

Staff Report  
**JANUARY MODIFICATION  
REVIEW**  
March 11, 2008

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

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## I. Overview

The January modification to the FYs 2008-11 Financial Plan and the preliminary budget for FY 2009 clearly show that the city is exiting a time of economic growth and excess budget resources, and entering a period of economic stress that will require either reductions in expenditures or increases in revenues. The city has wisely heeded the signs of an economic downturn and has implemented agency actions in FY 2008, which will help balance the FY 2009 budget and begin to reduce the large outyear budget gaps.

Since adoption of the FY 2008 budget the city, while reducing its tax revenue forecast by over \$600 million, was able to raise city-fund revenues by a net \$438 million. In addition, the city is implementing an agency program that will either reduce expenditures or raise revenues by \$543 million. Other actions, such as reducing the amount necessary for prior year payables by \$500 million, reducing the general reserve by \$200 million, and eliminating \$100 million for pay-as-you-go capital, have allowed the city to increase the Budget Stabilization Account (BSA) by \$1.6 billion. The BSA now totals \$4.1 billion in FY 2008. The city plans on using all but \$350 million to help balance the FY 2009 budget with the remainder used to reduce the FY 2010 budget gap.

The city for FY 2008 expects an abrupt downturn in the business taxes. As of January, with more than half of projected tax collections already in hand, the business taxes are sending a mixed message. A collections slowdown of almost 25 percent is evident for the banking corporation tax for the first seven months in FY 2008, compared with the comparable period of the previous year. Collections of the general corporation and unincorporated business taxes are still growing, but they could weaken once these businesses start filing final returns for calendar year 2007. It is even possible that a pronounced shift in the revenue trend might not be evident until after FY 2008, since final corporate and bank tax returns, which sometimes arrive as early as March, can be postponed with extensions to June or even September.

We expect that the delayed realization of the predicted business tax slowdown could result in an extra \$200 million in revenue for FY 2008, which would be followed by an equivalent reduction in FYs 2009-2010 tax collections. Thus, even if the city's surplus continues to grow through the end of FY 2008, it does not mean that the city has once again avoided another threatened downturn. The disclosed and documented losses accruing to locally-based financial services giants will eventually be tallied and these losses will inevitably weaken the city's business tax collections and overall nonproperty tax receipts. Thus, any upside potential in FY 2008 could be matched by a steeper decline in FY 2009.

The preliminary budget for FY 2009 is projected to be balanced even though the city has reduced its forecast for city-fund revenues by about \$900 million due to an expected two-year decline in nonproperty tax revenues. The city has wisely implemented an agency program, beginning in FY 2008, which will reduce expenditures or raise revenues by \$885 million in FY 2009.

Despite these actions and the use of past surpluses, we estimate that the city still faces outyear gaps of \$4.7 billion in FY 2010, \$5.8 billion in FY 2011, and \$5.6 billion in FY 2012. Expenditures continue to grow in debt service, fringe benefits, pensions, and salaries and wages due to collective bargaining agreements. In addition, there are risks in the FY 2009 gap-closing program. The city has proposed a \$200 million savings in health benefit costs and since it has just begun discussions with labor it is uncertain if the city will be able to achieve these savings. It is uncertain if the city will receive \$100 million in additional federal and state aid or even be able to hold onto state aid proposed to be reduced in the state executive budget. Given these uncertainties, the city was wise to have recently requested additional proposals for a three percent reduction from agencies. Unlike the past several years, it is unlikely that even the city's conservative revenue forecasts will allow it to accumulate a multibillion dollar surplus in FY 2009. Without this help, the city must develop other actions during FY 2009 that will contribute to budget balance in FY 2010 and beyond.

**JANUARY MODIFICATION:  
THE CITY'S OPERATING PROJECTIONS FOR  
FISCAL YEARS 2008-2012**

TABLE 1 (\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b><u>Revenues</u></b>					
Taxes:					
General Property	\$12,941	\$13,881	\$14,915	\$15,827	\$16,629
Other Taxes <sup>a</sup>	22,332	20,951	22,593	23,743	24,998
Discretionary Transfers	546	546	—	—	—
Tax Audit Revenue	1,059	559	560	560	560
Tax Reduction Program	0	0	0	0	0
Sale of Property Tax Liens	58	38	34	31	31
Miscellaneous Revenues	7,283	6,333	6,201	6,229	6,231
Unrestricted Intergovernmental Aid	340	340	340	340	340
Anticipated Federal & State Aid	—	100	100	100	100
Inter-fund Revenues	466	434	422	417	417
Less: Intra-city Revenues	(1,481)	(1,390)	(1,381)	(1,381)	(1,381)
Disallowances	(15)	(15)	(15)	(15)	(15)
Total City Funds	<u>\$43,529</u>	<u>\$41,777</u>	<u>\$43,769</u>	<u>\$45,851</u>	<u>\$47,910</u>
Federal Categorical Grants	5,905	5,380	5,348	5,331	5,332
State Categorical Grants	11,080	11,568	12,430	12,873	12,875
Total Revenues	<u>\$60,514</u>	<u>\$58,725</u>	<u>\$61,547</u>	<u>\$64,055</u>	<u>\$66,117</u>
<b><u>Expenditures</u></b>					
Personal Service	\$33,112	\$34,690	\$37,327	\$39,097	\$39,885
Other Than Personal Service	24,764	24,302	24,940	25,533	25,940
Debt Service	3,787	3,820	4,172	4,955	5,539
MAC Debt Service	10	—	—	—	—
NYCTFA Debt Service	157	226	763	1,149	1,158
Budget Stabilization & Prepayments	65	(3,223)	(350)	—	—
General Reserve	100	300	300	300	300
Subtotal	<u>\$61,995</u>	<u>\$60,115</u>	<u>\$67,152</u>	<u>\$71,034</u>	<u>\$72,822</u>
Less: Intracity Expenditures	(1,481)	(1,390)	(1,381)	(1,381)	(1,381)
Total Expenditures	<u>\$60,514</u>	<u>\$58,725</u>	<u>\$65,771</u>	<u>\$69,653</u>	<u>\$71,441</u>
<b><u>Gap To Be Closed</u></b>	<u>\$0</u>	<u>\$0</u>	<u>(\$4,224)</u>	<u>(\$5,598)</u>	<u>(\$5,324)</u>
<sup>a</sup> Includes personal income tax revenue designated to pay NYCTFA debt service.					



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

TABLE 2 (\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
<b>Revenues</b>				
<b>Taxes:</b>				
General Property	\$17	(\$181)	(\$237)	(\$313)
Other Taxes <sup>a</sup>	(511)	(2,124)	(1,325)	(1,293)
Discretionary Transfers	0	546	—	—
Tax Audit Revenue	500	0	0	0
Tax Reduction Program	290	507	575	634
Sale of Property Tax Liens	(2)	0	0	0
Miscellaneous Revenues	280	246	92	84
Unrestricted Intergovernmental Aid	0	0	0	0
Anticipated Federal & State Aid	—	100	100	100
Interfund Revenues	30	23	19	19
Less: Intracity Revenues	(88)	(26)	(16)	(16)
Disallowances	0	0	0	0
<b>Total City Funds</b>	<b>\$516</b>	<b>(\$909)</b>	<b>(\$792)</b>	<b>(\$785)</b>
Federal Categorical Grants	610	0	(16)	(20)
State Categorical Grants	256	158	155	155
<b>Total Revenues</b>	<b>\$1,382</b>	<b>(\$751)</b>	<b>(\$653)</b>	<b>(\$650)</b>
<b>Expenditures</b>				
Personal Service	\$31	(\$359)	\$521	\$847
Other Than Personal Service	122	(237)	(177)	(149)
Debt Service	(38)	(143)	(181)	(98)
MAC Debt Service	0	—	—	—
NYCTFA Debt Service	(10)	(549)	(4)	(5)
Budget Stabilization & Prepayments	1,565	(987)	31	0
General Reserve	(200)	0	0	0
<b>Subtotal</b>	<b>\$1,470</b>	<b>(\$2,275)</b>	<b>\$190</b>	<b>\$595</b>
Less: Intracity Expenditures	(88)	(26)	(16)	(16)
<b>Total Expenditures</b>	<b>\$1,382</b>	<b>(\$2,301)</b>	<b>\$174</b>	<b>\$579</b>
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>\$1,550</b>	<b>(\$827)</b>	<b>(\$1,229)</b>

<sup>a</sup>Includes personal income tax revenue designated to pay NYCTFA debt service.

## RISKS TO THE FINANCIAL PLAN

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

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Stated Financial Plan Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$4,224)</b>	<b>(\$5,598)</b>	<b>(\$5,324)</b>
<b>Estimation</b>					
Taxes	\$200	(\$200)	(\$200)	\$0	\$0
Miscellaneous Revenue	75	150	150	150	150
Uniformed Services Overtime	(41)	(77)	(82)	(80)	(79)
<b>Subtotal</b>	<b>\$234</b>	<b>(\$127)</b>	<b>(\$132)</b>	<b>\$70</b>	<b>\$71</b>
<b>Not in Mayor's Control</b>					
Health Insurance Savings	\$0	(\$200)	(\$200)	(\$200)	(\$200)
State AIM Payments	(164)	0	0	0	0
Intergovernmental Aid	0	(100)	(100)	(100)	(100)
<b>Subtotal</b>	<b>(\$164)</b>	<b>(\$300)</b>	<b>(\$300)</b>	<b>(\$300)</b>	<b>(\$300)</b>
<b>Risk Total</b>	<b>\$70</b>	<b>(\$427)</b>	<b>(\$432)</b>	<b>(\$230)</b>	<b>(\$229)</b>
<b>Total FCB Estimated Surplus/(Gap)</b>	<b>\$70</b>	<b>(\$427)</b>	<b>(\$4,656)</b>	<b>(\$5,828)</b>	<b>(\$5,553)</b>
Notes: The city has set aside \$100 million in a general reserve in FY 2008 and \$300 million in each subsequent year of the financial plan.					

## II. The FY 2008 Surplus

In the January modification to the FYs 2008-11 Financial Plan, the city has raised its forecast of total revenues in FY 2008 by nearly \$1.4 billion, of which over \$400 million are city funds. The city is prudently conserving its resources for the expected economic slowdown by increasing the Budget Stabilization Account. The city expects to increase its accumulated budget surplus to nearly \$4.1 billion, up by almost \$1.6 billion since July. These additional resources are the result of expenditure reductions worth more than \$1.1 billion, augmented by the city-fund revenue gain of over \$400 million. The city is using its accumulated surplus to close the budget gap in FY 2009 and to apply \$350 million to the remaining budget gap in FY 2010.

While total FY 2008 revenues are expected to increase, the city has reduced its tax collection plan for FY 2008 by \$600 million, largely in response to the multibillion dollar losses being reported by leading financial services companies. The city's economic plan projects that the difficulties facing the finance industry will have a more immediate economic impact upon the city than upon the nation, resulting in slow economic growth for the nation and virtually no near-term growth in the city. The city has reduced its tax revenue targets for the business and personal income taxes and the mortgage tax, although the timing of the collections drop-off is not yet known.

### CHANGES FROM THE FY 2008 ADOPTED BUDGET ADD \$1.6 BILLION TO THE CITY'S SURPLUS

TABLE 4

(\$ in millions, change from the Adopted Budget to the January Modification)

City-Fund Revenues		City-Fund Expenditures	
Taxes	(\$604)	Reestimate Prior Year Expenses	\$500
Tax Program	290	Agency Program	458
Audit Revenue	500	General Reserve	200
STAR Aid	107	Pay-Go Capital	100
Agency Program	85	Debt Service	43
Miscellaneous Revenue	60	Personal Service	(116)
		Agency & Energy Expenses	(56)
		Other	(2)
<b>Increase in Revenues</b>	<b>\$438</b>	<b>Reduction in Expenditures</b>	<b>\$1,127</b>

Note: Excludes categorical grants. Allocates NYC Transitional Finance Authority debt service to expenditures.

### REVENUES

The city reduced its tax revenue forecast by \$604 million, as shown in Table 4. Despite this reduction in the tax forecast, city-fund revenues are up by \$438 million largely because of a \$500 million increase in the tax audit program. Also contributing to the increase in city funds is a \$60 million increase in miscellaneous receipts along with a gap-closing revenue program worth \$85 million. The city's plan also shows a \$107 million increase in the state's School Tax Relief Program (STAR) for the benefit of city taxpayers. However, changes to this program have no budgetary impact on the city because state STAR aid is offset by an equal reduction in property and income taxes paid by individual taxpayers.

Total revenues increased by nearly \$1.4 billion in the January modification, as shown in Table 2 on page 4. The largest component of this increase is categorical grants which are up by about \$900 million.

The city's weakening economic outlook accounts for about 60 percent of its \$604 million reduction to its tax revenue forecast. The balance of the tax plan decline reflects the recent implementation of \$222 million of the city's \$290 million nonproperty tax cut program. The enacted programs include: tax cuts to the city's general corporation and unincorporated business taxes; the exemption of purchases of clothing and shoes from the city sales tax; and two personal income tax credits - one credit for child care expenses and an additional credit for residents who pay the unincorporated business tax.

The \$604 million reduction to the city's tax collection plan is actually a mixture of projected increases for some of the city's major taxes that are more than outweighed by large revenue declines affecting income-based taxes. While some revenue sources including the real property transfer tax, and the sales and hotel taxes staged an improvement since the July plan, the gains were more than offset by large declines affecting the mortgage recording tax and the business and personal income taxes.

### **Portents of an Economic Slowdown**

The city has removed more than \$600 million from its tax revenue plan for FY 2008 to prepare itself for the fallout resulting from the multibillion dollar losses being reported by leading financial services companies, as well as an expected slowdown of national and local economic growth. Thus far, more than \$100 billion in subprime mortgage write-downs have been reported in the press, with much of this total affecting the locally-based finance sector.

The city's economic plan anticipated that a sluggish fourth quarter would slow real gross domestic product (GDP) growth to 2.2 percent in calendar year 2007, down from 2.9 percent in 2006. The latest GDP report indicates that output growth in the fourth quarter slowed to a near-recessionary 0.6 percent, dragging down the overall growth rate for 2007 to 2.2 percent, which is exactly what the city had predicted. The city's economic plan expects the national economy to avoid sliding into a recession in 2008, with output growth remaining positive at the relatively slow rate of 1.8 percent. Following the slowdown in 2007-2008, the national economy resumes a more normal growth path that approaches three percent in the outyears of the plan.

Another sign of the weakening economy is the contraction of employment that was reported for the nation at the start of 2008. Seasonally adjusted employment dropped, by 22,000 jobs in January and by 63,000 jobs in February, marking the first negative national employment growth since 2003. The employment statistics also show that national job growth has been decelerating for the last three years. Job growth fell to an average of 91,000 jobs per month in 2007 from 175,000 per month in 2006 and from 211,000 jobs per month in 2005. The labor report also indicates that wage growth is failing to keep pace with inflation, further suppressing consumer demand. Average hourly earnings, which increased 3.7 percent in 2007, fell behind the 4.4 percent inflation rate estimated for urban wage earners and clerical workers.

Job growth expanded strongly in the city, despite the national slowdown, and produced nearly 79,000 jobs in 2007, from the 64,000 increase in 2006. Citing the national downtrend along with reported cutbacks in the financial sector, the city expects local job growth to virtually stall, with small increases of just 5,000 new jobs in 2008 and 15,000 in 2009. A gradual recovery in the outyears could bring job growth near 30,000, but the city does not foresee a return to the rapid job growth that had been sustaining the local economy in recent years.

Whether or not the national economy sinks into recession, the city is preparing for a local slowdown that could approximate recessionary conditions, here in the city. The city will need a stringent perspective in order to effectively cope with the locally-centered fallout from the subprime mortgage problems and the resultant losses sustained by the city's financial services sector. Along with the near-zero local job growth, the city projects that gross city product (GCP) will decline by four percent in 2008, after having experienced near-zero growth in 2007. GCP gradually recovers with 1.5 percent growth in 2009, which accelerates to a still moderate 2.5 percent by 2011. Additionally, the city expects Wall Street bonus cutbacks to reduce the local average wage rate by 2.5 percent in 2008. Following this decline, wages stagnate in 2009 before beginning to grow at a rate of about four percent in 2010 through 2012.

### **Tax Revenues**

Since adoption, the city has reduced its tax collection plan for FY 2008 by \$604 million, as shown in the figure to the right, largely in response to the multibillion dollar losses being reported by leading financial services companies. The city has prepared for these business losses by reducing its collection targets for business taxes by \$577 million and the personal income tax by \$168 million. A slowdown in mortgages reduces mortgage recording tax revenue by \$95 million; however this reduction is offset by a \$94 million gain for the real property transfer tax. The sales and hotel taxes are up by \$60 million and \$29 million, respectively, reflecting the city's vibrant tourist industry.

<b>Change in the FY 2008 Tax Revenue Projections Since Adoption</b>	
(\$ in millions)	
Real Property	\$15
Personal Income	(168)
Sales	60
General Corporation	(410)
Banking Corporation	(117)
Unincorporated Business	(50)
Property Transfer	94
Mortgage Recording	(95)
Hotel Tax	29
Other	38
<b>Total Tax Revenue</b>	<b>(\$604)</b>

While the city has reduced its tax revenue targets for the business and personal income taxes along with the mortgage tax, the current collections reports for some of these taxes are still showing growth. We expect that a delay in the onset of the predicted tax collections slowdown could result in an extra \$200 million in revenue for FY 2008, which would be followed by an equivalent reduction in each of FYs 2009 and 2010 tax collections.

### **Miscellaneous Revenue**

Compared with the June adopted budget, the city's latest FY 2008 miscellaneous revenue forecast has grown by \$145 million. This positive variance is composed of \$215 million of gains from almost all of the categories of miscellaneous revenue with the

exception of interest earnings and a \$70 million negative variance from fewer nonrecurring actions planned for FY 2008.<sup>1</sup> The city left unchanged its FY 2008 interest income forecast of \$387 million, which is historically high although off of FY 2007's peak of \$473 million, because of uncertainty over the possibility of interest rate cuts by the Federal Reserve Board that would result in less revenue, even though cash balances are still high. The \$70 million negative variance in nonrecurring actions primarily occurred because the city now expects to receive a \$141 million refund from the Internal Revenue Service in FY 2009 and not in FY 2008.<sup>2</sup> Excluding nonrecurring actions, most of the \$215 million increase in the miscellaneous revenue forecast is reflected in licenses (e.g. cable television franchises and building permits), fines (e.g. more red light cameras and building fines), charges (e.g. housing and real estate related fees), and other miscellaneous revenue (e.g. affirmative litigation and settlements).

## **EXPENDITURES**

Since adoption of the FY 2008 Budget, the city generated a net \$1.1 billion of expenditure savings that are expected to be used, in combination with higher revenues, to boost the Budget Stabilization Account (BSA) by \$1.6 billion. As shown in Table 4 on page 6, the city achieved a gross \$1.3 billion of savings with the following measures: \$500 million of prior-year expenses were written off where reserves are no longer needed; \$458 million was produced from a citywide gap-closing agency program; the General Reserve was reduced by \$200 million, as customary at this time of the fiscal year; a \$100 million pay-as-you-go contribution toward the capital program was eliminated; and, debt service costs were trimmed by \$43 million. Partially offsetting these savings is a combined \$172 million of spending increases.

With the additional \$1.6 billion, the BSA will be funded at \$4.1 billion at the end FY 2008. The city plans to apply the BSA towards closing the budget gap for FY 2009 and a remaining \$350 million will be used to reduce the projected FY 2010 deficit. A budget gap of \$4.2 billion remains for FY 2010, and gaps of \$5.6 billion and over \$5.3 billion remain for FYs 2011 and 2012, respectively.

### **Uniformed Agency Expenses**

Despite the city's agency program that produced substantial savings citywide, there were areas in which FY 2008 expenses increased by \$172 million. As shown in Table 5, the uniformed agency expense budgets in FY 2008 have increased when the January modification is compared to the adopted budget. This is a result of the latest collective bargaining agreements, a disappointing recruitment effort and the need for additional overtime funding in the Fire and Correction Departments.

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<sup>1</sup> The city's forecast of miscellaneous revenue includes the categories of licenses, charges (fees), fines, rent, interest, water and sewer charges, and other miscellaneous (with nonrecurring resources).

<sup>2</sup> For more information on the FICA payment being refunded to the city see "Miscellaneous Revenue" in the FCB March 2007 staff report on page 21.

# ADOPTED-TO-JANUARY CHANGE IN UNIFORMED AGENCY BUDGET

TABLE 5

(\$ in millions) (City-Fund Expenditures)

	Police	Fire	Correction	Sanitation	Total
Adopted Budget	\$3,562.0	\$1,303.7	\$895.2	\$1,215.6	\$6,976.5
Collective Bargaining	71.3	22.0	28.7	34.8	156.8
New Funding Needs	—	22.7	20.0	2.1	44.8
Other Adjustments	3.4	1.9	(0.5)	7.0	12.8
Agency Program	(33.8)	(17.3)	(4.1)	(31.0)	(86.2)
January Modification	\$3,602.9	\$1,333.0	\$939.3	\$1,228.5	\$7,104.7

As shown in Table 5, on a city-fund basis, the four uniformed agencies (Police, Fire, Correction, and Sanitation) are expected to account for more than \$7.1 billion in annual expenditures or about 17 percent of the \$41.9 billion city-fund portion of the expense budget in the January modification. This estimate is higher than initially projected in the adopted budget. One of the driving forces behind the added spending is the cost of the latest labor agreements with the four uniformed agencies. The new labor contracts will cost the city nearly \$157 million more in FY 2008, with the Police Department's multiple union contracts accounting for almost half of the added cost. Also, the city had estimated in the November modification that it will need additional funding of \$45 million to cover a shortfall in budgeted overtime for Emergency Medical Service (EMS) personnel and civilian workers in the Fire Department and for correction officers in the Department of Correction. Most of the added funding was due to increases in salary levels dictated by the latest collective bargaining agreements. Although the increase in expenditures is expected to be partially offset by the proposed agency program savings of \$86 million, the city still expects to spend \$128 million more than projected in the adopted budget in FY 2008 for the four departments.

## Overtime

Overtime, as a part of the uniformed agency expense budget, is a considerable portion of total expenditures. In recent fiscal years, the overtime expense budget has accounted for more than \$700 million in annual expenditures. In its latest budget modification, the city projects that overtime spending will remain relatively flat at \$685 million in FY 2008. Since the release of the FY 2008 Adopted Budget, the city has increased its budget for uniformed agency overtime by a total of \$69 million as shown in Table 6.

# ADOPTED-TO-JANUARY CHANGE IN UNIFORMED OVERTIME BUDGET

TABLE 6

(\$ in millions)

	Adopted 08	Nov Mod	Change	Jan Mod	Change	Total Change
Police	\$311.8	\$318.4	\$6.6	\$329.0	\$10.6	\$17.2
Fire	180.1	202.2	22.1	196.9	(5.3)	16.8
Correction	60.9	95.7	34.8	99.4	3.7	38.5
Sanitation	63.4	66.7	3.3	59.5	(7.2)	(3.9)
Total	\$616.2	\$683.0	\$66.8	\$684.8	\$1.8	\$68.6

The city has historically underestimated its overtime budget at the beginning of each fiscal year and then has increased it incrementally with each budget modification based on the current level of spending by the departments at that specific time. As shown in table above, the FY 2008 Adopted Budget had initially projected that the city

would spend slightly more than \$616 million but that figure was too low and was increased by almost \$67 million in the November modification. In its latest modification, the city departs from its normal pattern of raising its projection and anticipates that it will be able to hold overtime costs at their current level, with only a modest increase of \$1.8 million from the November modification projection. Nonetheless, based on the current overtime spending level observed through January of FY 2008, we must hold at risk approximately \$41 million. Our analysis indicates that the city is likely to spend more than \$725 million, with the majority of the spending attributable to the Police and Fire Departments.

A number of successful programs in the Police Department are partially funded with overtime dollars. Some of the most popular programs, such as Operations Impact and Atlas and a newly designed program, Operation Torch (a subway initiative to enhance security), will continue as planned. The city spends about \$22 million to fund Operation Impact (a concentrated effort to target crime) and approximately \$50 million for Operation Atlas (a security force of 1,000 highly trained officers assigned to homeland security related posts). The city does expect to fund the cost of Operation Atlas from a projected straight-time pay surplus due to the reduced headcount in the department.

Some of the costs associated with these programs will be offset by federal grants from the Department of Homeland Security. In FY 2008, the city expects to receive \$81 million in homeland security grants that are for the Police Department, with \$8 million of that total allocated to overtime expenses needed for training purposes. The remaining \$73 million will be available for straight-time pay appropriations. Additional federal homeland security money will be allocated to the Fire Department totaling about \$40 million.

For FY 2008, the city's effort to reduce overtime costs has been hindered by its inability to reach an authorized headcount in the departments. The recruitment problem faced by uniformed agencies for the last couple of years is partially a result of a low starting salary offered to new recruits. The effect of this is most pronounced in the Police Department where the acknowledgement of a headcount shortfall by the department has led to a reduction in its authorized headcount by 1,000 officers.

The Department of Correction and the Fire Department have also been affected by the same dilemma as the Police Department, though to a lesser degree. The Department of Correction's recruitment effort falls short as it tries to keep pace with the attrition of its officers. The latest recruitment class for correction officers totals just 100 as compared to a normal class size of 300. The department has seen its prison population rise this year to an average total of 14,100, the same level as FY 2006 but higher than prior years. The city maintains that even though the prison population is higher, they will be able to eliminate administrative posts and shift those personnel to prison posts. The result of the internal shift of posts is expected to produce some overtime savings.

The Fire Department also faces a personnel shortage due to a shortfall in recruitment efforts, but its primary concern has been the high sick rate among its uniformed personnel, currently approaching 7.3 percent of its total staff. The city has



the discretionary authority to eliminate the fifth uniformed firefighter from a five person tour if the sick rate reaches 7.5 percent. If the rate climbs to eight percent, then the elimination of the fifth person is automatic. This could actually cause a savings in overtime due to the eliminated fifth firefighters being redistributed to other areas as need dictates.

The city's agency program accounts for little in overtime savings. However, the Department of Sanitation was able to propose two initiatives totaling \$10 million in FY 2008. The savings are expected from a reduction in collection routes funded by their overtime budget and from a readjustment of accruals.

### **Department of Education**

The January modification decreases funding to the Department of Education (DOE) in FY 2008, bringing the DOE budget to \$16.9 billion in the current year. (This is \$1 billion more than the FY 2007 close.) The modification contains a decrease of \$180 million in city spending as part of the city's agency program. The main component of this decrease is almost \$100 million in the form of school level under spending as a result of late hiring decisions and restrained purchasing.

City funds comprise \$7.1 billion or 42 percent of the department's budget in the January modification while the state's share is \$7.9 billion or almost 47 percent. The balance of the education budget is comprised of \$1.9 billion in federal aid, \$11 million in intra-city funds and \$48 million in other categorical funds.

### **III. The Financial Plan for FYs 2009-12**

The January modification contains the city's preliminary FY 2009 budget and FYs 2009-12 Financial Plan. In the January modification, the city reduced its forecast for city funds by about \$900 million in FY 2009, since the July financial plan, because a two-year decline in nonproperty tax revenues, affecting FYs 2008 and 2009, is expected to ensue from the multibillion dollar losses that are being reported by city-headquartered financial services companies. Also contributing to the weak revenue outlook is the city's forecast of slower national and local economic growth, which could slow the recovery of the nonproperty taxes. The city is, however, counting on the resiliency of the local real estate market to produce significant growth to partially offset the weakness of the nonproperty taxes at the start of the plan.

Due to the weak revenue outlook, the city has put in place an agency program for FYs 2008 and 2009 with much of the savings to the operating budget recurring over the life of the plan. The Department of Education is providing a major portion of the savings. Even with these savings, the city is projecting budget gaps of \$4.2 billion in FY 2010, \$5.6 billion in FY 2011 and \$5.3 billion in FY 2012. The escalating cost of fringe benefits is a driving force behind the budget gaps. Moreover, the potential is there for the outyear budget gaps to worsen if the city has to augment its pension contributions due to an extended economic downturn.

Another major contributor to the city's projected budget deficits is the rising debt service costs generated from general obligation (g.o.) bonds sold by the city and tax revenue bonds sold by the New York City Transitional Finance Authority (NYCTFA) to support capital expenditures. The current financial plan assumes that g.o. debt will be the only source of future capital financing secured by tax revenues as the NYCTFA has exhausted its debt capacity. Moreover, pay-as-you-go capital financing has been eliminated from the city's operating budget as a means of reducing the looming budget gaps. The city is attempting to minimize the interest component of its debt service costs by seeking additional capacity for the NYCTFA to issue bonds to support the capital program, since the NYCTFA credit has proven to be less expensive relative to city g.o. debt. Meanwhile, the city has responded quickly to the spike in its interest expense caused by the nationwide insurance related turmoil in the auction rate market by announcing the refinancing of more than half of its auction rate securities into uninsured fixed and variable rate obligations.

#### **REVENUE GROWTH RATES**

The city's plan projects that total revenue will increase by \$5.6 billion to \$66.1 billion in FY 2012 from \$60.5 billion in FY 2008, for growth of 9.3 percent over the four-year span. Similarly, city-fund revenue grows by \$4.5 billion, which represents 10.7 percent growth. City funds, which decline by nearly four percent in FY 2009 and then grow steadily by about five percent per year from FY 2010 through FY 2012, follow the pattern set by the nonproperty taxes, which decline by nearly eight percent early in the plan followed by steady moderate growth of about five percent per year. In contrast to the early drop of the nonproperty taxes, the real property tax grows most strongly in the

first two years of the plan, with more moderate growth in the outyears. A large decline in miscellaneous receipts is another reason for the four-percent decline in city funds at the start of the plan period.

TABLE 7

**TAXES PROVIDE NEARLY ALL THE GROWTH IN THE CITY'S REVENUE PLAN**

(percent change, \$ in millions)

	FY 09	FY 10	FY 11	FY 12	FY 08	FY 12	FYs 08 - 12
Property Tax	7.0%	7.3%	6.0%	5.0%	\$13,141	\$16,800	27.8%
Nonproperty Taxes	(7.9)	5.0	5.0	5.2	23,794	25,418	6.8
Miscellaneous	(18.0)	0.5	0.4	0.2	4,643	3,849	(17.1)
Nonrecurring	37.5	(96.4)	188.7	(65.4)	106	5	(95.3)
Unrestricted Aid	0.0	0.0	0.0	0.0	325	325	0.0
Anticipated State & Federal Aid	NA	0.0	0.0	0.0	0	100	NA
<b>Total City Funds</b>	<b>(3.9%)</b>	<b>5.0%</b>	<b>4.9%</b>	<b>4.6%</b>	<b>\$42,009</b>	<b>\$46,497</b>	<b>10.7%</b>
Categorical Aid*	(0.5%)	4.6%	2.3%	0.0%	\$18,038	\$19,203	6.5%
Interfund Revenue	(6.9)	(2.8)	(1.2)	0.0	466	417	(10.5)
<b>Total Funds</b>	<b>(3.0%)</b>	<b>4.8%</b>	<b>4.1%</b>	<b>3.2%</b>	<b>\$60,514</b>	<b>\$66,117</b>	<b>9.3%</b>

\*Categorical Aid is the sum of other, state, and federal categorical grants. Numbers may not add due to rounding.

The property tax, which grows by 28 percent over the plan, increases from \$13.1 billion in FY 2008 to \$16.8 billion in FY 2012. As shown in Table 7, the strong growth of the property tax is responsible for most of the growth achieved by total revenues. The nonproperty taxes follow a slower growth path, increasing by about seven percent from \$23.8 billion in FY 2008 to \$25.4 billion in FY 2012. The nonproperty taxes decline sharply at the start of the plan, falling by eight percent in FY 2009, after which steady growth resumes at a rate of five percent per year in FYs 2010 through 2012. In contrast, miscellaneous revenue drops from \$4.6 billion in FY 2008 to \$3.8 billion in FY 2012. Nonrecurring actions are projected to exceed \$100 million in FYs 2008 and 2009 and fall off thereafter. By their nature, the amount of nonrecurring actions will change during the course of a year and is front-loaded in the plan.

Unrestricted aid, which is shown as a constant \$325 million, consists primarily of the state's Aid and Incentives to Municipalities (AIM) program. Following a cutback in FY 2007, when this unrestricted aid dropped to \$20 million, the state proposed a partial restoration of this aid funding to \$164 million in FY 2008, which is about half the amount that the city had received prior to FY 2007. The city has been negotiating with state lawmakers to fully restore the city's aid allocation in the state budget. The city also assumes that anticipated sources of federal and state aid will furnish \$100 million annually in FYs 2009-2012.

**Are the Nonproperty Taxes Headed for a Downturn?**

The city projects that the major nonproperty taxes will decline by about six percent in each of FYs 2008 and 2009, on a common rate and base. This two-year decline would mark an abrupt end to a stellar four-year growth surge extending through FYs 2004-2007, when the nonproperty taxes soared more than 85 percent. The city's revenue plan projects that the business income taxes will lead a downturn of the nonproperty taxes, and that the business taxes will experience the steepest and most immediate drop-off in tax collections. The reason for this sequence of events is that Wall Street

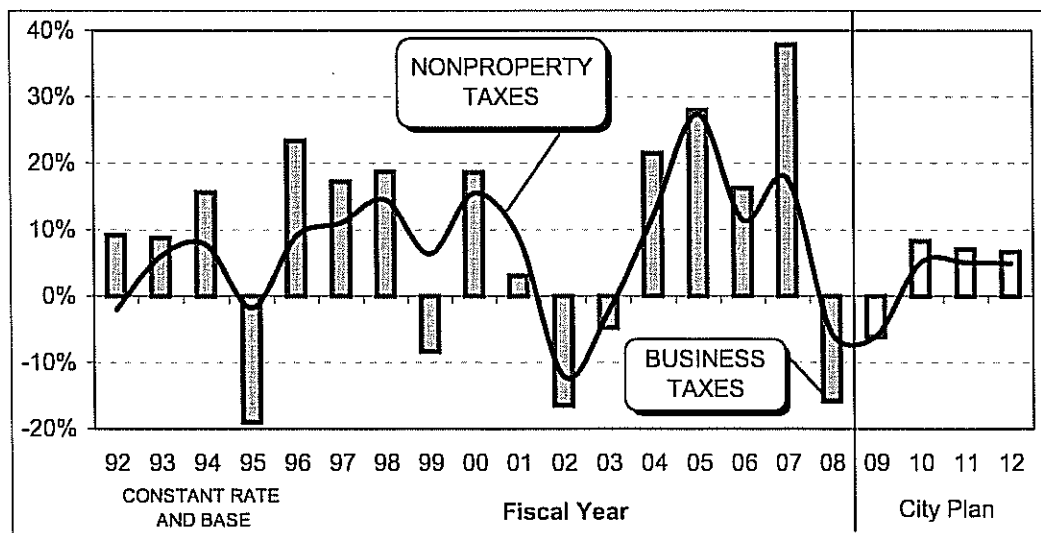
businesses and locally-centered financial institutions, which have been hard hit by losses and asset write-downs, are expected to cut their business tax payments.

Chart 1 compares the annual growth rates of the city's business tax receipts with the entire group of major nonproperty taxes. The chart shows that the business tax group is more volatile, with more extreme swings in growth, than the nonproperty taxes. The chart also shows that strong swings in the business taxes often accompany major shifts of the nonproperty tax growth trend. Furthermore, most of the major shifts in these growth rates can be traced to specific factors affecting the city's finance sector and to significant economic events. This history shows that the city is being prudent to anticipate that financial sector losses and mortgage write-downs have the proven capability to derail even prolonged periods of strong revenue growth.

The business sector appeared to lead the recovery in local tax revenues in FY 1992, following the national recession of 1990. This upturn continued until FY 1995, when a sudden rise in long-term interest rates roiled the financial markets, dragging down the business taxes by nearly 20 percent, which resulted in a slight contraction of the nonproperty taxes. The leadership of the business taxes is also evident both at the start and finish of the dot-com boom, which spanned FYs 1996-2000. This period of strong city revenue growth was briefly interrupted by financial turmoil associated with the collapse of Long Term Capital Management Corporation, when FY 1999 business taxes fell by eight percent. The recession that began in FY 2001 and deepened in FY 2002 in the aftermath of the destruction of the World Trade Center resulted in three years of weakness for both the business and nonproperty taxes. More recently, the strength of the business taxes, which increased by 150 percent through the four-year growth surge in FYs 2004-2007, was augmented by exceptionally strong growth in the property transactions taxes and the personal income taxes, while booming stock prices were climbing in tandem with an equally vibrant local real estate market. Together, these favorable tax collection trends produced nonproperty tax growth of 85 percent over this exceptional four-year period.

CHART 1

**THE BUSINESS TAXES LEAD THE NONPROPERTY TAXES DOWNWARD**  
(percent change from previous year)



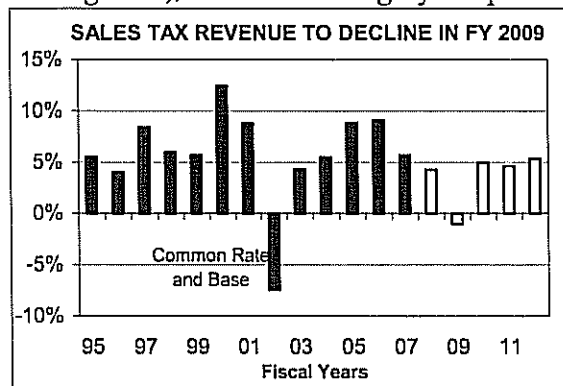
The city projects that an abrupt 16 percent downturn in FY 2008 business tax receipts will presage a two-year 12 percent drop in the nonproperty taxes. As of January, with more than half of expected FY 2008 tax collections already in hand, the business taxes are sending a mixed message. A collections slowdown of almost 25 percent is evident for the banking corporation tax for the first seven months in FY 2008, compared with the comparable period of the previous year. Collections of the general corporation and unincorporated business taxes are still growing, but they could weaken once these businesses start filing final returns for calendar year 2007. It is even possible that a pronounced shift in the revenue trend might not be evident until after FY 2008, since final corporate and bank tax returns, which sometimes arrive as early as March, can be postponed with extensions to June or even September.

We expect that the delayed realization of the predicted business tax slowdown could result in an extra \$200 million in revenue for FY 2008, which would be followed by an equivalent reduction in each of FYs 2009-2010 tax collections. Thus, even if the city's surplus continues to grow through the end of FY 2008 it does not mean that the city has once again avoided another threatened downturn. The disclosed and documented losses accruing to locally-based financial services giants will eventually be tallied and these losses will inevitably weaken the city's business tax collections and overall nonproperty tax receipts. Thus, any upside potential in FY 2008 could be matched by a steeper decline in FY 2009. The city expects business tax growth of about seven percent per year in FYs 2010 through 2012, which will be accompanied by nonproperty tax growth of five percent. The gradual expansion of tax revenues in the outyears is consistent with the city's economic plan that describes a gradual recovery from the lackluster economic growth currently affecting both the nation and the city.

**Property Transactions Taxes.** With real estate prices slowing to 1.4 percent growth on the city's latest tax roll, from the stellar 18 percent increase that was reported for the previous year, the property transactions taxes could also slow down. The city expects the two property transactions taxes to decline by an average of 20 percent in FY 2008 to \$2.6 billion. Revenue falls by another 21 percent in FY 2009, to about \$2 billion, but growth does not resume until FY 2012. Together, these two transactions taxes soared by an average of 30 percent annually over the past five years, increasing from \$900 million in FY 2002 to \$3.3 billion in FY 2007. Stricter mortgage lending requirements, that were implemented in response to subprime mortgage delinquencies, are expected to have a stronger impact on the mortgage recording tax, which falls 27 percent in FY 2008, than on the real property transfer tax, which declines 15 percent.

The real estate industry may be responding to slower sales by offering newly completed apartments to the rental market instead of the condominium market. This trend is evident from tax roll data indicating that rental apartment units increased by 2.2 percent, in comparison to the 1.1 percent increase that was reported for condominium units. To some extent, distress property sales could yield the city some extra transactions tax revenue, as has been reported concerning several recently purchased office buildings that might be resold because of financing difficulties.

**Sales Tax.** In its latest modification, the city believes that sales tax revenue will decline by one percent in FY 2009 (on a continuing base), after advancing by 4.3 percent in FY 2008, because weakness in the local and national economies will act to constrain personal consumption.<sup>3</sup> If this occurs, it would be only the second time since FY 1995 (the first time was after the September 11<sup>th</sup> attacks) that sales tax collections actually fell on a year-to-year basis, as seen in the figure to the right.<sup>4</sup> After the slip in FY 2009, growth is projected to rebound sharply at nearly five percent annually in each of FYs 2010 to 2012. While the city's forecast is reasonable, it is not at all clear that consumers will have sufficient discretionary income in calendar years 2009 and 2010 to support the strong recovery in sales tax revenue planned for FY 2010 if there is not stability in the housing market and lower food and energy prices.



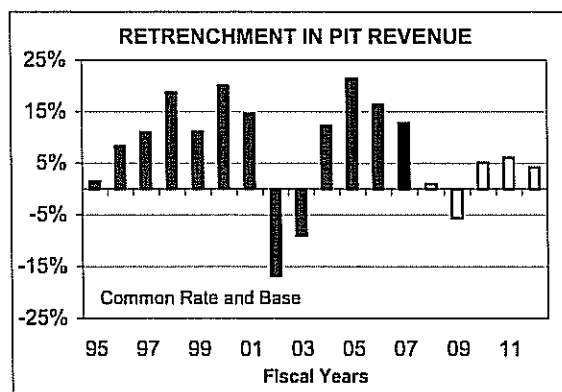
The reason for the abrupt shift in the sales tax forecast from FY 2008 to FY 2009 is that despite the benefits from a record number of tourists in 2007 (particularly from overseas), the city expects much slower local and national employment growth coupled with declines in Wall Street compensation (calendar years 2008 and 2009). These two factors will strongly undercut personal consumption and depress consumer sentiment. If you add to the city's economic scenario the current elements of higher prices for food and energy, continued high rates of home mortgage delinquencies and foreclosures, and much tighter credit standards, it is possible that sales tax revenue may fall further in FY 2009 and that the weakness may spread into FY 2010. However, initiatives at the local, state, and federal level aimed at preventing further home foreclosures may help stabilize the housing market. Also, the degree to which the federal economic stimulus package promotes consumer spending may depend on how many of the recipients engage in new spending rather than paying off existing bills.

**Personal Income Tax.** Based on the current and ongoing turmoil in the financial markets (e.g. credit, debt, and equity), the city has scaled back its projections for employment and income growth at the local and national levels in its latest modification. This would encompass projections for finance sector compensation (including bonus payouts) and employment, securities industry profitability, wage and non-wage income, and capital gains realizations.

<sup>3</sup> "On a continuing base" or "on a common rate and base" refer to tax collections that are adjusted to remove the effects of tax law changes in order to focus on economic influences.

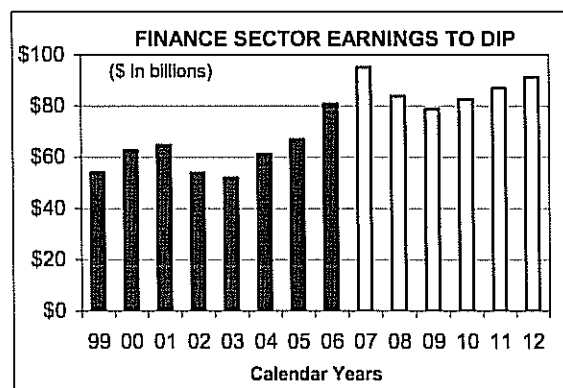
<sup>4</sup> The projected decline in FY 2009 does not include the cut in the city's sales tax rate from four to three percent after July 1, 2008 due to the expiration of state legislation related to the Municipal Assistance Corporation. The Governor, at the Mayor's request, has submitted legislation that would keep the city's sales tax rate at four percent. The financial plan assumes that the city will continue to realize over \$1 billion annually from the one percent increase. For a full discussion of this issue see the December 2007 FCB staff report, page 12.

Consequently, after four years of double-digit growth, personal income tax collections, as shown in the figure to the right, are projected to grow one percent in FY 2008, fall 5.6 percent in FY 2009, and increase on average by five percent annually during FYs 2010-12. An example of the city's revised forecast is that after posting a \$3.8 billion loss for the third quarter of calendar year 2007, the city estimates that New York Stock Exchange member firms will record a loss of \$2.3 billion in the fourth quarter, resulting in profits for the full year of \$2.8 billion in 2007. The city's earlier estimate of Wall Street profits in 2007 was \$14.8 billion, a decrease of 29.2 percent from the \$20.9 billion earned in 2006.

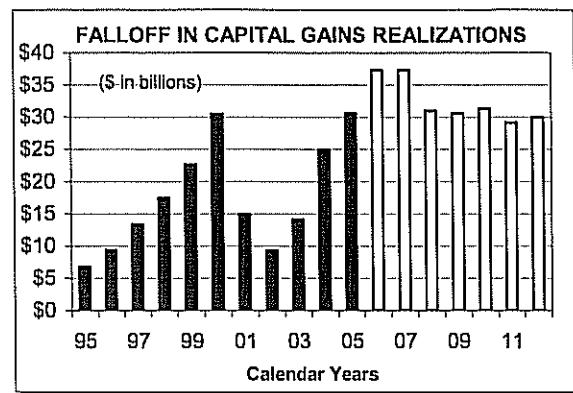


By now it is clear that the city's expectation in the January modification that write-downs of the value of asset-backed securities (such as subprime mortgages) by brokerages and banks would have ended in 2007 and minimally affect 2008 is too optimistic. The problem is that there is a downside risk to the city's near-term personal income tax (PIT) forecast because the credit crunch that started with subprime mortgages may come to dominate calendar year 2008 because investors may become adverse to buying other forms of debt with varying degrees of risk (e.g. "better" mortgages, municipal debt, and leveraged buyout debt and loans). In addition, concerns about creditworthiness and solvency have also spread to other players in the financial market such as bond insurers.

The city had also assumed that other lines of business in Wall Street firms, unrelated to mortgages, would not be affected and that counterparty risk would not be a factor, but this may not turn out to be the case. The city is expecting securities industry profits to more than triple in calendar year 2008 to \$9.1 billion from \$2.8 billion in 2007 and reach \$15 billion in each of 2009 and 2010. Historically, bonus payouts do not fall as far as profits and may be used to retain valued employees in one business area despite distress in another area. So far, the layoffs on Wall Street have primarily focused on the mortgage area, which allowed for healthy bonus payouts on calendar year 2007 although less than for calendar year 2006 (when securities industry profits were \$20.9 billion). As seen in the figure to the right, even with the city's projected decline of 17 percent in finance sector compensation (with bonus payouts) from calendar year 2007 to a relative low of \$78.9 billion in calendar year 2009, compensation is projected to remain at historically high levels at over \$80 billion annually.



Another area of concern in the city's PIT forecast is capital gains realizations given the current instability in the stock market and the tough position of the Federal Reserve Board. The Board is trying to lower short-term interest rates to ease the credit squeeze and revive the housing market without spurring inflation. Capital gains occur when a physical or financial asset that has appreciated in value is sold. As shown in the figure to the right, coming



off of an estimated high of \$37.3 billion in calendar year 2006, it is possible that capital gains realizations in 2007 will not remain at the 2006 level, but instead decline on a year-to-year basis. Looking over the volatile history of this revenue source, the city's expectation of just over \$30 billion annually in the near-term of the plan period may be too optimistic.

### **Property Tax Growth Slows in FY 2009**

Market values are still growing slowly in the city, despite the widespread real estate downturn gripping much of the nation. As shown in Chart 2 on page 20, market values on the tentative tax roll for FY 2009 increased by 1.4 percent, to \$807 billion, from \$796 billion in FY 2008. The flattening out of market values follows a stellar 18 percent increase that was reported for FY 2008. In contrast to the flattening of market values, the city's property tax revenue plan projects a robust four-year increase of 28 percent from \$13.1 billion in FY 2008 to \$16.8 billion in FY 2012. This strong revenue forecast includes the delayed recognition of previous market value growth that was not fully counted in the billable property tax base due to restrictions like assessment caps and phase-in rules.

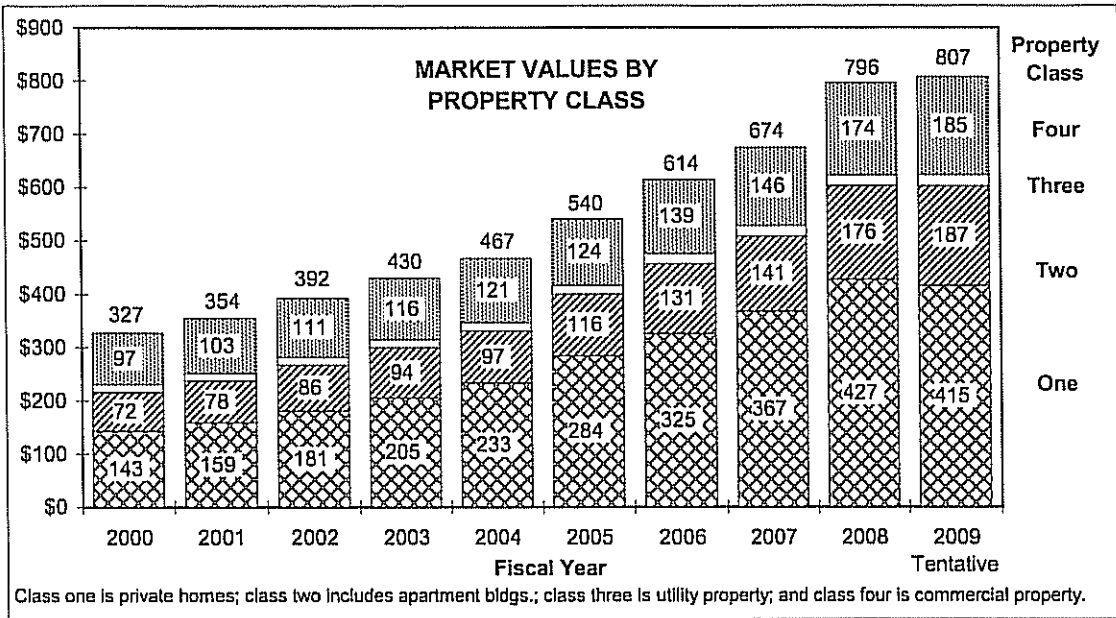
The city expects property tax revenue to increase seven percent in FY 2009; however, growth moderates over the plan period, dropping to five percent by FY 2012. In FY 2008, the city implemented a \$1.1 billion property tax cut by reducing tax rates by seven percent; and the city proposes to continue this tax cut program into FY 2009. Also, the rebate program, which returns \$400 to owners of homes or apartments, was extended for three years starting with FY 2008 and will cost \$256 million annually. However, the abrupt drop-off in the growth of the property tax base combined with weakening business tax revenues could force the city to rescind these popular property tax cut programs.



## FY 2009 MARKET VALUE GROWTH SLOWS TO 1.4 PERCENT

CHART 2

(\$ in billions)



The city's recent report on the tentative assessment roll for FY 2009 shows that property values have flattened out, remaining at about the same \$800 billion level that was reported for FY 2008. The reported growth rate of 1.4 percent is the weakest market value report in more than a decade. The last time that such weak growth was reported was in FY 1998, which coincided with a slow recovery from the real estate downturn of the early 1990s.

The chart shows that the weakest segment of the lackluster market is private homes, which declined by three percent to \$415 billion. The Finance Commissioner noted that the sharpest market value decline was reported for Staten Island, where private home values fell by four percent, because this community is most comparable to the rest of the nation. In contrast to the decline private home values, residential apartment buildings and commercial properties each increased by six percent, to \$187 billion and to \$185 billion, respectively. While six percent growth certainly looks weak in comparison to last year's extraordinary growth of near 20 percent for both of these sectors, six percent compares favorably with the historical record.

Notwithstanding the overall increase in market values, most properties in the city decreased in value. There were 366,000 properties that increased in value due to market changes, versus 631,000 properties that decreased in value. This downtrend was most pronounced for private homes, which had 192,000 properties that increased versus 498,000 that decreased. Apartment properties were more evenly divided, with 111,000 increases versus 102,000 decreases. Most commercial properties tended higher, with 63,000 increases versus 30,000 decreases. This data shows that some of the pipeline of past market value increases, for commercial and large apartment properties could be lost. This could happen because market value decreases generally have an immediate effect on assessments, whereas increases have a delayed impact due to the five-year phase-in rule for these property types.

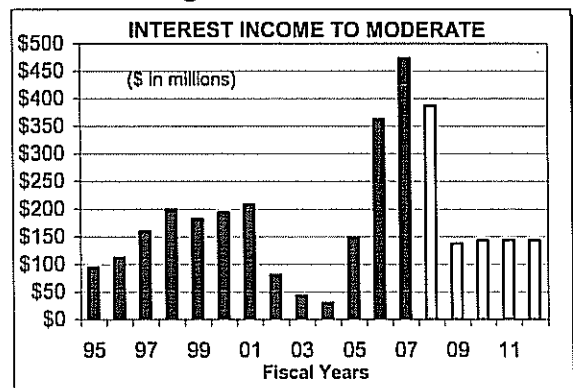
The city's property tax reports indicate that the residential housing stock increased by 40,000 units, or 1.3 percent in FY 2009. This increase should come as no surprise, seeing that building permits for about 30,000 units were issued in each of the last three years. The rental apartment sector, with 2.2 percent growth, was the fastest growing segment of the residential sector, followed by condominiums with 1.1 percent growth. The relatively faster growth of the rental sector could be a sign of weakening condominium sales.

Commercial space expanded by about 15,000,000 square feet, or 1.4 percent. Office space surged by 10,000,000 square feet or 2.6 percent, while health and educational buildings increased by about 5,000,000 square feet, or 17 percent. Hotels expanded by over 3,000,000 square feet, or 7.3 percent, and store buildings increased by 2,000,000 square feet, or 1.4 percent. Over 5,000,000 square feet of factory buildings were removed from the tax rolls, equivalent to a decline of about six percent, continuing a long-term contraction of this sector. Also, 2,000,000 square feet of garage space disappeared, shrinking this sector by four percent.

### **Miscellaneous Revenue**

From FY 2008 to FY 2012, miscellaneous revenue is projected by the city to fall by 17.1 percent or \$794.2 million to \$3.8 billion, as seen in Table 7 on page 14. Nonrecurring resources such as asset sales and one-time payments, which are listed separately in the table, are not projected at this time to be a major factor in helping to achieve annual budget balance. With the exception of a small positive variance in water and sewer charges, six of the seven categories that comprise miscellaneous revenue are projected to lose ground by FY 2012.<sup>5</sup> Most of the \$794.2 million projected decline in miscellaneous revenue from FY 2008 to FY 2012 can be traced to less interest income (\$243.1 million) and less tobacco settlement proceeds (\$408.4 million) within other miscellaneous. Payments from the tobacco master settlement agreement are, in part, dependent upon the profitability of tobacco companies, and are projected to fall from \$554.9 million in FY 2008 to about \$140 million annually in FY 2009 through FY 2012.

As seen in the figure to the right, interest earnings can also be volatile, but for other reasons. For example, interest earned on the city's cash balances is influenced by changes in the federal funds rate, which reflects the monetary policy of the Federal Reserve Board and the amount of cash available for short-term investment, which is affected by the surplus or shortage in tax revenue. One benefit from the recent period of stronger-than-expected tax revenue growth is that there was no need for



<sup>5</sup> The seven categories of miscellaneous revenue are licenses, charges, fines, rent, interest, water and sewer charges, and other miscellaneous.

short-term borrowing in FYs 2005-08, because cash balances were at historically high levels. The figure on the prior page shows that from FY 1995 to FY 2005 interest earnings ranged from about \$30 million to \$160 million annually with a few exceptional years in the period of FY 1998 through FY 2001 when interest income approached or exceeded \$200 million annually. New highs were achieved during FYs 2006 and 2007 when interest income exceeded \$350 million in FY 2006 and neared \$475 million in FY 2007. In the latest modification, the city expects interest earnings to fall 63 percent from \$387 million in FY 2008 to a more sustainable level of \$144 million by FY 2012 in an environment of a moderate growth in tax revenue.

## **SOURCE OF EXPENDITURE GROWTH**

In the four-year financial plan, the city's spending growth between FYs 2008 and 2012 is 17.1 percent, with total spending reaching \$71.0 billion in the final year of the plan, as shown in Table 8. Personal service (PS) increases 21.1 percent between FYs 2008-12, with the largest growth coming between FYs 2009 and 2010 at 7.8 percent. The growth in salaries and wages is projected at 21.4 percent with the largest increase also coming between FYs 2009 and 2010 at 8.7 percent. These growth numbers represent the cost of a number of contract agreements reached during the past year.

Fringe benefit costs increase 26.3 percent over the life of the plan going from \$6.4 billion in FY 2008 to \$8.0 billion in FY 2012. The city's pension contribution increases 14.1 percent between FYs 2008 and 2012. Most of the growth is between FYs 2008-09 and FYs 2009-10 at 8.7 percent and 4.9 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. Going forward the pension costs are projected to decrease 0.1 percent between FYs 2010 and 2011 and increase slightly by 0.2 percent between FYs 2011 and 2012. In FY 2012 pension costs are projected to be \$6.4 billion.

### **EXPENDITURE GROWTH BETWEEN FYs 2008 AND 2012**

**TABLE 8** (yr/yr percent change, \$ in millions)

	FYs 08-09	FYs 09-10	FYs 10-11	FYs 11-12	FYs 08-12	Level in FY 2008	Level in FY 2012
<b>Total Expenditures</b>	<b>(8.3%)</b>	<b>16.9%</b>	<b>6.5%</b>	<b>2.6%</b>	<b>17.1%</b>	<b>\$60,658</b>	<b>\$71,024</b>
<b>Total PS</b>	<b>5.0%</b>	<b>7.8%</b>	<b>4.8%</b>	<b>2.1%</b>	<b>21.1%</b>	<b>\$32,365</b>	<b>\$39,192</b>
Salaries and Wages	4.6%	8.7%	5.4%	1.2%	21.4%	20,380	24,740
Fringe Benefits	2.9%	7.7%	7.4%	6.2%	26.3%	6,360	8,032
Pensions	8.7%	4.9%	(0.1%)	0.2%	14.1%	5,625	6,421
<b>Total OTPS</b>	<b>(23.5%)</b>	<b>31.2%</b>	<b>8.7%</b>	<b>3.2%</b>	<b>12.5%</b>	<b>\$28,293</b>	<b>\$31,832</b>
Public Assistance	(3.5%)	(0.1%)	0.0%	0.0%	(3.5%)	1,219	1,176
Medicaid	(3.4%)	2.7%	2.8%	2.9%	5.1%	5,797	6,089
Debt Service	2.9%	7.4%	22.9%	9.7%	48.9%	4,497	6,697
Other OTPS	(39.1%)	61.1%	7.1%	1.3%	6.5%	16,780	17,869

Numbers may not add due to rounding.

Under the other than personal service (OTPS) category, both debt service and Medicaid increase over the life of the plan. Debt service increases 48.9 percent from \$4.5 billion in FY 2008 to \$6.7 billion in FY 2012, driven largely by 22.9 percent growth between FYs 2010 and 2011. The debt service growth rates are somewhat exaggerated by the fact that portions of the costs for FYs 2008-10 were legally defeased in FYs 2006 and 2007 with windfall revenues. Medicaid expense grows by 5.1 percent between FYs 2008 and 2012. This expense actually decreases 3.4 percent between FYs 2008 and 2009, then increases at slightly under 3.0 percent per year through the outyears. This is due to the state cap on Medicaid costs to the city. The federal and state governments are both planning to make cuts to Medicaid which could have a further effect on the city's costs. Public Assistance is forecasted to decrease 3.5 percent over the life of the plan.

### **Uniformed Agency Overtime**

In "Uniformed Agency Expenses" beginning on page 9, we discussed the city's projection that the uniformed agency overtime budget in FY 2008 will remain at current spending levels of about \$685 million after increasing by \$69 million from adoption, though we project it to be over \$725 million. The city faced challenges in producing any tangible savings because of collective bargaining agreements and recruitment problems, though some agency program initiatives were proposed. The city has proposed savings of almost \$16 million in overtime in FY 2009. The city projects savings of \$7.5 million for uniformed personnel in the Sanitation Department, \$410,000 for the Fire Department, and a reimbursement of \$8 million to the Police Department from the federal government for security provided at the United Nations.

In the outyears of the financial plan, the city estimates that overtime expenses will likely increase from initial projections in the adopted plan by approximately \$35 million in FY 2009 and about \$40 million in each of FYs 2010 and 2011. As shown in Table 9, the city projects it will spend \$649 million in FY 2009, \$644 million in FY 2010, \$646 million in FY 2011, and \$647 million in FY 2012.

TABLE 9

<b>UNIFORMED OVERTIME BUDGET FOR FYs 2009-12</b>				
(\$ in millions)				
	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Police Department	\$313.3	\$307.7	\$307.6	\$307.6
Fire Department	209.5	207.0	205.1	205.1
Department of Correction	61.4	61.0	61.0	61.0
Department of Sanitation	64.7	68.0	72.2	73.3
City Budgeted Overtime	\$648.9	\$643.7	\$645.9	\$647.0
FCB Projected Overtime	725.5	725.5	725.5	725.5
<b>Under / (Over) Budget</b>	<b>(\$76.6)</b>	<b>(\$81.8)</b>	<b>(\$79.6)</b>	<b>(\$78.5)</b>

Based on actual overtime spending by the four agencies on both uniform and civilian personnel since the beginning of FY 2008, we are anticipating risks to the overtime budget in the outyears of the financial plan. We project an increased level of spending in all years of the financial plan with \$77 million more in FY 2009, \$82 million in FY 2010, \$80 million in FY 2011 and \$79 million in FY 2012, as shown in Table 9. The city historically underestimates its overtime budget at the beginning of each fiscal year and increases it with each budget modification based on the current level of spending. As this action occurs, the risk to the city is mitigated.

## Pension Costs

The cost of pension contributions to the city's retirement systems has been rising for the last several years and continues to increase as the costs associated with new labor contracts, changes in actuarial methods and assumptions, and the phase-in of investment losses suffered in prior years are accounted for. It is likely that the city will see even higher pension costs if economic conditions worsen.

In its FY 2008 Adopted Budget, the city had reported estimated pension costs (total funds) of \$5.7 billion in FY 2008, \$6.2 billion in FY 2009 and \$6.5 billion in each of FYs 2010 and 2011. As shown in Table 10, the city was able to reduce those pension cost estimates, mostly due to extraordinary investment gains in the November modification, by a net \$124 million in FY 2009, \$191 million in FY 2010, and \$115 million in FY 2011, while FY 2008 was expected to remain unchanged.

**TABLE 10** **ADOPTED TO JANUARY PLAN PENSION COST RECONCILIATION**  
(\$ in millions) (Total Funds)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Adopted Plan	\$5,727.5	\$6,389.6	\$6,508.7	\$6,519.3	—
Nov Plan Adjustment	—	(124.3)	(240.0)	(350.0)	—
Collective Bargaining	—	—	49.4	234.6	—
Final Nov Plan	\$5,727.5	\$6,265.3	\$6,318.1	\$6,403.9	\$6,500.5
Jan Plan Adjustment	21.6	(27.8)	233.5	145.4	51.9
Jan PEG Program	—	—	(15.5)	(19.3)	(7.5)
Final Jan Plan	\$5,749.1	\$6,237.5	\$6,536.1	\$6,530.0	\$6,544.9
Adopt to Jan Net Change	\$21.6	(\$152.1)	\$27.4	\$10.7	\$44.4

As the reconciliation table above details, collective bargaining agreements have impacted pension costs by making them higher. In FYs 2010 and 2011, labor agreements for city workers added \$49.4 million and \$234.6 million, respectively, to pension costs, which reduces the effects of investment gains (a major component of the November plan adjustment) that would have lowered the city's required pension contribution. Higher salaries and additional pension benefits impact pension costs because they increase retirement payments that employees receive in their retirement years. Those future liabilities equate to obligations today because they need to be funded in the present.

In the city's January modification, when compared to the adopted budget, pension costs are expected to rise moderately in most years but decline in FY 2009. As shown in Table 10, pension costs are projected to increase by \$22 million in FY 2008, and by \$27 million, \$11 million and \$44 million in FYs 2010–2012, respectively. In FY 2009, the city expects to save \$152 million. The savings of \$152 million in FY 2009 is a net allocation of funds made by the city to the pension systems which was pushed back to FY 2010. This allocation of funds by the city was for anticipated changes recommended by a recent independent audit of the pension systems, which to this date has not been fully recognized by the City Actuary.

Along with the expected savings of \$152 million in FY 2009, other changes in pension costs, which led to higher amounts in the other fiscal years of the financial plan, were due to budget adjustments. These budget adjustments are attributed to a new contract agreement made between the teachers' union and the city that required the recalculation of employee tiers and additional funding for retroactive pay. Also in the

teachers' contract was a newly negotiated retirement age, which made necessary additional funding from the city. On top of the new teachers' contract, the city also hired additional money managers to oversee pension assets which had increased significantly due to investment gains in FY 2007. Additionally, pension costs were mitigated somewhat by a reduction in city headcount. The city expects to achieve in FYs 2010 through 2012 headcount savings of \$15.5 million, \$19.3 million and \$7.5 million, respectively.

As shown in the Growth Table on page 22, after adjusting for intra-city and interfund agreements, pension costs are expected to grow over the financial plan but at a diminishing rate. For the plan period, FY 2008 to FY 2012, pension costs are anticipated to grow overall by 14 percent. On a year-to-year basis, we see growth of 8.7 percent between FYs 2008 and 2009, 4.9 percent between FYs 2009 and 2010, and from FY 2010 to FY 2012 costs remain relatively flat. The growth in pension costs, from FYs 2008 to FY 2010, are results of new labor agreements that require immediate funding. Nonetheless, pension cost growth over the financial plan is significantly lower than the other budgetary items in personal service, which are expected to grow at much higher rates.

After experiencing a robust annualized return in FY 2007 of 18.2 percent, the five major actuarially-funded New York City Retirement Systems (NYCRS) are likely to experience difficulty in just maintaining their required rate of return of eight percent in FY 2008. NYCRS has set an expected rate of return or Actuarial Interest Rate (AIR) of eight percent that it must meet in order to cover its liabilities. A return that exceeds eight percent is a realized investment gain, whereas a return that is under eight percent is considered an investment loss, which must be funded by the city. As recessionary pressures build and security markets fluctuate in response to worsening economic conditions, NYCRS investment return is likely to mirror market performance, which has been trending downward for most of this fiscal year. With about 70 percent of assets invested in equity securities here and abroad, it is likely that an investment loss, which is considered a return that is less than the required eight percent, will be realized by fiscal year end.

The city has reported that NYCRS had achieved an annualized investment return of only 2.47 percent in the first quarter of FY 2008.<sup>6</sup> The return of 2.47 percent is well below the required rate of return of eight percent. The current return estimates released for the period of June 30, 2007 to December 31, 2007 shows that the slide in the investment return continues. The current annualized return estimate is just 1.33 percent. Based upon this latest information and other market data, we believe that NYCRS investment return is likely to fall even lower.

The Dow Jones Industrial Average (DJIA), which is one of the most widely viewed measures of stock market performance and represents a broad indication of economic activity in a variety of business sectors, performed well in December, but with the new year, performance fell precipitously, even briefly falling below the 12000 level in January, as shown on Chart 3 on page 26. The current level in the DJIA is well below its

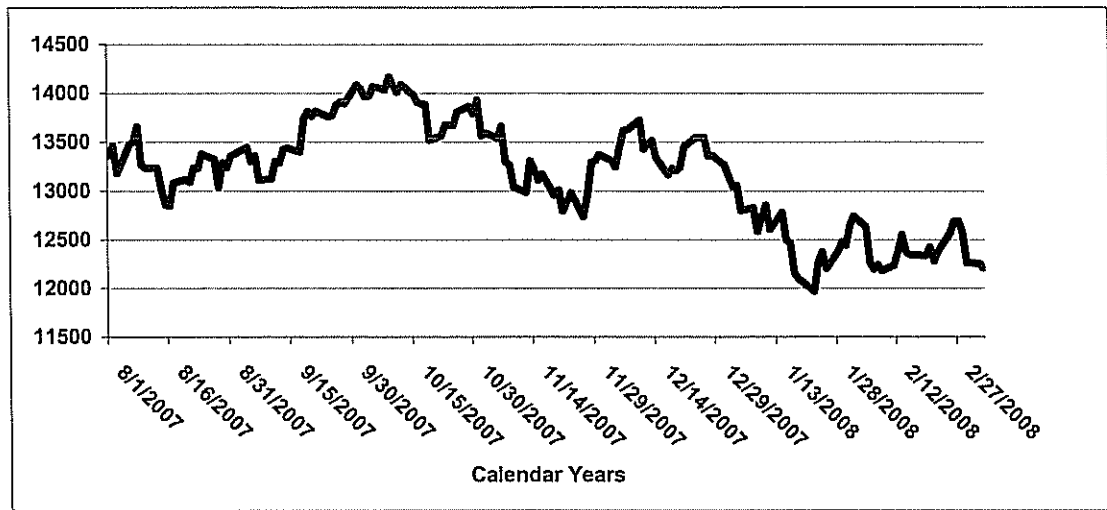
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<sup>6</sup> Reported in the December 2007 FCB Staff Report starting on page 21 under "Pension Costs."

historical peak of 14164 hit in October of last year. As of March 4, 2008 the DJIA has fallen by 14 percent from its peak to 12213. The DJIA has experienced a great deal of volatility as investors digested a steady flow of bad economic data. The strong pressure to move money into safer investments has pushed stock prices lower. The consensus in the financial community is that worsening economic conditions are to be expected. This is a strong indication that further declines in NYCRS investments have the potential to occur.

### DOW JONES INDUSTRIAL AVERAGE DAILY PERFORMANCE LEVEL

CHART 3



It was August of 2007 when news of the turmoil in subprime mortgages began to be publicized. The turmoil spread quickly throughout the United States and mostly all states suffered a collapse in their housing markets. It was discovered that the market for securities backed by subprime mortgages had become illiquid as the value of homes used as collateral for those securities fell rapidly in value. This caused the value of those securities to fall well below their expected market value. The condition worsened as a large swath of subprime mortgages defaulted and many homes went into foreclosure. The economic impact worsened further when major banks accounted for the loss of value in the asset-backed securities that they held on their balance sheets. The fear of cash constraints caused the credit market to seize up and a virtual halt in lending of capital developed.

The impact on the national economy and on the economies of state and local governments from this situation is significant. Large numbers of workers have lost their jobs and economic activity has substantially slowed. In response, the Federal Reserve Bank has pumped billions of dollars into the money supply to provide capital and has lowered the rate charged by banks for overnight lending to three percent to facilitate lending by banks. Additionally, the government has implemented a stimulus package aimed at the middle class to induce spending.

The federal government believes that the economic situation is only temporary. In the "Economic Report of the President" the administration takes a positive stance on the economy: "Real GDP posted solid 2.5 percent growth during the four quarters of

2007, similar to the pace of a year earlier. The Administration's forecast calls for the economic expansion to continue in 2008, but at a slower pace than in the earlier years of this expansion. Slower growth is anticipated for the first half of the year, and the average unemployment rate for 2008 is projected to move up from the 2007 level. In 2009 and 2010 real GDP growth is projected at 3 percent, thereafter slowing, while the unemployment rate is projected to remain stable and below 5 percent in the 2009–10 period.”<sup>7</sup> This projection could well be overly optimistic.

As mentioned earlier, NYCERS only achieved an annualized 2.47 percent investment return in the first quarter of FY 2008. Currently, there is substantial volatility in the markets, as shown in the DJIA chart, and much of the gains achieved in the markets in recent months have been given back. There is also doubt as to what direction the economy will travel in as it faces a myriad of problems. Most obvious is that worsening economic conditions, which will greatly impact securities markets, will affect how the pension systems perform in the remainder of the fiscal year.

TABLE 11

**ESTIMATED FY 2008 INVESTMENT LOSS (6/30/07 to 12/31/07 RETURNS)**

(\$ in millions)

	FY 07 Market Value	FY 08 Market Value	FY 08 Asset Return	% Loss Under 8% AIR	Loss on Assets
NYCERS	\$42,240	\$42,945	1.67%	(6.33%)	(\$1,523)
BERS	2,500	2,548	1.93%	(6.07%)	(148)
TRS	38,100	38,241	0.37%	(7.63%)	(2,882)
POLICE	21,900	22,395	2.26%	(5.74%)	(1,285)
FIRE	7,300	7,404	1.43%	(6.57%)	(486)
<b>Totals</b>	<b>\$112,040</b>	<b>\$113,533</b>			<b>(\$6,324)</b>

In the December 2007 Staff Report, we discussed how the city would be obligated to fund losses caused by a return that was less than the required eight percent. Then, NYCERS was experiencing a loss of 5.53 percent. That figure was based on an annualized return of 2.47 percent. The loss equated to nearly \$5.3 billion. For the period of June 30, 2007 to December 31, 2007, NYCERS annualized investment return was just 1.33 percent. The lower return on investments will have a larger impact on pension costs. If the current return were to remain the same for the entire fiscal year, the loss in assets would rise to \$6.3 billion or more than \$1 billion more than previously reported, based upon an annualized investment loss of 6.67 percent.

We project, based on this data, that the city would see its pension contributions increase over the six-year phase-in period. For FY 2010 the city would be responsible for about (based on a six year cumulative phase-in) \$95 million in additional pension expense or \$16 million more than if the city had experienced an investment loss of 2.47 percent. That figure will grow to approximately \$190 million in FY 2011, \$285 million in FY 2012, \$380 million in FY 2013, \$506 million in FY 2014, and \$633 million in FY 2015. It

<sup>7</sup> Economic Report of the President transmitted to the Congress February 2008 page 26.



should be noted that the full impact of the loss is not taking into account the phase-in of investment gains or losses in prior years which will affect its magnitude.

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

In 2004, the Governmental Accounting Standards Board (GASB) established a set of rules that detailed the reporting of Other Post-Employment Benefits (OPEB), which includes post-employment healthcare costs and other forms of post-employment benefits. The rules are for financial reporting and disclosure only and the city is under no obligation to fund the future cost of the benefits.<sup>8</sup> In response to GASB 43 (*Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans-Issued 4/04*) and GASB 45 (*Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions-Issued 6/04*), the city established the Retiree Health Benefits Trust Fund (RHBT) in FY 2006 with \$1 billion and added an additional \$1.5 billion in FY 2007.

In creating the trust fund, the city took the step of recognizing the accrued liability component of the present value of all future post-employment healthcare benefit payments by recognizing \$53.5 billion on its books in FY 2006 as an addition to its long-term liabilities. This has no cash flow consequence for the city's budget since the liability is not required to be funded.

The figure to the right shows the annual OPEB cost for FYs 2006 and 2007. The city recognized an annual OPEB cost of \$55.7 billion in FY 2006. In addition to the \$1 billion allocated to the trust fund, the city expensed about \$1.2 billion for healthcare benefits. With those deductions, the net OPEB liability was \$53.5 billion. The annual OPEB cost in FY 2007 totaled nearly

OPEB Cost FYs 06 to 07 (\$ millions)	
Annual OPEB Cost FY 06	\$55,690
Total City Payments	2,183
OPEB Liability FY 06	\$53,507
Annual OPEB Cost FY 07	7,165
Total City Payments	2,910
OPEB Liability FY 07	\$57,762
Net Increase	\$4,254

\$7.2 billion, a combination of accrued interest on liabilities and the normal contribution the city would have been obligated to pay. That figure was offset by a \$1.5 billion payment to the trust fund and healthcare benefit payments of about \$1.4 billion. This leaves an unfunded net increase in the OPEB cost totaling more than \$4.2 billion.

The OPEB liability will grow substantially going forward as interest compounds and the cost of healthcare increases. Though the city took the fiscally prudent step of creating the trust fund and realizing the OPEB liability, the financial plan does not call for any additional contributions to the trust fund to keep up with the growing liability.

### **Medicaid**

In the January modification, the city forecasts Medicaid expenditures to increase from \$5.6 billion in FY 2009 to over \$6 billion in FY 2012. The city anticipates average

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<sup>8</sup> The Governmental Accounting Standards Board (GASB) was created in 1984 as an independent, professional body to establish standards of accounting and financial reporting applicable to state and local governmental entities. GASB standards are officially recognized as authoritative by the American Institute of Certified Public Accountants and by many laws and regulations that apply to state and local governments ([www.gasb.org](http://www.gasb.org)).

annual growth at around three percent for FYs 2010 through 2012. This is approximately the percent increase the city and state anticipated under the state's cap initiative which capped 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 2007 and three percent thereafter.

### **Fringe Benefit Costs**

Fringe benefit costs continue to represent the most volatile and growing expense in the city's Personal Service budget. They are increasing not due to added benefits but mainly due to the escalating underlying costs of health insurance. In the January modification, spending on fringe benefits is forecast to increase by almost 23 percent, from over \$6.5 billion in FY 2009 to just over \$8 billion in FY 2012, as shown in Table 12. The city anticipates average annual growth of over seven percent for FYs 2009 through 2012. This growth represents more than three times the current inflation rate during the same time frame. Meanwhile, the percentage of fringe benefit costs to the city's total expense budget remains high at an annual average of 11 percent.

As shown in Table 12, fringe benefits consist of several major components, the largest and most important of which continues to be health insurance. It accounts for well over half of the overall spending on fringe benefits. With the exception of Worker's Compensation, all other components in fringe benefits are forecast to grow at a much slower rate than health insurance. Supplemental welfare benefit costs (which reflect supplemental payments to the unions' welfare funds) are projected to increase at an average annual growth rate of over four percent and averages 15 percent of the fringe benefits total budget. Federal Insurance Contributions Act (FICA) and Social Security average annual growth rate is close to five percent and consumes around 23 percent of the fringe benefits total budget. Worker's Compensation costs are projected to increase at an average annual growth rate of over nine percent but represent only around three percent of the fringe benefits total budget.

**TABLE 12** **FRINGE BENEFIT EXPENDITURES GROWTH BETWEEN FYs 2009 and 2012**  
(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Health Insurance	\$3,529	\$3,868	\$4,238	\$4,575
Supplemental Welfare Benefit	1,015	1,067	1,115	1,156
FICA and Social Security	1,568	1,655	1,729	1,794
Worker's Compensation	220	241	265	289
Unemployment Insurance	41	42	44	46
Miscellaneous	169	170	172	172
<b>Total</b>	<b>\$6,542</b>	<b>\$7,043</b>	<b>\$7,563</b>	<b>\$8,032</b>

### **Health Insurance Costs**

As mentioned earlier, the most important component of fringe benefits, and the main cause of growth in this expense area in recent years, is the cost of health insurance. In fact, health insurance costs range between 54 percent and 57 percent of the total fringe benefits budget. In the January modification, between FYs 2009 and 2012 the city is

forecasting health insurance costs to increase by 30 percent, from over \$3.5 billion to close to \$4.6 billion, respectively. This represents an average annual growth rate of approximately nine percent during this period. Meanwhile, when compared to the total city expense budget, health insurance costs hover around six percent in any given year in FYs 2009-12.

The rise in health insurance costs can be mainly attributed to the increase in premiums set by the Health Insurance Plan (HIP), which statutorily drives the city's liability. The new premiums rate starting in FY 2009 is 9.43 percent. Recent years' rates were 9.36 percent in FY 2008, 8.65 percent in FY 2007, and 8.74 percent in FY 2006. Health insurance estimates reflect current levels of coverage based on the latest population and premium data available from the city's health insurance providers. In an effort to address escalating health insurance costs, the city intends to work collaboratively with its municipal unions to restructure the health insurance program. While there is no clear plan mapped out as of yet, the overall goal is to save \$200 million per year commencing in 2009 while providing an equal or better benefit package.

### **Energy**

Due to volatile oil prices, rising transmission and delivery charges, power plant closures, and production charges for electricity, energy expenditures increase over the life of the plan. In the January modification, the city's energy expenses are forecasted to increase from \$890 million in FY 2009 to \$999 million in FY 2012, as shown in Table 13. This represents an increase of just over 12 percent. The city anticipates average annual growth of close to four percent for FYs 2010 through 2012.

**TABLE 13** **ENERGY COSTS FY 2009 THROUGH FY 2012**  
(\$ in millions)

<b>January Modification</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Energy Costs	\$890	\$964	\$995	\$999
Year-to-Year Change	-	74	31	4
Percentage Annual Growth	-	8.3%	3.2%	0.4%

The explanation of year to year increases are as follows: a \$74 million increase, or more than eight percent between FY 2009 and FY 2010 can be attributed to \$25 million in costs for New York Power Authority (NYPA) production charges, \$23 million are costs relating to the retirement of the Poletti Power Plant, and \$26 million in costs are associated with the inflator, which represents forecasted price increases in energy by Global Insight, an economic forecasting firm. The \$31 million increase, or over three percent between FY 2010 and FY 2011 is mainly due to \$22 million related to the Poletti Power Plan closing and \$9 million in costs associated with the inflator. The increase of \$4 million between FY 2011 and FY 2012 is related to the inflator costs.

### **Department of Education**

The school aid proposed in the state executive budget would be \$350 million less than the city planned for in its financial plan. The state will provide the city with \$179 million in Academic Achievement Grants. Of these grants \$100 million is normally used for incremental building aid while \$79 million is normally used for transportation costs. However, to the extent these funds are not needed for these purposes, the state proposes

to allow the Department of Education (DOE) to use these funds for operating costs. The city contends that all of the \$100 million in aid should continue to be used to support the capital program as opposed to offsetting operating reductions. The city has requested that the state legislature restore funds to the DOE without resorting to the use of building aid. Until adoption of the state budget, the amount of state education funding to the city will remain uncertain.

In the outyears, the DOE's budget is projected to rise from \$17.8 billion in FY 2009 to \$20.3 billion in FY 2012. However, due to the city's agency program, there will be a reduction in city funds of slightly over \$324 million in FY 2009. A significant portion of this savings is expected to be realized, as in FY 2008, through school level under spending as a result of late hiring decisions and restrained purchasing. This under spending is expected to continue through the life of the plan, with savings of \$127 million in FY 2010, \$125 million in FY 2011 and \$113 million in FY 2012.

Additional savings are projected to be generated as a result of the new age and experience retirement policy known as the 55/25 Program, which was approved by the state legislature and the Governor in February 2008. This agreement between the city and The United Federation of Teachers (UFT) will enable current members in Tiers II, III and IV who opt-in to the plan, to leave the DOE with 25 years of service and still begin collecting an unreduced pension at age 55.<sup>9</sup> This projected savings is \$43 million in FY 2009, \$69 million in FY 2010, \$88 million in FY 2011, and \$101 million in FY 2012.

The FY 2012 DOE budget of \$20.3 billion is comprised of \$8.4 billion or 41 percent in city funds, state aid of almost \$10 billion or 49 percent and federal funds of \$1.9 billion or nine percent, as well as \$9 million in intra-city funds and \$48 million in other categorical funds.

### **FYs 2008 and 2009 Agency Program**

In November 2007, the Office of Management and Budget (OMB) requested that all city agencies submit an expense reduction program for city-funded expenses of 2.5 percent in FY 2008 and five percent in FY 2009. The final reductions are \$543 million, or 2.7 percent in FY 2008, and \$885 million, or 4.3 percent in FY 2009. As shown in Table 14 on page 32, the FY 2008 program consists of \$458 million in expense reductions and \$85 million in increased revenues. Of these amounts approximately \$462 million or 85 percent are of a recurring nature. The FY 2009 agency program consists of over \$808 million in expense reductions and almost \$77 million in increased revenues. Of these amounts approximately \$722 million or 82 percent are of a recurring nature. On March 4, 2008 OMB requested that all city agencies submit an additional three percent expense reduction program for FY 2009. The Mayor will include specific proposals in the executive budget and expects to realize \$500 million in savings.

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<sup>9</sup> Under the current law, teachers who are members of Tiers III and IV with a minimum of five years of service and are 62 or older, or 55 with 30 years of service can retire with an unreduced pension.

In FY 2008, the Department of Education has the largest amount of savings with \$180 million. These savings are spread across 14 individual initiatives. Among the largest savings is approximately \$99 million realized through school level under spending. An additional \$7.7 million is saved due to a hiring freeze and vacancy reduction program. A combination of transportation, maintenance and facilities efficiencies will save \$7.5 million. The largest reductions in FY 2009 are also being provided by the Department of Education at over \$324 million. All of the FY 2008 initiatives are continued in the FY 2009 program with the addition of three new ones. Purchasing efficiencies for various commodities are expected to yield \$23 million. Adjustments made to the Lead Teachers program will save central administration \$10 million and efficiencies in food procurement will produce an expense reduction of \$5 million.

#### THE CITY'S FY 2008 AND FY 2009 AGENCY PROGRAM

TABLE 14 (\$ in millions)

<u>Department</u>	<u>FY 2008</u>		<u>FY 2009</u>	
	<u>Expenditures</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Revenues</u>
Education	(\$180.1)	---	(\$324.3)	---
Police	(33.8)	---	(95.6)	---
Social Services	(75.9)	---	(21.0)	---
Sanitation	(31.0)	(6.5)	(44.8)	(8.9)
Children's Services	(21.8)	---	(37.3)	---
Fire	(17.3)	(2.5)	(18.8)	(4.2)
Transportation	(0.4)	(17.4)	(11.4)	(8.9)
Health & Mental Hygiene	(12.0)	(5.0)	(14.1)	(5.8)
Homeless Services	(10.6)	---	(15.6)	---
Citywide Services	(0.5)	(8.8)	(4.0)	(7.9)
Finance	(0.4)	(8.6)	(4.4)	(10.5)
Parks & Recreation	(1.9)	---	(5.0)	(10.8)
Correction	(4.1)	(1.0)	(12.7)	---
Health & Hospitals	---	(10.1)	---	---
Procurement Savings	---	---	(55.5)	---
Other Agencies	(68.4)	(25.0)	(143.6)	(19.7)
<b>Total</b>	<b>(\$458.2)</b>	<b>(\$85.0)</b>	<b>(\$808.1)</b>	<b>(\$76.7)</b>

Note: Negative numbers represent a reduction in the city's budget gap.

The Police Department plans to reduce expenses by almost \$34 million in FY 2008 of which over \$14 million will be realized by uniformed salary savings that reflect recent uniform hiring trends resulting in a uniformed average headcount of 35,927 and a funded peak of 36,838. In FY 2009, the Department projects over \$95 million in expense reductions of which \$37 million reflects the hiring trend savings begun in FY 2008. An additional \$36 million will be realized due to a higher than expected retirement rate causing officers making over \$60,000 per annum to be replaced by officers at the \$25,000 per annum starting salary.

Expense reductions in Social Services in FY 2008 are almost \$76 million in FY 2008. Of this amount, approximately \$47 million is in payments received from New York State for administrative cost containment activities in prior years. A change in New York State's federal Food Stamp Employment and Training (FSET) plan will allow the city to claim FSET funding for Safety-Net Time Limit clients. A reimbursement of \$27.5 million, retroactive to 2006, is anticipated in the current year. In FY 2009, social

services project \$21 million in reductions of which \$10 million will be due to the change in the FSET plan. An additional \$8.4 million will be saved because of a Cash Assistance re-estimate based on projected expenditure and caseload declines.

The Department of Sanitation plans to reduce expenses by \$31 million in FY 2008. Of this amount \$13 million is in uniformed salary savings from a higher than anticipated attrition rate and lower salaries for new sanitation workers. On the revenue side, the Department will generate \$4.6 million from various processors and the sale of recycled newspapers and bulk materials. In FY 2009 the Department expects about \$45 million in expense reductions as well as almost \$9 million in increased revenues. As in FY 2008 the Department will continue to experience a higher rate of attrition than expected, which will save over \$16 million due to the lower starting salaries of new employees. Despite the high attrition rate, the Department is continuing to maintain its budgeted headcount through aggressive hiring, which will cause an overtime surplus of \$5 million in FY 2009. On the revenue side, the Department will receive increased revenues of \$1 million as a result of higher marine transfer station and relay fees charged for the transportation of paper to the Visy Paper Staten Island recycling plant.

The Administration for Children's Services (ACS) is forecasting expense reductions of almost \$22 million in FY 2008 of which \$9 million will be realized due to the fact that tuition expenses for foster children placed outside of New York City have declined because of fewer placements in congregate foster care settings. Another \$7.3 million are savings from the phase-in of new hires for child protective case workers. In FY 2009, ACS expects to save over \$37 million. The lower tuition for foster children is responsible for \$20 million of this savings. The Fire Department will save over \$17.3 million in expenditures in FY 2008 of which \$14.7 million will be due to EMS collecting more fees than previously planned. An additional \$14.7 million in EMS fees will make up most of the \$18.8 million in FY 2009 expenditure savings. The Department also forecasts \$4.2 million in additional revenues in FY 2009. Over half this amount or \$3.4 million is based on improvements in the Hi-Rise, Suppression and Rangehood Units of the Fire Prevention Bureau.

In FY 2008, over \$68.4 million in expense reductions and \$25 million in revenue increases will be spread across a number of city agencies. In FY 2009, various procurement savings are expected totaling over \$55 million, and \$143.6 million in expense reductions and \$19.7 million in revenue increases, which are spread over a number of city agencies.

## **RISKS AND OFFSETS**

Our evaluation of the city's financial plan is shown in Table 3 on page 5. We estimate that uniformed overtime costs, based on our analysis and on historical growth rates, will exceed what the city has budgeted by \$41 million in FY 2008, by \$77 million in FY 2009, \$82 million in FY 2010, and \$80 million and \$79 million in FYs 2011 and 2012, respectively. As a potential offset to this risk in FY 2008 we project increased tax revenues of \$200 million due to a delayed realization of the predicted business slowdown. This could be followed by an equivalent \$200 million reduction in each of FYs 2009 and 2010 tax collections. Based on historical patterns of growth, we project

miscellaneous revenue to be higher by \$75 million in FY 2008, and \$150 million in each of FYs 2009-2012.

The city hopes to achieve health insurance savings of \$200 million beginning in FY 2009 and continuing throughout the life of the plan. Negotiations are just beginning with the Municipal Labor Council, thus there are no details available as to how these savings will be realized. In the 2008-09 Executive Budget the state is proposing to partially restore funds provided to the city through the Aid and Incentives to Municipalities (AIM) program, this partial restoration is \$164 million less than the city has received in the past. The state financial plan assumes full restoration of the city's AIM funding beginning in FY 2009, however future funding of this program is subject to annual appropriations. The state executive budget contains proposals relating to juvenile justice and restructuring Medicaid rates, which the city believes will impact its budget. Until a state budget is enacted, the effect on the city is uncertain. The city also projects increased federal and state aid of \$100 million in each of FYs 2009 through 2012. Though the city has an agenda of federal and state programs, which could provide these funds their receipt remains uncertain.

We now estimate that the city will have a budget surplus of \$70 million in FY 2008, and gaps of \$427 million in FY 2009, \$4.7 billion in FY 2010, \$5.8 billion in FY 2011 and \$5.6 billion in FY 2012.

## **DEBT SERVICE COSTS**

A major contributing factor to the city's projected budget deficit in the outyears of the financial plan is rising debt service costs. The debt service costs are generated mainly from general obligation (g.o.) bonds sold by the city and tax revenue bonds sold by the New York City Transitional Finance Authority (NYCTFA) to support the city's capital program.<sup>10</sup> As illustrated in Table 15, debt service costs paid from the city's tax revenues are projected to grow by 49 percent between FYs 2008 and 2012, hovering at \$4.5 billion in FY 2008, \$4.6 billion in FY 2009, \$5.0 billion in FY 2010, then climbing to \$6.1 billion in FY 2011 and \$6.7 billion in FY 2012, years in which the city forecasts large budget deficits. As a percentage of tax revenues, debt service costs, net of prepayments, are expected to rise incrementally from 12.2 percent in FY 2008 to 15.9 percent in FY 2012.

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<sup>10</sup> The debt service costs on g.o. debt are paid from real estate taxes, while the debt service costs on NYCTFA debt are secured by personal income tax and sales tax revenues. Separately, the NYCTFA is also authorized to sell bonds to support the city's education capital program, which are secured by state building aid for the city.

## DEBT SERVICE IS PROJECTED TO ABSORB A GROWING SHARE OF TAX REVENUES

TABLE 15 (\$ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Growth Rate FYs 2008-12
City and NYCTFA Debt Service	\$4,498	\$4,626	\$4,967	\$6,104	\$6,697	48.9%
Tax Revenues	\$36,936	\$35,975	\$38,102	\$40,161	\$42,218	14.3%
Debt Service Burden	12.2%	12.9%	13.0%	15.2%	15.9%	

The current financial plan assumes that g.o. debt will be the only source of future capital financing secured by tax revenues as the NYCTFA has exhausted its debt capacity. Moreover, the city has eliminated from its operating budget \$900 million of pay-as-you-go capital financing for FYs 2008-12 as one of the ways it chooses to reduce the looming operating budget gaps. Simultaneously, the sale of g.o. bonds is projected to increase to reflect a more costly capital program and replacement of the pay-as-you-go financing.

Nevertheless, compared to estimates in the prior plan, there is a net reduction in debt service costs in each of FYs 2008-12. Plan-to-plan, projected debt service costs have decreased by \$44 million in FY 2008, \$76 million in FY 2009, \$74 million in FY 2010, \$47 million in FY 2011 and \$8 million in FY 2012 primarily resulting from interest rate savings. Specifically, the interest costs on bonds that have been sold thus far in FY 2008 are lower than previously forecasted, and projections for near-term interest rates have been reduced to more closely match current market rates.

Since release of the current financial plan, however, the city has seen an uptick in interest costs for FY 2008 due to a marketwide spike in interest rates on auction rate securities. The city has announced its plans to refinance more than half of its auction rate securities. The city is attempting to further minimize its debt service costs by seeking additional capacity for the NYCTFA to issue bonds to support the capital program, since the NYCTFA credit has proven to be less expensive relative to city g.o.

### Interest Savings from NYCTFA Bonds

The city is attempting to achieve additional interest savings on its capital financing through state legislation that would allow the NYCTFA to continue to sell bonds for general capital purposes. The city's capital financing program secured by tax revenues calls for the sale of \$28.5 billion of g.o. bonds during FYs 2008-12. Currently, the NYCTFA is not slated to sell additional tax revenue bonds for the city's capital program because it exhausted its statutory debt capacity in FY 2007. The city reasons, however, that the NYCTFA should be allowed to continue to sell bonds to support the capital program given that interest costs on NYCTFA bonds are lower than on g.o. bonds. The city projects that it can save \$14 million in FY 2009, \$24 million in FY 2010 and \$35 million in FY 2011 by substituting NYCTFA bonds for g.o. bonds.

To this end, the Governor has introduced legislation that raises the NYCTFA debt limit from \$13.5 billion of bond issuances to \$13.5 billion of debt outstanding, which would allow the NYCTFA to continue to sell bonds as it retires existing debt.

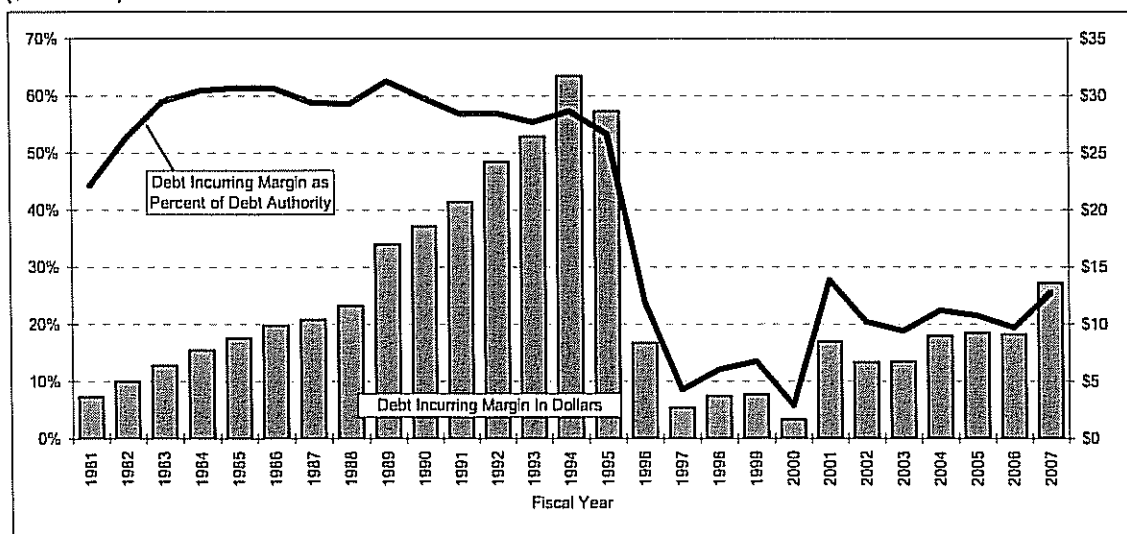


Moreover, the legislation permits the NYCTFA to exceed this limit if the additional amount at issuance together with the amount of city g.o. indebtedness does not exceed the existing constitutional debt limit for g.o. bonds, which is ten percent of the five-year average of the full value of taxable city real property.

Originally, the NYCTFA was created by the state legislature with the expectation that its power to sell bonds for new capital projects would expire with the enactment of an anticipated constitutional amendment to change the methodology used to calculate the city's g.o. debt limit. Initially, the NYCTFA was permitted to sell \$7.5 billion of bonds secured by the city's personal income tax and sales tax revenues at a time when the city had virtually exhausted its capacity to enter into new capital contracts under the constitutional debt limit for g.o. bonds. Since then, the state has not amended the constitution to augment the g.o. debt limit, but instead increased incrementally the NYCTFA's bonding authority to \$13.5 billion. As it stands, the city has a sizable g.o. debt incurring margin, which minimizes the urgency for a constitutional amendment to the debt limit.

Chart 4 illustrates the dynamics of the city's debt capacity over time. As can be seen, there was a sharp decline in the g.o. debt incurring margin from FY 1995 to FY 1996 that continued through FY 1997. This evaporation of the debt capacity was mainly the result of a rapid growth in outstanding debt as well as a correction to overstated estimates of the full value of real estate. In response, the NYCTFA was created in 1997 and authorized to sell \$7.5 billion of bonds. In FY 2000, when the remaining g.o. debt incurring margin fell further, the bonding authority of the NYCTFA was increased to \$11.5 billion. The unused g.o. debt authority has trended up since FY 2000 as real estate values rose. Meanwhile, the NYCTFA exhausted its debt capacity in FY 2004. Subsequently, the bonding authority for the NYCTFA was augmented by an additional \$2 billion to allow for the substitution of g.o. debt with less costly NYCTFA debt, all of which was consumed in FY 2007.

**CHART 4** THE DYNAMIC DEVELOPMENT OF THE CITY'S DEBT CAPACITY OVER TIME  
(\$ in billions)



While the NYCTFA has reached its current debt ceiling with the issuance of \$13.5 billion of tax revenue bonds for general capital purposes, only \$11.2 billion of these bonds will be outstanding at the end of FY 2008. Under the proposed legislation that sets the limit for NYCTFA debt at \$13.5 billion outstanding, the NYCTFA would have an additional debt incurring margin of \$2.3 billion in the current fiscal year. Beyond FY 2008, the NYCTFA could continue selling bonds to replace existing debt that matures.

The proposed legislation also would allow the NYCTFA to tap into unused g.o. debt capacity, which was determined in the Report of the City Comptroller for FY 2007 to be \$20.6 billion at the beginning of FY 2008 and is expected to remain at roughly \$20 billion in each year of the plan based on current capital program assumptions. The financial plan assumes that the city will sell \$3.7 billion of g.o. bonds in FY 2008, \$5.1 billion in FY 2009, \$7 billion in FY 2010, \$6.9 billion in FY 2011 and \$5.9 billion in FY 2012 to support its capital program. The city wants to replace a portion of the g.o. bond sales with NYCTFA bond sales to take advantage of the lower interest costs for NYCTFA bonds relative to g.o. bonds.

The interest advantage stems from the fact that NYCTFA bonds are in great demand by many investors in New York City debt who are up against the limit of g.o. bonds they may carry, and from the higher credit rating assigned to the NYCTFA bonds. Specifically, the amount of g.o. debt outstanding far exceeds the amount of NYCTFA debt outstanding. Based on the current financing program, the city will have \$36.4 billion of g.o. bonds outstanding at the end of FY 2008, more than triple the \$11.2 billion of NYCTFA bonds outstanding. By FY 2012, the ratio is greater than five times, with outstanding g.o. debt at \$53.7 billion and NYCTFA debt at \$10 billion, based on the assumption that the NYCTFA does not issue additional tax secured bonds. Also, the NYCTFA enjoys higher bond ratings of AAA by the Standard and Poor's Corporation, AA+ by Fitch Ratings, and Aa1 and Aa2 by Moody's Investors Service, compared to the ratings for g.o. bonds at AA by Standard and Poor's, AA- by Fitch and Aa3 by Moody's.

According to the city, the proposed legislation to add NYCTFA bonds to the existing debt ceiling for g.o. bonds "does not increase the hard cap debt limit for the city." The fact of the matter is that there will be two separate debt limits: the constitutional ceiling that applies only to g.o. bonds and the proposed statutory ceiling that would cover combined g.o. and NYCTFA bonds. Theoretically, if the proposed statutory debt limit is reached with the sale of additional NYCTFA bonds, the city could still issue g.o. bonds under the constitutional debt limit since that limit does not include NYCTFA bonds. This effectively increases overall bonding capacity for the city's capital program and illustrates the need for a debt policy that determines, among other thresholds, a meaningful upper limit for the amount of tax supported debt permitted to be outstanding.

The NYCTFA has an additional \$9.4 billion of debt capacity to be used solely to fund education capital projects. The bonds, Building Aid Revenue Bonds or BARBs, are secured by state building aid payable to the city and assigned to the NYCTFA. The NYCTFA sold \$1.3 billion of these bonds in FY 2007 and assumes selling another \$3.5 billion of these bonds during FYs 2008-10. The debt service costs on the \$1.3 billion of bonds sold to date are relatively level, ranging from \$81 million in FY 2008 to \$85 million in FY 2012. The debt service costs on the combined \$4.8 billion of BARBs that were and

are expected to be sold through FY 2010 are projected to be \$172 million in FY 2008, \$283 million in FY 2009, \$350 million in FY 2010, \$358 million in FY 2011 and \$360 million in FY 2012. The city estimates that state building aid will total \$635 million in FY 2008, \$717 million in FY 2009, \$808 million in FY 2010, \$836 million in FY 2011 and \$839 million in FY 2012 based on the current five-year capital plan for the Department of Education. The annual building aid that exceeds the debt service costs on the BARBs will be directed to the city's operating budget.

The Governor in his recent Executive Budget has proposed providing building aid to the city on a schedule that is slower than in past years. Effectively, this new schedule would defer payment of approximately \$100 million of aid projected for FY 2009 by 18 months. The proposal calls for building aid payments to the city to follow a schedule similar to all other school districts within New York State where the first of a stream of payments for a project occurs 18 months after the request is approved. Currently, the city begins receiving building aid upon approval of its projects. However, the city submits its request for building aid much further along the process of letting a contract than other localities. The city's financial plan does not reflect this state proposal of an 18-month freeze on newly approved building aid. Given the high debt service coverage, a deferral of \$100 million of state building aid from FY 2009 will reduce the amount of funds available to the city for its operating budget but will not affect payment on the BARBs.

### **Volatility of Variable Rate Debt**

In managing their debt service costs, both the city and the NYCTFA have issued a mix of fixed and variable rate debt. Interest rates on variable rate debt can be considerably lower than on fixed rates. The city's debt service projections assume interest rate savings ranging from one percent to 2.75 percent on variable rate bonds relative to fixed rate bonds. However, interest rates on variable rate securities, given their very nature, fluctuate and can climb above fixed rates. Given this risk, there is a legal limit on how much debt the city and the NYCTFA can hold in variable rate modes.

Of the city's \$36.4 billion of g.o. bonds outstanding, \$7.2 billion are in the form of variable rate securities. The NYCTFA is carrying \$1.4 billion of its \$11.2 billion of outstanding debt as variable rate securities. Legally, the amount of variable rate debt that the city and the NYCTFA each may carry cannot exceed 20 percent of their individual debt authority. In FY 2008, the variable rate debt margin is \$4.8 billion on g.o. bonds and \$1.3 billion on NYCTFA bonds.

For both the city and the NYCTFA, a portion of their variable rate debt was issued as auction rate securities (ARS). Presently, the city has outstanding approximately \$2.1 billion of ARS and the NYCTFA \$200 million. The market for ARS has become volatile over the past month.

ARS are debt instruments with long-term maturity dates whose interest rates are set periodically, typically weekly or monthly, by an auction. Normally, the auction rates fall a little below short-term rates. ARS have been considered liquid because holders could sell their securities at auction, providing there are bidders. However, during the month of February, the market for ARS broke down—supply exceeded demand at

auctions marketwide. The market breakdown reflects the credit rating problem that many municipal bond insurers are experiencing, given that ARS are usually insured. Investors became concerned that troubled bond insurers may no longer have adequate liquidity and that there is no mandatory tender option on the bonds they hold. This concern led to diminished demand for the instruments and to investors trying to get rid of the ARS they held. The shortfall in demand is independent of the creditworthiness of the issuers of ARS.

When the supply of ARS exceeds demand, the auction fails. For a failed auction, the issuer is required to pay a predetermined maximum interest rate on the securities until the next successful auction. A maximum interest rate is set at the time the securities are issued and is either derived by formula or set at an above market rate.

The city has been affected by this marketwide breakdown and has had to pay a premium on a substantial portion of its g.o. ARS. Approximately half of the city's ARS have set maximum rates that are pegged to short-term indices, while the other half have fixed maximum rates of up to 12 percent. On average, the market breakdown increased the interest rates on the ARS by several percentage points. Every one percent interest rate on \$2.1 billion of ARS costs the city \$21 million annually or approximately \$400,000 on a weekly basis.

The city has announced its plans to refinance approximately \$1.3 billion of ARS and \$140 million of FGIC-insured variable rate demand bonds with a mix of fixed rate bonds and approximately \$1.3 billion of uninsured variable rate bonds. The city expects to close on the transactions on or about April 1.

## **Glossary of Acronyms**

<b>AIM</b>	Aid and Incentives to Municipalities
<b>AIR</b>	Actuarial Interest Rate
<b>ARS</b>	Auction Rate Securities
<b>ACS</b>	Administration for Children's Services
<b>BARBs</b>	Building Aid Revenue Bonds
<b>BERS</b>	Board of Education Retirement System
<b>BSA</b>	Budget Stabilization Account
<b>CY</b>	Calendar Year
<b>DJIA</b>	Dow Jones Industrial Average
<b>DOE</b>	Department of Education
<b>EMS</b>	Emergency Medical Service
<b>FCB</b>	Financial Control Board
<b>FGIC</b>	Financial Guaranty Insurance Company
<b>FICA</b>	Federal Insurance Contributions Act
<b>FSET</b>	Food Stamp Employment and Training
<b>FY</b>	Fiscal Year
<b>GASB</b>	Governmental Accounting Standards Board
<b>GCP</b>	Gross City Product
<b>GDP</b>	Gross Domestic Product
<b>G.O. Bonds</b>	General Obligation Bonds
<b>HIP</b>	Health Insurance Plan
<b>HMO</b>	Health Maintenance Organization
<b>NYCRS</b>	New York City Retirement Systems
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYPA</b>	New York Power Authority
<b>OMB</b>	Office of Management and Budget
<b>OPEB</b>	Other Post-Employment Benefits

<b>OT</b>	Overtime
<b>OTPS</b>	Other than Personal Service
<b>PEG</b>	Program to Eliminate the GAP
<b>PIT</b>	Personal Income Tax
<b>PS</b>	Personal Service
<b>RHBT</b>	Retiree Health Benefits Trust Fund
<b>STAR</b>	School Tax Relief Program
<b>TRS</b>	Teachers' Retirement System
<b>UFT</b>	United Federation of Teachers