic expansion and revenue growth, the city has implemented two major cuts to the real property tax, and has proposed further reductions targeted at the sales tax and at the business and personal income taxes. The city's financial plan indicates that revenues could turn downward in FYs 2008 and 2009, before revenue growth resumes in FYs 2010-11. Observed declines in local property transactions, and a decelerating national economy, along with the tax cut program, are the primary causes of the city's projected revenue downturn. If the national slowdown continues, the city could feel the effects of reduced income flows in the securities industry which, together with slower property sales, could impact the nonproperty taxes.

In the city's plan, total revenue declines by \$1.5 billion in FY 2008, after which revenues resume growth. The net effect of the revenue downturn followed by a recovery is for total revenue to increase by \$4.1 billion, or nearly seven percent, over the four years of the plan from \$60.6 billion in FY 2007 to \$64.7 billion in FY 2011, as shown

in Table 4. The relatively strong growth of total revenue is enhanced by \$1.8 billion in additional categorical aid over the four-year period, which primarily reflects additional state education aid, as discussed in "Department of Education" on page 28.

**CITY FUNDS INCREASE BY \$2.3 BILLION OVER THE NEXT FOUR YEARS,  
RECOVERING FROM THE DOWNTURN IN FYS 2008-2009**

TABLE 4

(\$ in millions)

|                         | FY 2007         | FY 2008         | FY 2009         | FY 2010         | FY 2011         | FY 2007-11<br>% Change | FY 2007-11<br>\$ Change |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------------|-------------------------|
| Property Tax            | \$13,098        | \$13,144        | \$14,260        | \$15,346        | \$16,331        | 24.7%                  | \$3,233                 |
| Nonproperty Taxes       | 25,570          | 23,788          | 23,474          | 24,318          | 25,437          | (0.5)                  | (133)                   |
| Tax Cut Program         | 0               | (290)           | (507)           | (575)           | (634)           | NA                     | (634)                   |
| Miscellaneous           | 4,041           | 4,428           | 3,716           | 3,732           | 3,766           | (6.8)                  | (275)                   |
| Nonrecurring            | 216             | 176             | 0               | 0               | 0               | (100.0)                | (216)                   |
| Unrestricted Aid        | 18              | 325             | 325             | 325             | 325             | 1,705.6                | 307                     |
| <b>Total City Funds</b> | <b>\$42,943</b> | <b>\$41,571</b> | <b>\$41,268</b> | <b>\$43,146</b> | <b>\$45,224</b> | <b>5.3%</b>            | <b>\$2,281</b>          |
| Categorical Aid*        | \$17,271        | \$17,125        | \$17,797        | \$18,651        | \$19,083        | 10.5%                  | \$1,812                 |
| Interfund Revenue       | 412             | 436             | 411             | 403             | 398             | (3.4)                  | (14)                    |
| <b>Total Funds</b>      | <b>\$60,626</b> | <b>\$59,132</b> | <b>\$59,476</b> | <b>\$62,200</b> | <b>\$64,705</b> | <b>6.7%</b>            | <b>\$4,079</b>          |

Notes: STAR Aid has been allocated to the property and nonproperty taxes. Categorical Aid is the sum of state, federal and other categorical grants. Numbers may not add due to rounding.

City fund revenues, which fall \$1.4 billion in FY 2008 decline by a further \$300 million in FY 2009, after which revenues recover as the nonproperty taxes resume growth in the outyears.<sup>5</sup> Consequently, over the next four years, city funds increase by \$2.3 billion, from \$42.9 billion in FY 2007 to \$45.2 billion in FY 2011. The property tax, which grows by \$3.2 billion or 25 percent over the plan period, produces most of the revenue growth shown in the plan. This growth is all the more remarkable because it remains strong, despite the implementation of two major property tax cuts worth \$1.3 billion beginning in FY 2008. In contrast to the strong growth of the property tax, the nonproperty taxes decline by \$133 million from FY 2007 through FY 2011, falling by 0.5 percent.

The city's tax program (excluding the much larger property tax cuts that are already in effect) is projected to cost \$290 million if fully implemented in FY 2008, with the cost rising to \$634 million by FY 2011. Miscellaneous revenue is projected to fall by seven percent or \$275 million. Despite the projection of higher water and sewer charges in the city's latest miscellaneous revenue forecast, which is tied to programmatic expenditures, all of the areas within miscellaneous revenue that exhibit recurring growth (i.e. core categories) are expected to fall by FY 2011, particularly interest income. The city also plans to use nonrecurring revenues of \$176 million in FY 2008, down from \$216 million in FY 2007. Unrestricted aid, which had budget cuts restored, increases from \$18 million in FY 2007 to \$325 million in FY 2008 and remains at that level through FY 2011.

<sup>5</sup> City-fund revenues represent funds produced by the local economy and include taxes, miscellaneous revenue (with nonrecurring resources), and unrestricted aid. However, city-fund revenues exclude categorical grants, which are payments from the state and federal governments and third-parties that are restricted in use to specific programs and cannot assist in achieving budget balance.

## **Property Tax**

The property tax produces the strongest growth of all the revenue sources in the city's financial plan. The city expects the property tax to grow by \$3.2 billion, or 25 percent, over the four years of the plan from \$13.1 billion in FY 2007 to \$16.3 billion in FY 2011, as shown in Table 4 on page 14. Were it not for the revenue growth projected for the property tax, total city funds would be declining rather than increasing by \$2.3 billion. The property tax remains a strong source of growth despite two major tax cuts, the seven percent rate cut and the extension of the homeowner rebate program, both of which go into effect in FY 2008. The rate cut returns a large portion of the 18.5 percent tax increase that went into effect partly in FY 2003 and partly in FY 2004. After adjusting for these and other property tax changes, it becomes apparent that the revenue growth planned for the property tax increases to an average of nearly eight percent annually, over the next four years, from an average growth rate of five percent over the preceding four year period.

In a study of city property transactions, we found that for most types of property in the city median price levels were higher in the first five months of 2007 than in the comparable period of the previous year, even though transactions volume had declined. These results appear to indicate that the booming local real estate market in the city is losing momentum. However, the fact that price levels remained firm, for most segments of the market, indicates that the city's property tax base can continue to expand, at least in the near term, along with the increase in market values. The one important exception to the general increase in median prices was Manhattan commercial property. The median price of this key sector declined by six percent, even while the mean price level increased by nearly 100 percent. This result indicates that even though large transactions involving billion-dollar deals have dominated the Manhattan commercial property market, smaller properties might be realizing softer prices. This finding of weaker median price levels for Manhattan commercial properties, along with the result that transactions volume is down for nearly all types of property, raise concerns about the relatively strong growth assumptions for property tax revenue in the outyears of the plan.

## **Economic Outlook**

Following four years of expansion, the economy is sending mixed signals as to which path it is taking. National economic growth slowed perceptibly in recent quarters, largely as a result of the downturn in national home sales and the fallout from the subprime mortgage debacle. National job growth appeared to accelerate, giving rise to the perception that the growth slowdown is behind us. Despite the risks posed by higher gasoline prices, overall inflation is moderate. Short-term interest rates have been holding steady at 5.25 percent for one year, but long-term rates have started to move higher. A sustained increase in long-term interest rates could impact the city's financial markets and real estate markets, which have thus far enabled the city's economy to resist the drag of slower national growth. Because of these mixed signals, the city is being prudent to base its economic plan on an assumption of slow national growth in 2007, followed by a gradual return to trend.

The national economy came very close to stalling out when real gross domestic product (GDP) increased by just 0.7 percent in the first quarter of 2007, following three quarters of decelerating growth. A report of reviving national job growth has given rise to a perception that the worst of the national growth slowdown is behind us, and that GDP will quickly re-accelerate toward trend growth of about three percent per year. A weaker employment report for June indicates that job growth in the second quarter of 2007 moved only slightly higher, to 148,000 jobs per month, from the first quarter's growth of 142,000.

Inflation has been moderate mainly because fuel prices have been moving in step with the pattern set in the spring of 2006, when gasoline climbed sharply higher in the months leading up to the summer driving season. Last year's rise in fuel prices did not persist beyond the summer months, and inflation did not spread once it had become apparent that the surge in gas prices was only a temporary phenomenon. It is however, unclear whether the current run-up in gasoline prices will be perceived as temporary or permanent. Thus far, for the year through May, nationwide consumer prices increased by 2.5 percent, down from the 3.2 percent increase reported for all of 2006. Medical care and food are leading national price levels upward with medical care up by 4.1 percent in the first five months of the year, and food accelerating to 3.9 percent in May.

Consumer prices in the New York region increased by only 2.7 percent in the first five months of the year, slightly more than the national increase. Medical care is a problem area, however, with costs rising by 5.5 percent through May, significantly faster than the national increase of 4.1 percent. The cost of housing in the region, which increased 4.2 percent through May, is rising faster than the national housing cost increase of 3.3 percent. Inflation could spread to other sectors, for both the region and the nation, particularly if gasoline prices fail to moderate later in the year.

With inflation poised for a possible acceleration, interest rates could also be headed higher. Short-term rates, which are controlled by the Federal Reserve Board, have not budged since a 5.25 percent federal funds rate was set in July 2006 when gasoline prices were also threatening to ignite inflation one year ago. However, long-term interest rates, which are governed only by market forces, are already moving up. By mid-June, the yield on Aaa-rated corporate bonds increased by one-half a percentage point to 5.9 percent, up from 5.4 percent at the beginning of May. A sustained increase in long-term interest rates can have an impact on the city's financial and real estate markets and ultimately on the city's plan for tax revenues.

The national growth slowdown does not appear to have adversely affected the city because the stock market has been continuing to move higher and because the local real estate market remains strong in comparison to the weaker conditions elsewhere in the nation. Newly released data on city property transactions show that the city has been affected by a slowdown in property sales. The new data confirm the pattern of mixed results that were reported in the Mayor's executive budget, with real estate price levels moving higher even while transactions volume is lower. Further details of our analysis of these property transactions data appears in "Property Transactions Taxes" on page 17.

In the city's view, national output growth as measured by real gross domestic product slows from 3.3 percent in 2006 to 2.3 percent in 2007. Growth accelerates to 2.8 in 2008 and 3.1 percent in 2009 and 2010, before easing back to 2.7 percent in 2011. The very poor GDP results of 0.7 percent growth, reported for the first quarter, indicates that the city's projected growth of 2.3 percent for all of 2007 might be somewhat optimistic. The slowdown which the city projects for the local economy is considerably more abrupt than for the nation, with gross city product (GCP) stagnating with virtually no growth in 2007 or in 2008, following the very strong 5.1 percent rate of growth estimated for 2006. GCP growth resumes in 2009, with a 2.5 percent increase, after which growth accelerates to nearly three percent in 2010 and 2011.

The city expects that slower growth in local employment and wages, and a reversal of Wall Street-related income flows will cause the growth of the income and sales taxes to slow in the near term. The city plan calls for employment growth to moderate from 1.7 percent in 2006 to 1.3 percent in 2007 and to 0.8 percent in 2008, before recovering slightly to one percent in 2009-2010. Local job counts for the first five months of 2007 show that a deceleration is taking place, with year-to-year employment growth easing back from 1.6 percent and 1.7 percent in January and February respectively to 1.4 percent or less from March through May.

### **Nonproperty Taxes**

In line with its expectation that slower economic growth lies ahead, the city plans for the nonproperty taxes to decrease by about \$133 million over the next four years, a decline of 0.5 percent. This slight decline, in which the nonproperty taxes fall from \$25.6 billion in FY 2007 to \$25.4 billion in FY 2011, actually consists of a sharp decline in the first two years of the plan followed by a recovery in the outyears. The steepest decline comes in FY 2008, when these taxes fall by \$1.8 billion, including a \$600 million decline in tax audit revenue. Revenue slides by an additional \$300 million in FY 2009, after which these taxes recover with growth of about \$800 million in FY 2010 and \$1.1 billion in FY 2011, as shown in Table 4 on page 14. The weak growth stems primarily from declines in the real estate transactions taxes and the business and personal income taxes, as well as from reduced growth for the sales tax.

**Property Transactions Taxes.** This group of taxes, consisting of the real property transfer tax and the mortgage recording tax, surged by an average of 33 percent annually over the last four years in response to the real estate boom and the prevailing low mortgage rates. In its study of local property transactions, the city observed a downward trend in property transactions, leading the city to reduce its reliance on these formerly fast-growing taxes. Accordingly, the city expects transactions tax revenues to drop by 19 percent in FY 2008 to \$2.6 billion, from the record \$3.2 billion earned in FY 2007. Revenues drop an additional 13 percent in FY 2009 and stabilize in FY 2010 at about \$2.3 billion, at the level earned in FY 2005. The transaction taxes recover in FY 2011 with the resumption of slow-paced revenue growth of two percent.

In the FY 2008 Executive Budget, the city presented graphic evidence from an analysis of city real estate sales that even while real estate prices remain strong, transactions volume is down for all but the highest-priced property deals. In an analysis of later data, we confirmed the city's findings that a slowdown in property sales is being

felt in the city, even though price levels for most of the market segments, that we looked at, showed few signs of weakness. The mixed signals as to the direction of the real estate market indicate that the city is being prudent to expect \$1 billion, or 30 percent, less revenue from the property transactions taxes by FY 2009.

We compared property transactions data for the first five months of 2007, through a cutoff date of May 18, with similar transactions occurring in the identical period of 2006. Transactions were grouped by Manhattan and the outer boroughs and by the type of property. For residential properties, an effort was made to identify transactions involving private homes, individual apartments and residential apartment building sales. Similarly, business property transactions were grouped by commercial buildings, commercial condominium units and vacant land whether intended for residential or commercial use.

In Manhattan, private home transactions dropped by six percent in 2007, while the median price increased by 26 percent. Individual apartment sales dropped four percent, and the median price increased 10 percent. Sales of residential buildings were off by 13 percent, and prices were up by eight percent. An opposite pattern was detected for Manhattan commercial buildings, where sales volume picked up by four percent. Although the median price for commercial buildings declined six percent, the mean price level increased by nearly 100 percent, reflecting the stratospheric prices being achieved by the largest property deals. The largest drop-off in transactions was observed for commercial condominiums, which plummeted by 82 percent. Despite the plunge in transactions, the median price increased 21 percent for these commercial units.

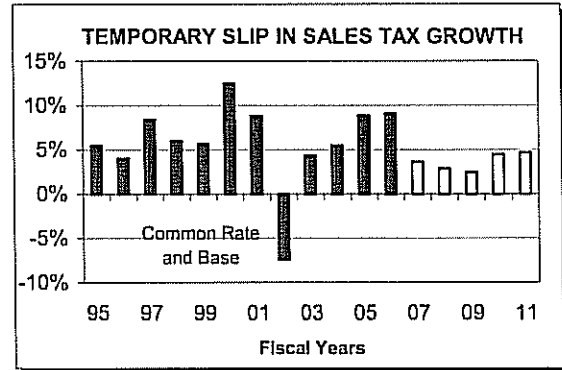
In the outer boroughs, sales of private homes dropped by 32 percent, while the median price increased by seven percent. Individual apartment sales dropped 18 percent, and the median price increased 12 percent. Sales of residential buildings were off by 33 percent, and prices were up by 13 percent. Commercial buildings sales volume was down 31 percent but the median price increased 20 percent. Commercial condominiums bucked the trend in the outer boroughs, recording a 41 percent increase in the transactions volume while the median price soared 250 percent. For vacant land, sales were down 39 percent and the median price increased 27 percent.

**Business Taxes.** Tax revenue for the city's three business income taxes, which had increased by an average of nearly 30 percent annually over the previous four years, abruptly declines over the next two years. The city expects that tax collections for this group consisting of the general corporation, banking corporation, and unincorporated business taxes will fall 10 percent in FY 2008 followed by a further decline of four percent in FY 2009. Revenues improve somewhat in FYs 2010 and 2011 with growth averaging about four percent in these two years.

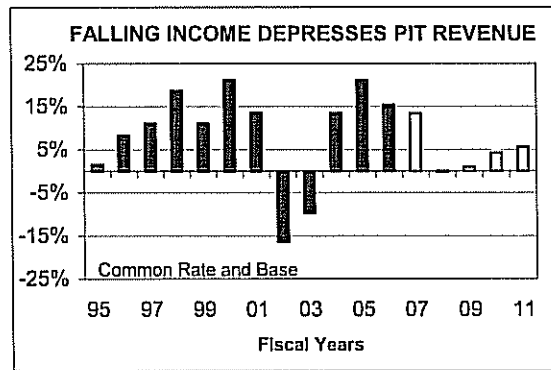
The city's business taxes stagnate in the plan because of a sharp slowdown in national pretax corporate profits and securities industry profits. Corporate profit growth falls from 19 percent in 2006 to three percent in the plan for 2007, while securities industry profits retreat from \$21 billion in 2006 to \$17 billion in the city's plan for 2007. Thus far in the first quarter of 2007, corporate profit growth is seven percent, down from the double-digit growth rates that had prevailed for the previous four years. Also, \$4.7

billion in securities industry profits were earned in the first quarter of 2007, showing no growth over the comparable period of the previous year.

**Sales Tax.** The city expects the current deceleration in sales tax collections to continue through FY 2009 because of the expectation of a temporary contraction in wage income and employment, in both the financial and nonfinancial sectors. These two factors compound the existing negative situation of less consumption expenditures due to fewer residential real estate transactions. As seen in the figure to the right, the city's latest forecast calls for sales tax collections, on a common rate and base, to rise only 2.9 percent in FY 2008 and 2.5 percent in FY 2009, before reaching nearly five percent annual growth by FY 2011. To illustrate the degree of the local economic slowdown forecast by the city, the number of new jobs created per year is expected to drop from 62,200 in calendar year 2006 to a relative low of 30,600 by calendar year 2008, and approach 40,000 new jobs in both calendar years 2009 and 2010. Also, financial sector compensation is estimated to decline 2.9 percent from \$83.3 billion in calendar year 2007 to \$80.9 billion by calendar year 2009, before a recovery starts in calendar year 2010. Whether the city's expectation that discretionary spending will continue to fall and hurt sales tax revenue until FY 2010 is realized may depend on the duration of the residential housing slump, the resilience of the local economy, and the level of gasoline prices.



**Personal Income Tax.** A reversal in the outlooks for the three income sources that drive personal income tax (PIT) collections—securities industry profits, bonus payouts, and capital gains realizations—is expected by the city to cause minimal revenue growth in FYs 2008 and 2009 and a modest recovery by FY 2011. In each of the four fiscal years prior to FY 2008, PIT revenue increased at double digit rates (over 13 percent annually), because bonus payouts on Wall Street remained high despite volatility in securities industry profits, in an environment of ever increasing local employment, wealth, and residential real estate transactions. As seen in the figure to the right (on a common rate and base), the city expects essentially no year-over-year revenue growth in FY 2008, one percent growth in FY 2009, and modest gains of 4.3 percent and 5.6 percent in FYs 2010 and 2011, respectively.



The basis for the forecast of meager annual growth in PIT revenue in the near term (FYs 2008 and 2009) is the anticipation of sharp year-over-year declines in securities industry profits and bonus payouts in calendar years 2007 and 2008, and a gradual fall-

off in capital gains realizations over the forecast period (through calendar year 2011). For example, after almost matching the calendar year 2000 record of \$21 billion in 2006, securities industry profits are estimated to fall steadily to \$12.6 billion by calendar year 2008, before exhibiting positive growth and exceeding \$20 billion by calendar year 2011. Similarly, following the new high of \$25.5 billion for bonus compensation in 2006, the city estimates two years of declines in calendar years 2007 and 2008 to a "low" of \$17.8 billion before recoveries in the national and local economies propel bonus compensation to the \$20 billion mark by calendar year 2010. After soaring by an estimated 20 percent on a year-to-year basis in calendar year 2006 to \$38.9 billion, capital gains realizations are expected to end the forecast period in calendar year 2011 down 4.4 percent or \$1.7 billion to \$37.2 billion. Although capital gains realizations are known for year-to-year volatility, the scenario painted by the city may be improved if there is a pick-up in either the residential real estate market or corporate profits (that would boost stock prices).

### **SOURCES OF EXPENDITURE GROWTH**

In the four-year financial plan, the city's spending growth between FYs 2007 and 2011 is 13.6 percent, with total spending reaching \$69.1 billion in the final year of the plan, as shown in Table 5 on page 21. Personal service (PS) increases 20.1 percent between FYs 2007-11. The growth in salaries and wages is projected at 25.3 percent that represents the costs of a number of union contract agreements reached in the last year.

Fringe benefit costs show a drop of 14.7 percent between FYs 2007 and 2008. This is due to the Retiree Health Benefits Trust Fund being funded at \$1.5 billion in FY 2007, but at this point, not for FYs 2008-11. The city's pension contribution increases 35 percent between FYs 2007 and 2011. Most of the growth is between FYs 2007-08 and FYs 2008-09 at 18.3 percent and 11.8 percent, respectively. This additional spending is due to salary increases and benefit enhancements reached through recent collective bargaining agreements and the phase-in of prior year investment losses. The growth rate slows significantly to 1.9 percent between FYs 2009 and 2010 and 0.2 percent between FYs 2010 and 2011. In FY 2011 pension costs will be \$6.4 billion.

Under the other than personal service (OTPS) category, both debt service and Medicaid increase over the life of the plan. Debt service increases 7.4 percent from almost \$5.8 billion in FY 2007 to \$6.2 billion in FY 2011, driven largely by 21 percent growth from FYs 2010 to 2011. Medicaid expense grows by 9.4 percent between FYs 2007 and 2008 due mostly to actions taken to increase revenues for the Health and Hospitals Corporation. The expense actually decreases two percent between FYs 2008 and 2009, and in FYs 2009-10 and FYs 2010-11 the growth rate increases by 2.7 percent and 2.8 percent, respectively. This moderate growth is due largely to the cap imposed on Medicaid costs by the state. Public Assistance is projected to remain flat at \$1.2 billion over the life of the plan though this could change due to new federal regulations.

**THE CITY'S EXPECTED EXPENDITURE GROWTH BETWEEN FYs 2007 AND 2011**

TABLE 5 (yr/yr percent change, \$ in millions)

|                    | FYs<br>2007-08 | FYs<br>2008-09 | FYs<br>2009-10 | FYs<br>2010-11 | FYs<br>2007-11 | Level in<br>FY 2007 | Level in<br>FY 2011 |
|--------------------|----------------|----------------|----------------|----------------|----------------|---------------------|---------------------|
| Total Expenditures | (1.9%)         | 2.3%           | 7.5%           | 5.3%           | 13.6%          | \$ 60,826           | \$ 69,074           |
| Total PS           | 3.7%           | 6.0%           | 5.1%           | 4.0%           | 20.1%          | \$ 31,514           | \$ 37,860           |
| Salaries and Wages | 7.3            | 4.8            | 6.2            | 4.8            | 25.3           | 19,300              | 24,178              |
| Fringe Benefits    | (14.7)         | 4.8            | 4.2            | 4.6            | (2.5)          | 7,478               | 7,288               |
| Pensions           | 18.3           | 11.8           | 1.9            | 0.2            | 35.0           | 4,737               | 6,395               |
| Total OTPS         | (7.9%)         | (2.3%)         | 10.7%          | 7.0%           | 6.5%           | \$ 29,312           | \$ 31,213           |
| Public Assistance  | (0.8)          | 0.0            | 0.0            | 0.0            | (0.8)          | 1,196               | 1,187               |
| Medicaid           | 9.4            | (2.0)          | 2.7            | 2.8            | 13.3           | 5,222               | 5,916               |
| Debt Service       | (21.3)         | 4.2            | 8.1            | 21.2           | 7.4            | 5,778               | 6,207               |
| Other OTPS         | (9.2)          | (4.5)          | 15.3           | 4.6            | 4.6            | 17,115              | 17,903              |

Note: Includes city, state, and federal funds as well as NYCTFA debt service. Numbers may not add due to rounding.

**Uniformed Overtime**

The four uniformed agencies -- Police, Fire, Correction and Sanitation -- are projected to spend \$764 million in uniformed and civilian overtime in FY 2007. The city has become more realistic in its projections of uniformed overtime, but is still estimating that it will spend less than it has projected in its four-year financial plan. As shown in Table 6, the city expects to spend close to \$616 million in FY 2008, \$614 million in FY 2009, and \$604 million in both FYs 2010 and 2011. However, our analysis of historical trends projects that overtime spending could be higher by \$148 million in FY 2008, \$150 million in FY 2009, and \$160 million in each of FYs 2010 and 2011.

**PROJECTED OVERTIME RISK FOR FYs 2008 - 2011**

TABLE 6

(\$ in millions)

|                             | FY 2008      | FY 2009      | FY 2010      | FY 2011      |
|-----------------------------|--------------|--------------|--------------|--------------|
| City Projected Overtime     | \$616        | \$614        | \$604        | \$604        |
| FCB Projected Overtime      | 764          | 764          | 764          | 764          |
| <b>Over Budget/FCB Risk</b> | <b>\$148</b> | <b>\$150</b> | <b>\$160</b> | <b>\$160</b> |

As in the past, we expect the city at each budget modification to increase its overtime budget as it spends more than it had originally projected. For instance, in FY 2007 the overtime budget at adoption was \$570 million. In the November, January, and June modifications the city added \$60.4 million, \$70.9 million, and \$11.9 million, respectively, but decreased spending in the April modification by \$1.4 million for a total net increase of \$141.8 million and a total budget of \$712.1 million.

**Pension Costs**

Pension costs are expected to rise considerably according to the city's latest four-year financial plan. The city is projecting that pension costs will rise from \$5.728 billion in FY 2008 to \$6.519 billion in FY 2011, or almost 14 percent. This is on top of the more than \$867 million increase from FY 2007 to FY 2008. As shown in Table 5 (adjusted for intra-city transfers), starting with FY 2007 as the base year, the city estimates that pension costs will grow 35 percent through FY 2011 with average annual growth of 7.8

percent. This average annual growth rate is twice as high as that of total city expenditures and higher than any other expenditure component. By FY 2011, it is expected that pension costs will account for more than nine percent of total city expenditures and almost 17 percent of personal service expenditures.

The city has the responsibility of funding the majority of its annual pension contribution with modest help from state and federal funding as shown in Table 7. The expected growth in the city's contribution to its pension systems is caused by salary increases, benefit enhancements, the phase-in of significant investment losses from prior years, the recognition of retiree Cost of Living Adjustments, and changes made to the methods of actuarial valuation of the pension systems.

TABLE 7

**PROJECTED PENSION CONTRIBUTIONS FOR FYs 2008-2011**  
(\$ in millions)

|                            | FY 2008          | FY 2009          | FY 2010          | FY 2011          |
|----------------------------|------------------|------------------|------------------|------------------|
| City                       | \$5,557.3        | \$6,218.1        | \$6,337.2        | \$6,347.8        |
| State                      | 43.4             | 44.7             | 44.7             | 44.7             |
| Federal                    | 2.5              | 2.5              | 2.5              | 2.5              |
| Intra-City                 | 124.3            | 124.3            | 124.3            | 124.3            |
| <b>Total Contributions</b> | <b>\$5,727.5</b> | <b>\$6,389.6</b> | <b>\$6,508.7</b> | <b>\$6,519.3</b> |

The city's pension contribution covers contributions made to five primary systems and an additional number of non-city and non-actuarial systems as shown in Table 8. The New York City Retirement Systems (NYCRS) is comprised of the New York City Employees' Retirement System (NYCERS), the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund, the New York City Fire Department Pension Fund, and the New York City Board of Education Retirement System (BERS).

TABLE 8

**PROJECTED CONTRIBUTIONS PER SYSTEM FOR FYs 2008-2011**  
(\$ in millions)

|                                    | FY 2008          | FY 2009          | FY 2010          | FY 2011          |
|------------------------------------|------------------|------------------|------------------|------------------|
| NYCERS                             | \$1,038.5        | \$1,159.4        | \$1,151.0        | \$1,151.0        |
| TRS                                | 1,865.7          | 1,990.3          | 2,084.6          | 2,084.6          |
| Police                             | 1,797.8          | 1,915.0          | 1,910.9          | 1,910.9          |
| Fire                               | 780.2            | 828.2            | 813.2            | 813.2            |
| BERS                               | 141.5            | 156.7            | 158.7            | 158.7            |
| Non-City Systems                   | 59.3             | 60.9             | 61.9             | 61.9             |
| Non-Actuarial Systems              | 44.5             | 45.8             | 45.8             | 45.8             |
| Financial Plan Adjustments         | 0.0              | 233.3            | 282.6            | 293.2            |
| <b>Total Pension Contributions</b> | <b>\$5,727.5</b> | <b>\$6,389.6</b> | <b>\$6,508.7</b> | <b>\$6,519.3</b> |

NYCRS is a pension fund that accumulates assets from contributions and then invests those assets in a variety of asset classes such as common stocks, bonds, and real estate to realize an investment return. The gain on investments, above a required rate of return, increases the value of the pension systems' assets. Each fiscal year, the city is required to contribute a statutory amount to the pension systems. When the pension systems need additional funding to meet obligations, such as in the case of an investment loss, the city is required to fund this as well.

In FYs 2001-2003, the pension systems suffered significant losses as the domestic stock, bond, and global markets reacted to the terrorist attacks here and abroad. Those losses were phased-in over a five year period at increasing percentages until the six year phase-in was implemented. This phase-in method allows the city to manage severe losses at the time that they occur. Investment gains are also phased-in and over time offset the phase-in of investment losses. This process smoothes investment returns and reduces fluctuations. Additionally, the city must also recognize adjustments due to actuarial changes in how liabilities are evaluated such as those changes approved by the pension systems' governing boards and the state legislature in FY 2006.<sup>6</sup>

NYCRS follows a long-term growth strategy for its assets, investing a majority of its assets in domestic and foreign equities. Over the long term, equities have historically outperformed other asset classes, however, equities increased the exposure to risk. While prudence in investing requires the diversification of assets, the city's assets are weighted heavily towards equity investments comprising about two-thirds, with the remainder invested in fixed income. This allocation of assets, particularly for a pension fund that must strictly meet its obligations, is a concern in a highly volatile equities market. It is reasonable to assume that a significant economic downturn would cause the pension systems to suffer investment losses. Additional investment losses would increase the already growing pension contributions that the city must make each year, at the same time that it would most likely be experiencing a drop in its tax revenue.

### **Retiree Health Benefits Trust Fund**

As reported in the March 2006 FCB staff report, the city has established a Retirement Health Benefits Trust Fund to set aside money that will help fund the liability for the healthcare benefits of its current and future retirees. The city initially deposited \$1 billion in FY 2006, with an additional \$1.5 billion in FY 2007. The trust fund money, once committed, will only be used to pay the costs of healthcare benefits in future years and will not be used for any other purpose.<sup>7</sup>

### **Fringe Benefit Costs**

Fringe benefits continue to be a considerable expense in the city's Personal Service budget. In recent years the city has taken several key steps, in an attempt to lower or control fringe benefit costs, such as increasing insurance co-payments, charging city employees administrative fees under Group Health Insurance, and negotiating with insurance companies to get more cost effective rates. While overall benefits are not expanding, the rising expense can be mainly attributed to increased health insurance costs.

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<sup>6</sup> A complete discussion of the changes can be read in the December 2005 FCB Staff Report under "Pensions" beginning on page 16.

<sup>7</sup> A complete discussion of this fund can be read in the March 2006 FCB Staff Report under "Retiree Health Benefits Trust Fund" beginning on page 21.

In the financial plan, spending on fringe benefits is forecasted to increase from close to \$6.4 billion in FY 2008 to nearly \$7.3 billion in FY 2011, as shown in Table 9. This represents an increase of over 14 percent. On a year-to-year basis, the city is projecting a growth of over four percent during the plan period. Meanwhile, the share of the city's total expense budget related to fringe benefits is estimated to be over 10 percent per annum throughout the four years of the plan.

As shown in Table 9, fringe benefits consist of several major components, the largest and most important of which continues to be health insurance. As in recent years, health insurance accounts for well over half of overall spending on fringe benefits. Supplemental welfare benefit payments represent an average of 15 percent of the fringe benefits budget over the next four years. This category reflects supplemental payments to the unions' welfare funds. Health and welfare costs combined will represent between 69 percent and 71 percent of total fringe benefit costs between FYs 2008 and 2011. This percentage share is consistent with that of the recent past.

**FRINGE BENEFIT EXPENDITURES GROWTH BETWEEN FYs 2008 and 2011**

TABLE 9

(\$ in millions)

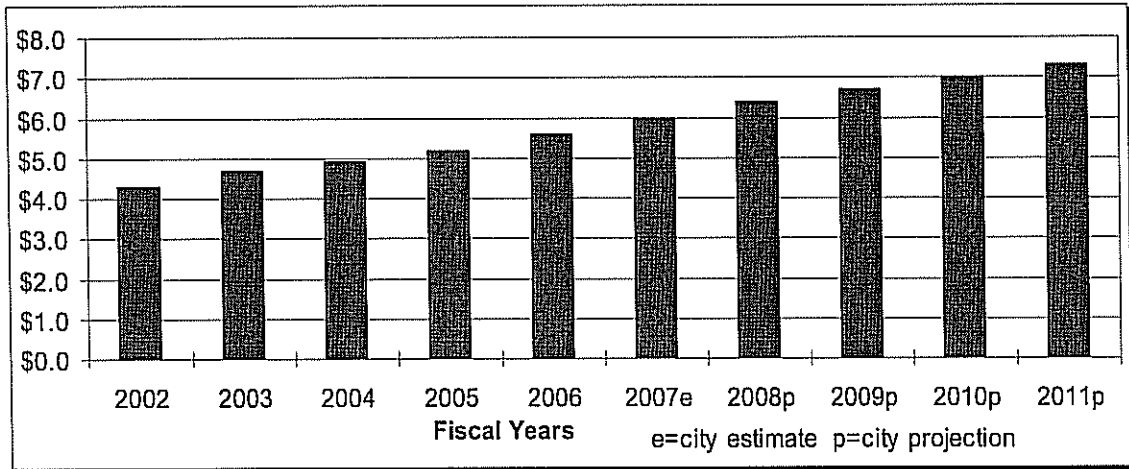
|                              | FY 2008        | FY 2009        | FY 2010        | FY 2011        |
|------------------------------|----------------|----------------|----------------|----------------|
| Health Insurance             | \$3,413        | \$3,679        | \$3,902        | \$4,169        |
| Supplemental Welfare Benefit | 1,000          | 1,009          | 1,024          | 1,037          |
| FICA and Social Security     | 1,549          | 1,568          | 1,596          | 1,617          |
| Worker's Compensation        | 202            | 219            | 237            | 259            |
| Unemployment Insurance       | 40             | 40             | 41             | 41             |
| Other                        | 171            | 166            | 165            | 165            |
| <b>Total</b>                 | <b>\$6,375</b> | <b>\$6,681</b> | <b>\$6,965</b> | <b>\$7,288</b> |

Costs for Federal Insurance Contributions Act (FICA) and Social Security average 23 percent per year of the total fringe benefits budget during the life of the plan. While the cost is significant (near \$1.6 billion per annum), both the growth rate and the percent of overall fringe benefits are less problematic from an expense management viewpoint than health insurance. Worker's Compensation costs represent about three percent of total fringe benefit expenses and are expected to rise steadily from \$202 million in FY 2008 to \$259 million in FY 2011. Meanwhile, Unemployment Insurance is expected to hover around \$40 million during the plan period. This suggests a tighter management over a more elastic expenditure than found in the rest of the fringe benefits category.

Historically, fringe benefit expenditures have grown steadily, as shown in Chart 1. In FY 2002, the city paid around \$4.3 billion to cover the cost of fringe benefits, while in FY 2006 this expense stood at \$5.6 billion, an over 30 percent increase. On a year-to-year basis, we note that spending on fringe benefits grows by an average of close to seven percent per year over the five-year period in question, ranging from a low of four percent between FYs 2003 and 2004 to a high of nine percent between FYs 2002 and 2003. While the overall escalation has slowed to an average of over five percent per year from FY 2007 to FY 2011, the growth rate still outpaces both actual and forecasted increases in the local inflation rate in any given year. From FY 2006 to FY 2007, the fringe benefits growth projection is just over seven percent, whereas the local inflation is projected by

the city to be 3.3 percent. From FY 2008 to FY 2011, the cost of fringe benefits increases at an average rate of around five percent per fiscal year while the local inflation rate is projected by the city to increase at an average of 2.4 percent per fiscal year during the same time frame.

**CHART 1** (\$ in billions) **FRINGE BENEFIT COSTS TREND OVER THE YEARS**



### Health Insurance

As mentioned earlier, the most important component of fringe benefits, and the main cause of growth in this category, is the significant cost of health insurance. Between FYs 2008-11, these costs are projected to increase by 22 percent, from just over \$3.4 billion to nearly \$4.2 billion. Last year at this time, the increase over the plan period was 25 percent. In the current plan, health insurance costs represent between 54 percent and 57 percent of the total fringe benefit costs. When compared to the total city expense budget, health insurance costs represent around six percent in any given year during that same time frame.

### Medicaid

New York City's Medicaid program provides a wide range of medical services to over 2.5 million enrollees. These services include primary care, hospital inpatient, emergency room, physician, pharmacy, clinic, nursing home, personal care, dental, rehabilitation, transportation, vision care, laboratory services, and x-rays. The cost to provide such benefits to these recipients continues to be considerable, as it averages over eight percent of the city's total expense budget. However, the cost to the city has been stable mainly due to the state implemented growth cap.

TABLE 10

**MEDICAID COSTS APPEAR TO BE STABLE**

| (\$ in millions)  |                |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | <u>FY 2008</u> | <u>FY 2009</u> | <u>FY 2010</u> | <u>FY 2011</u> |
| Medicaid Total  | \$ 5,714       | \$ 5,603       | \$ 5,756       | \$ 5,916       |
| Less: UPL and DSH Funds   | \$632          | \$381          | \$381          | \$381          |
| <b>Adjusted Total</b>   | <b>\$5,082</b> | <b>\$5,222</b> | <b>\$5,375</b> | <b>\$5,535</b> |
| City's Total Expense Budget*                                      | \$60,358       | \$61,615       | \$66,195       | \$69,284       |
| Percentage of Medicaid Costs                                      | 8.42%          | 8.48%          | 8.12%          | 7.99%          |
| Percentage Annual Growth  |                | 2.75%          | 2.93%          | 2.98%          |
| Growth Rate FYs 2008-11   |                |                |                | 8.91%          |
| Calculations based on Adjusted Total.                             |                |                |                |                |
| *Does not include NYCTFA debt service and intracity expenditures. |                |                |                |                |

In the financial plan, Medicaid expenditures are forecasted to increase from \$5.7 billion in FY 2008 to \$5.9 billion in FY 2011, as shown in Table 10. However, it should be noted that the city included \$632 million in additional funds in FY 2008 and \$381 million in each of FYs 2009-11 to cover expenses for the city's share of the costs related to the Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) federal programs. The city's contribution to these two programs is matched by federal funds. Thus, the city and federal shares become increased revenue for the Health and Hospitals Corporation. For more consistent reporting purposes, we have factored out the costs related to these programs from our analysis in order to get baseline growth. With these adjustments, the city anticipates year-to-year baseline growth of around three percent during the life of the plan, as shown in the table.

This is in line with the state implemented growth cap on the city's share of Medicaid costs. As discussed in previous reports, the state has placed a cap on the local share of Medicaid costs at the 2005 level plus a growth rate of 3.5 percent or actual cost, whichever is less beginning January 1, 2006. The growth is lowered to 3.25 percent in 2008 and three percent thereafter. During the period between FYs 2002-05, before the state cap, the city's Medicaid costs increased by 53 percent.

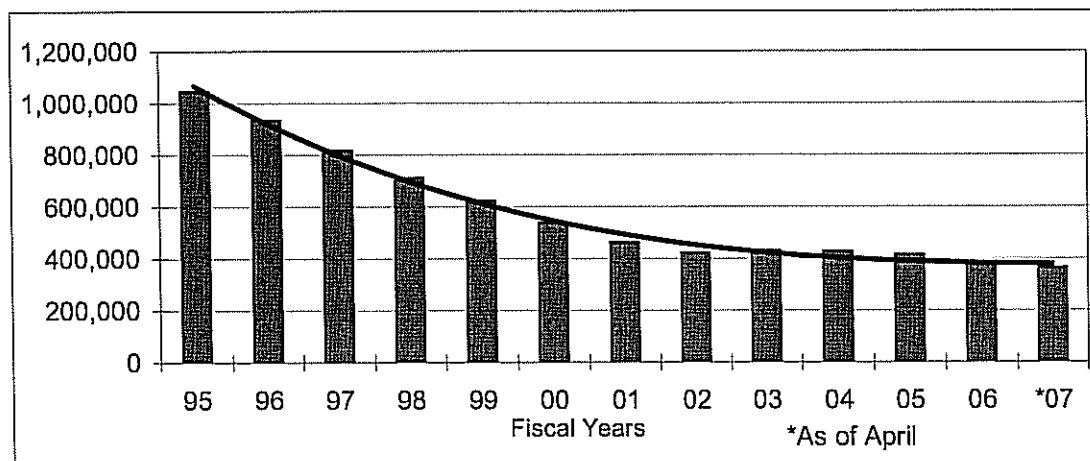
### **Public Assistance**

The current forecast for Public Assistance (PA) in the financial plan is lower by approximately \$1 billion per annum compared to last year's projections. This is mainly due to the reclassification of certain social service expenditures from PA to Other Than Personal Services (OTPS). From this point on, PA will only reflect Family Assistance and Safety Net expenditures. The expenditures were reclassified in order to only reflect true PA grant expenses. In the past, related expenditures in various agencies were reflected in this number, but the city believes it is more accurate at this time to show only PA grant expenditures and reflect other related program expenditures separately.

After this reclassification, the city is forecasting PA costs to remain stable at around \$1.2 billion per annum throughout the life of the plan. In addition, there was a \$10.5 million decrease in FY 2008 to account for reductions in the PA caseload. Meanwhile, as shown in Chart 2, PA caseloads have continued to decline steadily over the past several years. As of April 2007, there were 363,392 recipients on PA. This is down by over 17,000 since December 2006. Other than a slight increase in FY 2003, PA caseloads have declined steadily since FY 1995, as shown in the chart.

## PA CASELOADS CONTINUE TO TREND DOWNWARD

CHART 2



The current PA caseload levels are the lowest for the city in more than 40 years. In fact, since welfare reform has been enacted, the caseloads have decreased by over 65 percent. This downward trend is attributed mainly to the enactment of the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996 - more commonly known as welfare reform. The act dispenses a federally funded block grant, called Temporary Assistance to Needy Families, to each state to meet its caseload needs. It was designed to expedite the transfer of PA recipients from dependency on PA to independence through work initiatives.

Over the course of the plan, the city is projecting PA caseloads to decline at a slower rate going forward, thus PA costs are projected to remain relatively flat as mentioned above. However, the federal Department of Health and Human Services in October 2006 issued new administrative rules, regarding work requirements for PA recipients. These requirements are more stringent than under the former rules and noncompliance could subject the city to penalties.

### Health and Hospitals Corporation

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health, and substance abuse services to New York City residents, regardless of their ability to pay. Through its seven regional health care networks, HHC operates eleven acute care hospitals, four long-term care facilities, six diagnostic and treatment centers, a certified home health program, and numerous community-based health clinics throughout the five boroughs. In addition, HHC provides services through the MetroPlus Health Plan (one of the largest health maintenance organizations in New York City and a wholly-owned HHC subsidiary), as well as services to the city's correctional facilities and family courts. All in all, HHC provides various health related services to over five million people annually.

Due to the receipt of additional state and federal Medicaid revenues, HHC is projecting an improved fiscal outlook in the FY 2008 Adopted Budget. HHC is projecting its ending cash balances to be \$1.3 billion in FY 2008, \$1 billion in FY 2009, \$545 million in FY 2010, and \$116 million in FY 2011. These projections are driven by the

additional Medicaid revenues for the Upper Payment Limit (UPL) and Disproportionate Share Hospital (DSH) federal programs. HHC is projected to receive \$762 million in each of FYs 2008-2011 for these two programs.

Under the funding guidelines of these two programs, the city is responsible for half of the costs and the other half is funded by the federal government. UPL is a Medicaid regulation that allows states to pay inpatient and outpatient hospital Medicaid rates that approximate what the state would have paid under the more generous Medicare guidelines. DSH is a federal program created to provide federal Medicaid payments to hospitals that treat a disproportionate share of Medicaid and uninsured patients.

The higher revenue projections will assist HHC with its operating costs which include debt service payments of \$86 million in FY 2008 and over \$60 million in each of FYs 2009-11. In recent years, these costs were paid by the city but are now paid by HHC. Meanwhile, HHC is projecting its operating losses to be at \$269 million in FY 2008, \$660 million in FY 2009, \$793 million in FY 2010, and \$777 million in FY 2011. These estimates have fallen considerably from what was projected at the time of the FY 2007 Adopted Budget.

Overall, after accounting for corrective actions, including gap closing actions and state and federal actions, HHC is forecast to end FY 2008 with a net operating loss of \$144 million, a profit of \$40 million in FY 2009, and net losses of \$190 million in FY 2010 and \$184 million in FY 2011.

### **Department of Education**

The New York City Department of Education (DOE) offers primary and secondary education for just over one million children. The city public schools give basic instructional services and provide students with special and bilingual education and vocational training. Support services include free and subsidized transportation, breakfast and lunch services, and the operation and maintenance of over 1,400 schools.

The DOE's FY 2008 Adopted Budget is just under \$17 billion (excluding pension and debt service). By FY 2011, its budget will grow to \$20.2 billion, an increase of \$3.2 billion or 19 percent. The largest share of the budget increase is in state aid, which rises by \$693 million or almost 10 percent between FYs 2007 and 2008 and by an additional \$2.1 billion or slightly over 26 percent between FYs 2008 and 2011. The city's share will grow by \$1.1 billion or over 15 percent by FY 2011. These funding increases are being used to meet the court-ordered Campaign for Fiscal Equity (CFE) mandate. The federal share remains flat, at \$1.9 billion, in FYs 2008 through 2011.

The FY 2011 budget of \$20.2 billion is comprised of \$9.9 billion, or 49 percent, in state aid. City funds including other categorical and intra-city make up \$8.4 billion, or 42 percent, while the federal share is \$1.9 billion, or nine percent.

Along with these funding increases, the city has developed a new methodology for how funds are allocated throughout the school system. Under the city's system called Fair Student Funding (FSF), the DOE will give schools fixed amounts to spend

based on their students' individual profiles, rather than allocating funds by instructional programs.

When first announced, the FSF was set to equalize funding across schools by taking from some budgets and giving to others. After public comment, the city revised the plan and \$110 million has been earmarked under FSF for 693 schools that have been historically under-funded under the old formulas. Each of these schools will get as much as \$400,000 in the 2007-08 school year in additional FSF funds. At the same time, no school in the system will get any less money in the 2007-08 school year or the 2008-09 school year.<sup>8</sup>

### **Collective Bargaining**

As of the FY 2008 Adopted Budget, the city has reached agreements with the unions except: Captains Endowment Association, whose contract expired October 31, 2003, the Patrolmen's Benevolent Association (PBA), whose contract expired on July 31, 2004, the Sergeants Benevolent Association (SBA), whose contract expired on May 31, 2005, the Uniformed Sanitationmen's Association, whose contract expired on March 1, 2007, and the Uniformed Fire Officers Association, whose contract expired March 19, 2007. It is expected that the PBA contract will be settled through binding arbitration with the Public Employee Relations Board. This will be the fifth time in the last six bargaining rounds that PBA's contract will be settled through such binding arbitration. Most recently the city reached a tentative agreement with the SBA.

In addition, there are two contracts that are scheduled to expire before the release of the next financial plan. They are the Correction Officers' Benevolent Association, which is scheduled to end July 31, 2007 and the Lieutenants Benevolent Association, which will expire on August 31, 2007.

### **Sergeants Benevolent Association**

On July 10, 2007, the city reached a tentative collective bargaining agreement with the SBA. The term of the agreement, which covers more than 4,600 frontline supervisors in the Police Department, is back-dated to June 1, 2005 and continues through July 31, 2011, a period of 74 months. The settlement encompasses three distinct rounds of bargaining. The first two rounds conform to patterns first set by the Uniformed Sanitationmen's Association and the Uniformed Firefighters Association, respectively. The third one establishes the parameters for a new round of collective bargaining.

The total increase in compensation for sergeants is approximately 27.5 percent over the period of the contract. The total compounded wage increase is 24.3 percent broken down as follows: effective June 1, 2005 an increase of three percent, effective June 1, 2006 an increase of 3.15 percent compounded, effective June 1, 2007 an additional

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<sup>8</sup> For a more detailed discussion of FSF, as well as the state's Foundation Aid program, see "Department of Education" in the March 2007 FCB Report, starting on page 26.

compounded increase of four percent, effective June 1, 2008 an additional compounded increase of four percent, effective August 1, 2009 an additional compounded increase of four percent, and effective August 1, 2010 an additional compounded increase of four percent.

At the end of this contract, a sergeant's basic maximum salary will be \$94,962. With longevity pay, holiday pay, uniform allowance, and other compensation total pay for veteran sergeants will exceed \$103,000. For sergeants newly promoted on or after April 1, 2006, the salary schedule effective July 1, 2008 will be as follows: 1<sup>st</sup> step \$73,000, 2<sup>nd</sup> step \$73,500, 3<sup>rd</sup> step \$74,000, 4<sup>th</sup> step \$75,190, and the 5<sup>th</sup> step \$87,798. Under the previous contract, a newly promoted sergeant had a salary of \$61,093.

Other notable features of the agreement include an increase in the retiree welfare fund contribution and in the longevity schedule. The city is estimating the total cost of this contract to be approximately \$200 million, most of which the city considers to be already budgeted. However, if the salary increases of four percent in FYs 2010 and 2011 are used as a pattern for future contract settlements, the projected outyear budget gaps could be substantially higher.

### PlaNYC 2030

A plan designed to achieve sustainable goals for the city is being undertaken, beginning in FY 2008, with expenses projected through FY 2011. The major goals of the plan, named PlaNYC 2030, include: housing an additional one million New Yorkers affordably; increasing access to parks, playgrounds and open spaces; reclaiming brownfields; developing critical backup systems for its aging water network to ensure reliability; providing additional reliable power sources and upgrading its existing power plants; reducing water pollution so that the city can open its waterways for recreation; and reducing its greenhouse emissions by 30 percent. These goals will be reached through 127 policy initiatives, e.g. the use of upcoming rezonings to direct growth with strong transit access and the provision of new commuter rail access to Manhattan.

### PlaNYC 2030 EXPENSES

TABLE 11

(\$ in millions)

| Initiative     | FY 2008        | FY 2009        | FY 2010        | FY 2011      | Total            |
|----------------|----------------|----------------|----------------|--------------|------------------|
| Transportation | \$68.6         | \$239.6        | \$281.1        | \$297.5      | \$886.9          |
| Energy         | 82.7           | 77.3           | 69.8           | 62.4         | 292.2            |
| Parks          | 11.6           | 12.8           | 13.7           | 30.1         | 68.2             |
| Brownfields    | 27.5           | 2.0            | 2.0            | 2.0          | 33.5             |
| Air Quality    | 3.6            | 3.9            | 4.3            | 4.8          | 16.6             |
| Housing        | 0.2            | 0.2            | 0.2            | 0.2          | 0.6              |
| Other          | 4.6            | 5.1            | 6.0            | 7.3          | 23.0             |
| <b>Total</b>   | <b>\$198.8</b> | <b>\$340.9</b> | <b>\$377.1</b> | <b>404.3</b> | <b>\$1,321.0</b> |

Note: Numbers may not add due to rounding.

As shown in Table 11, expenses for this plan will total \$1.3 billion from FY 2008 through FY 2011, beginning with almost \$199 million in FY 2008 (which will be funded by savings generated by the city's FY 2008 Agency Program) and increasing to over \$404 million in FY 2011. Over 89 percent of these funds will be devoted to transportation and

energy initiatives. Under transportation, \$805 million out of \$887 million will make up the city's contribution to a Sustainable Mobility and Regional Transportation (SMART) fund.<sup>9</sup> A new SMART financing authority, which requires approval by the state legislature, will use this fund to advance new projects and achieve a state of good repair in the subway and on the roads. In the area of energy, out of \$292 million the city will be spending a net of \$282 million to fund energy-saving investments in city operations. The \$332 million cost of these investments will be partially offset by reduced energy demand of approximately \$49 million between FYs 2009 and 2011.

## **RISKS AND OFFSETS**

Our evaluation of the city's financial plan is shown in Table 3 on page 4. We estimate that uniformed overtime costs, based on our analysis and on historical growth rates, will exceed what the city has budgeted by \$148 million in FY 2008, \$150 million in FY 2009, and \$160 million in both FY 2010 and FY 2011. As potential offsets to these risks we project increased tax revenues of \$250 million in each of FYs 2008-11. Stronger-than-expected current collection reports will enhance tax receipts and raise the revenue base throughout the life of the plan. Based on historical patterns of growth in miscellaneous revenue, the city's miscellaneous revenue forecast could be higher by \$125 million in FY 2008, and \$150 million in each of FYs 2009-11.

We now estimate that the city will have an additional budget surplus of \$227 million in FY 2008. There are projected budget gaps of \$1.3 billion in FY 2009, \$3.2 billion in FY 2010 and \$4.1 billion in FY 2011.

## **ALLOCATION OF MAJOR COMMITMENTS IN THE CAPITAL STRATEGY**

Every two years, the city outlines its capital program strategy for the ensuing ten-year period, in accordance with its charter requirement. The city has finalized the Ten-Year Capital Strategy for FYs 2008-17. The strategy contains \$83.7 billion of capital commitments, with the most dominant projects related to the Department of Education (DOE), the Department of Environmental Protection (DEP), the Department of Transportation (DOT), housing, the Department of Sanitation (DSNY), the Department of Parks and Recreation (DPR), and the Police Department (NYPD). The commitments fall within either of three capital program classifications: repairs, replacement or expansion.<sup>10</sup> With several new large-scale initiatives, the FYs 2008-17 Capital Strategy is

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<sup>9</sup> The city's contribution to the SMART fund equals an amount assumed to be contributed by the state indexed by growth in city personal income tax revenues. This topic is covered in more detail in "Allocation of Major Commitments in the Capital Strategy" beginning on page 31.

<sup>10</sup> Repair includes corrective maintenance, encompassing extensive reconstruction and rehabilitation of the city's physical assets. Replacement, defined as preventive maintenance, ensures equipment and asset components are replaced on a regular basis at the end of their life cycle. Expansion includes the acquisition or construction of new assets.

\$21.3 billion (or 34 percent) larger than the previous strategy, which covered FYs 2006-15.

The first four years of the capital strategy encompass the financial plan years and reflect contracts that the city is authorized to enter into. The commitments for FYs 2008-11 total \$44.5 billion, or 53 percent of the ten-year strategy.

The city recently released its charter-required FY 2007 Maintenance Report, which revealed that the investments that are recommended to bring significant portions of its assets up to a state of good repair within the four-year period of FYs 2008-11 are not adequately funded in many cases. The state of good repair needs identified in the FY 2007 Maintenance Report topped \$5.1 billion, but only \$2.5 billion are identified as being funded within four years. DOE, now a mayoral agency, stands out for not being required to identify how much of the large sum of funds apportioned to it will address the \$785 million of repair work that the maintenance report recommends should be undertaken. For years, DOE has only provided a partial reconciliation of the funded maintenance recommendations. We believe DOE should be required to provide a full reconciliation as an element of accountability, particularly given the substantial amount of resources being entrusted to it.

This section of the report reviews the major allocation of capital commitments in the ten-year strategy, with attention to new initiatives and the adequacy of funding for maintenance. Debt service costs resulting from the city's capital program are also assessed.

### **The Department of Education**

By far the largest share of commitments in the FYs 2008-17 Ten-Year Capital Strategy, the allocation for DOE is \$28.2 billion (or 34 percent). According to language in the capital strategy, the emphasis of DOE's capital program is on bringing the roughly 1,500 school buildings used by more than one million students and the support facilities up to a state of good repair with \$20.4 billion of commitments dedicated to that end, followed by \$6.6 billion for program expansion and \$1.2 billion for program replacement, as outlined in Table 12 on page 33.

DOE's commitments were increased by \$10.7 billion (or 61 percent) since the FYs 2006-15 strategy based on the assumption that the state will cover \$15 billion of the projects. The remaining \$13.2 billion of commitments are supported by city general obligation (g.o.) bonds.

To augment education capital funding, the state has authorized the New York City Transitional Finance Authority (NYCTFA) to sell Building Aid Revenue Bonds (BARBs) in an amount outstanding of up to \$9.4 billion, which will be secured by state building aid payable to the city and assigned to the NYCTFA. Historically, state building aid has been equal to just over 50 percent of the debt service on city bonds sold for school construction projects that are reimbursable by the state. Assuming the same 50 percent funding rate, when the NYCTFA sells \$9.4 billion of BARBs, the state will reimburse full debt service on an equivalent of approximately \$4.7 billion of commitments.

**ALLOCATION OF MAJOR CAPITAL COMMITMENTS**

TABLE 12 (\$ in millions)

|                        | FYs 2008-17 Capital Strategy |                 | Change From FYs 2006-15 Strategy | Program Classifications |                 |                 | Sources of Funding |                | FY 2007 Maintenance Report |                 |
|------------------------|------------------------------|-----------------|----------------------------------|-------------------------|-----------------|-----------------|--------------------|----------------|----------------------------|-----------------|
|                        |                              |                 |                                  | Repairs                 | Replacement     | Expansion       | City               | Non-City       | Capital Recommendations    | Capital Funding |
| DOE                    | \$28,231                     | \$10,660        | \$20,435                         | \$1,219                 | \$6,576         | \$13,225        | \$15,006           | \$785          | \$196                      |                 |
| DEP                    | 19,485                       | 3,641           | 996                              | 13,838                  | 4,651           | 19,371          | 114                | NA             | NA                         |                 |
| Poll. Control          | 8,232                        | 2,073           | -                                | 7,893                   | 340             | 8,232           | -                  | -              | -                          |                 |
| Water Mains            | 5,648                        | 1,529           | -                                | 4,659                   | 989             | 5,648           | -                  | -              | -                          |                 |
| Sewers                 | 2,562                        | 1,042           | 764                              | 62                      | 1,756           | 2,582           | -                  | -              | -                          |                 |
| Water Supply Equipment | 1,647                        | (1,571)         | 82                               | -                       | 1,566           | 1,648           | -                  | -              | -                          |                 |
|                        | 1,376                        | 568             | 150                              | 1,224                   | -               | 1,261           | 114                | -              | -                          |                 |
| DOT                    | 11,106                       | 2,203           | 10,921                           | 184                     | -               | 8,688           | 2,419              | 3,038          | 1,920                      |                 |
| Bridges                | 5,825                        | 962             | 5,825                            | -                       | -               | 4,105           | 1,720              | 989            | 989                        |                 |
| Highways               | 4,038                        | 970             | 4,038                            | -                       | -               | 3,677           | 362                | 1,934          | 887                        |                 |
| Traffic                | 950                          | 266             | 950                              | -                       | -               | 641             | 309                | NA             | NA                         |                 |
| Ferries                | 190                          | 14              | 5                                | 184                     | -               | 173             | 17                 | 35             | 35                         |                 |
| Equipment Franchise    | 103                          | 4               | 103                              | -                       | -               | 92              | 11                 | 80             | 8                          |                 |
|                        | -                            | (13)            | -                                | -                       | -               | -               | -                  | -              | -                          |                 |
| Housing                | 4,423                        | 349             | 818                              | -                       | 3,604           | 3,794           | 628                | NA             | NA                         |                 |
| DSNY                   | 2,913                        | 391             | 1,050                            | 1,318                   | 545             | 2,906           | 7                  | 73             | 18                         |                 |
| DPR                    | 2,653                        | 1,569           | 2,172                            | -                       | 481             | 2,490           | 163                | 406            | 64                         |                 |
| NYPD                   | 1,901                        | 1,176           | -                                | 1,901                   | -               | 1,901           | -                  | 37             | 34                         |                 |
| All Others*            | 12,953                       | 1,266           | 3,614                            | 5,593                   | 3,749           | 12,780          | 173                | 802            | 275                        |                 |
| <b>Total</b>           | <b>\$83,665</b>              | <b>\$21,255</b> | <b>\$40,006</b>                  | <b>\$24,053</b>         | <b>\$19,606</b> | <b>\$65,155</b> | <b>\$18,510</b>    | <b>\$5,141</b> | <b>\$2,507</b>             |                 |

\*All Others includes Citywide Equipment, Correction, Public Buildings, Courts, Economic Development, Fire Dept., HHC, Transit Authority, Cultural Affairs, Homeless Services, Health, CUNY, Human Resources, Children's Services, Libraries, Real Estate, Dept. of Aging and Juvenile Justice.  
 NA: Not applicable. Numbers may not add due to rounding.

The financial plan projects that the NYCTFA will issue \$4.76 billion of BARBs by FY 2011. The debt service is estimated to range from \$172 million in FY 2008 to \$358 million in FY 2011.

The state provided this financing vehicle in which building aid is redirected from the city's operating budget to pay the debt service on the BARBs, as partial satisfaction of the Campaign for Fiscal Equity school funding lawsuit. The authorization amounts to an ongoing source of financing because the debt limit applies to the amount of bonds outstanding and not the amount issued. The state has also authorized the Dormitory Authority of the State of New York to sell \$1.8 billion of bonds and provide the proceeds to the city to be used specifically for school construction.

The level of state funding for education capital projects assumed in the ten-year strategy far exceeds the actual funds committed by the state for DOE's capital program. The state has not yet made provisions to meet the city's higher funding assumptions.

While the capital strategy states that the emphasis for DOE's program is bringing school facilities to a state of good repair, DOE has only provided a partial reconciliation of the recommendations in the maintenance report to what is being funded. The maintenance report identified \$785 million of basic capital work essential to bringing school facilities up to a state of good repair. DOE only identified \$196 million of such investment as being funded in its multi-billion-dollar capital program and indicated that it will continue to identify state of good repair projects in its five-year plan based on annually resurveyed conditions. Additionally, DOE has only identified \$15.6 million of the recommended \$117 million of routine maintenance that should be funded from the FY 2008 expense budget to preserve its assets in a state of good repair. As a mayoral agency entrusted with substantial amounts of funds, DOE should be required to provide a full reconciliation of the maintenance recommendations against the resources allocated to it.<sup>11</sup>

### **The Department of Environmental Protection**

The second largest share of capital commitments in the ten-year strategy is earmarked for DEP at \$19.5 billion (or 23 percent of the total) to ensure the water and sewer systems are safe, maintained and adequate to meet the needs of New York City residents. DEP's capital commitments are \$3.6 billion more in the current strategy than in the FYs 2006-15 strategy, as shown in Table 12 on page 33.

The city's wastewater treatment program is apportioned \$8.2 billion of commitments, most of which are replacement activities in compliance with state and federal mandates. Another \$5.6 billion of commitments are allocated to the category of water mains, sources and treatment to be used mostly to replace and expand the facilities that protect and maintain the water supply sources and water distribution

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<sup>11</sup> The state legislation that created the School Construction Authority (SCA) to be responsible for the design and construction of DOE's capital projects exempted DOE from providing specific details of its capital budget to the city. However, since 2002, there have been changes in the school governance law that now makes the SCA accountable to the mayor.

systems. The strategy also allotted \$1.6 billion to expand the conveyance of water supply through work on City Tunnel No. 1, the Kensico to City Tunnel, and research and development of alternate water supplies. Just under \$2.6 billion has been earmarked to repair, replace and expand the sewer system. For DEP equipment, the strategy allocated \$1.4 billion to cover the expense of water meter installation, automatic meter reading systems, toilet retrofit, landfill remediation, as well as facility and equipment purchases.

In all, \$1 billion of environmental protection commitments are classified as state of good repair activities. The adequacy of funding to bring DEP assets to a state of good repair is indeterminable because the assets are leased to the Water Finance Authority and, as such, are excluded from the charter reporting requirements.

The Water Finance Authority sells revenue bonds to fund DEP's capital program. Payment on the bonds is made from city water and sewer user fees and not city tax revenues. Debt service on Water Finance Authority bonds -- existing as well as new issuances -- is projected to jump from \$1 billion in FY 2008 to \$1.6 billion in FY 2011 for an average annual increase of 16 percent.

### **The Department of Transportation**

DOT is assigned \$11.1 billion of capital commitments (or 13 percent of the total ten-year strategy), as shown in Table 12 on page 33. Charged with the safe and efficient movement of people and goods in the city, DOT builds and maintains roadways, bridges and municipal parking facilities; maintains the municipal ferry system; provides traffic lights and signs as well as streetlights; and purchases automotive and data processing equipment. For repairs to transportation assets, commitments are distributed as follows: \$5.8 billion for bridges, \$4 billion for highways, \$950 million for traffic, and \$103 million for equipment. Another \$190 million is distributed to replace ferries and ferry facilities.

DOT was allotted \$2.2 billion more of commitments in the current capital strategy than in the FYs 2006-15 strategy, with just under \$1 billion more for bridges and highways each and \$266 million more for traffic. Funding for DOT's capital strategy is mostly supported by g.o. bonds at \$8.7 billion, followed by federal aid at \$1.6 billion, private resources at \$546 million and state aid at \$269 million.

The state and adequacy of the transportation system received renewed attention when the city recently developed a long-term plan (PlaNYC 2030) to address the sustainability of its future, having projected a population growth of nearly one million people by the year 2030. The current ten-year strategy contains \$250 million of capital activities that address the long-term viability of the transportation system. Such activities include developing congestion management plans for outer borough growth corridors; developing an integrated traffic management system for the regional transportation network; improving and expanding bus service; facilitating access to subways and bus stops; and completing an 1800-mile bike master plan.

Simultaneously, the city outlined a comprehensive financing plan to fund over \$30 billion of regional transportation and transit capital projects through the year 2050,

which includes some of these PlaNYC 2030 transportation commitments. The plan entails the creation of the Sustainable Mobility and Regional Transportation (SMART) Financing Authority to sell bonds. Creation of the SMART Authority requires authorization from the state legislature. With such authorization, SMART would sell over \$30 billion of bonds to fund transportation and transit capital projects.

To secure the bonds, the city has proposed the following three dedicated revenue streams: city revenues, matching state revenues and congestion pricing revenues. The city's financial plan reflects the assumption that the city will contribute \$50 million in FY 2008, \$220 million in FY 2009, \$260 million in FY 2010 and \$275 million in FY 2011 to the SMART fund towards debt service costs. The city's contribution is pegged to an amount equal to what is assumed the state will contribute, indexed by growth in the city personal income tax, and contingent upon the state matching these funds. Congestion pricing is projected to generate net revenues of \$380 million in the first year of operation, increasing to over \$900 million by 2030. With congestion pricing, it is proposed that motorists be charged a fee (\$8 for passenger vehicles and \$21 for trucks) to enter, leave or move below 86<sup>th</sup> Street in Manhattan, with the exception of the FDR Drive, the West Side Highway and West Street, on weekdays from 6 am to 6 pm. The fate of the SMART Program rests on approval by the state legislature. As of yet, the legislature has not acted on the city's request for a three-year congestion pricing pilot program.

For SMART grants that are awarded to DOT to bring its assets to a state of good repair, DOT would have to certify each year that it is maintaining the assets on a normal cycle and conducting preventive maintenance at a level to avert a relapse into disrepair. As it stands, while all the recommendations in the 2007 Maintenance Report to bring bridges and ferries up to a state of good repair are fully funded, the recommendations to upgrade highways and transportation equipment are underfunded at 46 percent and 10 percent, respectively. Routine maintenance of the street lighting and traffic systems is fully funded through the expense budget.

### **Housing**

At 5.3 percent of the total ten-year strategy, capital commitments for housing sum to \$4.4 billion. The current ten-year allocation for housing is \$349 million higher compared to the FYs 2006-15 strategy, as displayed in Table 12 on page 33.

Commitments for housing are distributed between two agencies. The Department of Housing Preservation and Development (HPD), with \$3.6 billion of city-funded and \$628 million of federal-funded commitments over the next ten years, is projected to provide loans toward and invest directly in expanding the housing stock (\$3.6 billion) and to a lesser extent repairing housing (\$589 million). Specifically, HPD is involved in the creation and preservation of more than 165,000 housing units citywide between FYs 2004-13 under the New Housing Marketplace program. Meanwhile, the New York City Housing Authority is slated to undertake \$229 million of city-funded commitments to upgrade public housing over the ten-year period. The adequacy of funding to bring city-owned housing to a state of good repair is indeterminable because such assets are excluded from the charter reporting requirements.

## **The Sanitation Department**

The current capital strategy includes \$2.9 billion of commitments for the Sanitation Department, representing a share of 3.5 percent. All but \$7 million of the commitments are g.o. funded. As seen in Table 12 on page 33, commitments to replace garbage disposal vehicles and equipment tally \$1.3 billion, an increase of \$332 million over the prior strategy. Commitments for the city's solid waste management plan fell slightly to \$545 million, the main component being the construction of marine transfer stations at \$486 million. Commitments for repairs to sanitation garages and waste disposal facilities increased marginally to \$1.05 billion. Nonetheless, only \$18 million of the \$74 million of recommended activities in the maintenance report are identified by DSNY as being funded in the capital plan.

## **The Department of Parks and Recreation**

The ten-year capital program for parks and recreation more than doubled. The FYs 2008-17 Strategy includes \$2.7 billion of commitments for the DPR, of which \$2.5 billion are city funded, \$86 million federal funded, \$23 million state funded and \$54 million privately funded. The commitments reflect an increase of \$1.6 billion from the FYs 2006-15 strategy, as highlighted in Table 12 on page 33. Approximately \$927 million of the growth relate to projects that were added as part of PlaNYC 2030.

The city will expand its parklands and greenstreets by augmenting its land acquisition and tree planting program. Commitments for these projects total \$481 million in FYs 2008-17, of which \$381 million are linked to PlaNYC 2030.

Commitments total \$2.2 billion for the reconstruction of and repairs to large, major and regional parks; neighborhood parks and playgrounds; major recreational centers, beaches and boardwalks; zoos; and vehicles, equipment and facilities. These include \$386 million for work to eight regional parks as part of PlaNYC 2030. Meanwhile, only \$64 million of the \$406 million of recommendations outlined in the maintenance report are identified by the DPR as funded.

## **The Police Department**

Capital commitments for the Police Department more than doubled in the latest ten-year strategy. Approximately \$1.9 billion of the total ten-year capital strategy, or 2.3 percent, is apportioned to the NYPD to maintain its facilities and equipment on a replacement cycle. This is reflected in the relatively high 92 percent funding rate of the FY 2007 Maintenance Report recommendations for the NYPD.

The NYPD occupies over 200 facilities citywide, including but not limited to precincts, administrative buildings, training facilities and storage facilities. The largest chunk of the NYPD's ten-year commitments is the allotment of \$998 million for the design and construction of a new replacement police academy, which was not included in the prior strategy. The new academy, to be located in College Point, Queens, will be larger and allow for the consolidation of training into one facility. All of the NYPD's commitments are slated to be funded by g.o. bonds.

## Debt Service Costs

Of the \$83.7 billion capital commitments in the FYs 2008-17 strategy, \$45.8 billion are slated to be financed by g.o. bonds, the debt service on which is payable from city tax revenues. G.O.-funded commitments for the plan years of the strategy (FYs 2008-11) total \$24.4 billion. Debt service costs backed by tax revenues, generated primarily from g.o. bonds as well as existing NYCTFA revenue bonds paid from city personal income tax revenues, are projected to climb from \$4.5 billion in FY 2008 to \$6.2 billion in FY 2011 and \$8.1 billion in FY 2017 net of prepayments. This reflects a rapid average annual growth rate for the FYs 2008-11 plan years of 10.9 percent, as illustrated in Table 13, and a slower growth of 4.5 percent for FYs 2011-2017.

### DEBT SERVICE IS PROJECTED TO GROW AT A FASTER RATE THAN TAX REVENUES

TABLE 13

(\$ in millions)

|                     | FY 2008  | FY 2009  | FY 2010  | FY 2011  | Average Annual<br>Growth Rate |
|---------------------|----------|----------|----------|----------|-------------------------------|
| Debt Service        | \$4,548  | \$4,738  | \$5,120  | \$6,207  | 10.9%                         |
| Tax Revenues        | \$36,642 | \$37,227 | \$39,089 | \$41,133 | 3.9%                          |
| Debt Service Burden | 12.4%    | 12.7%    | 13.1%    | 15.1%    | —                             |

Meanwhile, the city projects that tax revenues will increase from \$36.6 billion in FY 2008 to \$41.1 billion in FY 2011, reflecting a much slower average annual growth rate, relative to debt service, of 3.9 percent over the plan years. As a result, the share of tax revenues that debt service will consume is forecasted to enlarge from 12.4 percent in FY 2008 to 15.1 percent in FY 2011.

## Glossary of Acronyms

|                   |  |
|-------------------|--|
| <b>BARBS</b>      | Building Aid Revenue Bonds                   |
| <b>BERS</b>       | Board of Education Retirement System         |
| <b>BSA</b>        | Budget Stabilization Account                 |
| <b>CFE</b>        | Campaign for Fiscal Equity                   |
| <b>DEP</b>        | Department of Environmental Protection       |
| <b>DOE</b>        | Department of Education                      |
| <b>DOT</b>        | Department of Transportation                 |
| <b>DPR</b>        | Department of Parks and Recreation           |
| <b>DSH</b>        | Disproportionate Share Hospital              |
| <b>DSNY</b>       | Department of Sanitation                     |
| <b>FCB</b>        | Financial Control Board                      |
| <b>FICA</b>       | Federal Insurance Contributions Act          |
| <b>FSF</b>        | Fair Student Funding                         |
| <b>FY</b>         | Fiscal Year                                  |
| <b>GCP</b>        | Gross City Product                           |
| <b>GDP</b>        | Gross Domestic Product                       |
| <b>G.O. Bonds</b> | General Obligation Bonds                     |
| <b>HHC</b>        | Health and Hospitals Corporation             |
| <b>HPD</b>        | Housing Preservation and Development         |
| <b>MAC</b>        | Municipal Assistance Corporation             |
| <b>NYCERS</b>     | New York City Employees' Retirement System   |
| <b>NYCHA</b>      | New York City Housing Authority              |
| <b>NYCRS</b>      | New York City Retirement Systems             |
| <b>NYCTFA</b>     | New York City Transitional Finance Authority |
| <b>NYPD</b>       | Police Department                            |
| <b>OT</b>         | Overtime                                     |
| <b>OTPS</b>       | Other than Personal Services                 |

|              |  |
|--------------|--|
| <b>PA</b>    | Public Assistance                                |
| <b>PBA</b>   | Patrolmen's Benevolent Association               |
| <b>PIT</b>   | Personal Income Tax                              |
| <b>PS</b>    | Personal Service                                 |
| <b>SBA</b>   | Sergeants Benevolent Association                 |
| <b>SCA</b>   | School Construction Authority                    |
| <b>SMART</b> | Sustainable Mobility and Regional Transportation |
| <b>STAR</b>  | School Tax Relief Program                        |
| <b>TRS</b>   | Teachers' Retirement System                      |
| <b>UPL</b>   | Upper Payment Limit                              |