

Staff Report  
**REVIEW OF FY 2008**  
June 5, 2008

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

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## I. Overview

At the beginning of FY 2008, we reported that the budget would be balanced largely due to the extraordinary tax collections of FY 2007 that enabled the city to prepay \$4.7 billion in FY 2008 expenses. The economy, however, was showing mixed signals and there were indications that the boom years were about to end.

As the year progressed and the subprime mortgage crisis started to impact Wall Street, the city wisely took proactive measures to minimize the risk to the budget. Throughout the year, the city lowered its tax revenue estimates, expecting that the impact of the downturn in the national economy would come in late FY 2008. The Mayor also announced an agency reduction program that would start in FY 2008 and continue in order to help balance the FY 2009 budget. These programs are expected to ultimately reduce expenditures by \$618 million in FY 2008, and over \$1.3 billion in FY 2009.

As FY 2008 comes to a close, the economic downturn has not yet had the major negative impact on tax revenues that we expected. In particular, the personal income, the unincorporated business, and sales taxes came in very strong in March and April. These strong collections are the result of the economic strength of 2007. It is expected that as FY 2009 starts the pace of tax collections will slow. In fact, there have been large adjustments downward in the general corporation tax and the mortgage recording tax, indicating that the revenue slowdown has already begun to affect some sectors.

The city is still benefiting from the tail end of the four-year surge in tax revenues. Since the start of FY 2008, the city has raised its forecast of total revenues by \$3.6 billion, of which \$2.4 billion are city funds. In addition, the city has reduced spending by more than \$1.5 billion, raising the accumulated surplus for FY 2008 to nearly \$6.5 billion. While there are still some risks as FY 2008 comes to a close, such as the retroactive payment due to the arbitration decision concerning police salaries, the size of the surplus is not likely to change materially.

The city is prudently conserving its resources, given its economic outlook of a mild national recession, and using any surplus in FY 2008 to help balance FY 2009 and the outyears of the financial plan. The city is planning on using \$3.2 billion of the surplus to prepay FY 2009 expenses. In addition, to help balance the FY 2010 budget, the city has applied almost \$2 billion of the surplus to prepay FY 2010 general obligation debt and \$969 million to prepay other FY 2010 expenses. The final \$350 million is being set aside in the Budget Stabilization Account to help balance FY 2011.

The city is now projecting that FY 2009 will be balanced and that the FY 2010 budget gap will be \$1.3 billion, assuming the seven percent property tax reduction of \$1.2 billion is restored, and that the gaps in FYs 2011 and 2012 will be about \$4.5 billion. We will review the four-year financial plan in the FCB staff's July report.

**MODIFICATION HISTORY OF  
THE CITY'S OPERATING BUDGET FOR FISCAL YEAR 2008**

**TABLE 1** (\$ in millions)

	Adopted Budget	October Modification	January Modification	Executive Budget
<b><u>Revenues</u></b>				
Taxes				
General Property	\$12,924	\$12,924	\$12,941	\$12,951
Other Taxes <sup>a</sup>	22,843	22,373	22,332	24,236
Discretionary Transfers	546	546	546	546
Tax Audit Revenue	559	659	1,059	1,059
Tax Reduction Program	(290)	(68)	0	0
Sale of Property Tax Liens	60	60	58	58
Miscellaneous Revenues	7,003	7,130	7,283	7,523
Unrestricted Intergovernmental Aid	340	340	340	255
Interfund Revenues	436	436	466	451
Less: Intracity Revenues	(1,393)	(1,457)	(1,481)	(1,502)
Disallowances	(15)	(15)	(15)	(15)
<b>Total City Funds</b>	<b>\$43,013</b>	<b>\$42,928</b>	<b>\$43,529</b>	<b>\$45,562</b>
Federal Categorical Grants	5,295	5,606	5,905	5,993
State Categorical Grants	10,824	10,958	11,080	11,201
<b>Total Revenues</b>	<b>\$59,132</b>	<b>\$59,492</b>	<b>\$60,514</b>	<b>\$62,756</b>
<b><u>Expenditures</u></b>				
Personal Service	\$33,081	\$33,323	\$33,112	\$32,837
Other Than Personal Service	24,642	25,128	24,764	24,976
Debt Service	3,825	3,827	3,787	5,713
MAC Debt Service	10	10	10	10
NYCTFA Debt Service	167	158	157	157
Budget Stabilization & Discretionary Transfers	(1,500)	(1,797)	65	465
General Reserve	300	300	100	100
Subtotal	\$60,525	\$60,949	\$61,995	\$64,258
Less: Intracity Expenditures	(1,393)	(1,457)	(1,481)	(1,502)
<b>Total Expenditures</b>	<b>\$59,132</b>	<b>\$59,492</b>	<b>\$60,514</b>	<b>\$62,756</b>
<b>Gap To Be Closed</b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<sup>a</sup> Allocates NYCTFA debt service to expenditures.				

**CHANGES TO THE CITY'S OPERATING BUDGET  
FOR FISCAL YEAR 2008 SINCE BUDGET ADOPTION**

**TABLE 2** (\$ in millions)

	October Modification	January Modification	Executive Budget
<b><u>Revenues</u></b>			
Taxes			
General Property	\$0	\$17	\$10
Other Taxes <sup>a</sup>	(470)	(41)	1,904
Discretionary Transfers	0	0	0
Tax Audit Revenue	100	400	0
Tax Reduction Program	222	68	0
Sale of Property Tax Liens	0	(2)	0
Miscellaneous Revenues	127	153	240
Unrestricted Intergovernmental Aid	0	0	(85)
Interfund Revenues	0	30	(15)
Less: Intracity Revenues	(64)	(24)	(21)
Disallowances	0	0	0
<b>Total City Funds</b>	<b><u>(\$85)</u></b>	<b><u>\$601</u></b>	<b><u>\$2,033</u></b>
Federal Categorical Grants	311	299	88
State Categorical Grants	134	122	121
<b>Total Revenues</b>	<b><u>\$360</u></b>	<b><u>\$1,022</u></b>	<b><u>\$2,242</u></b>
<b><u>Expenditures</u></b>			
Personal Service	\$242	(\$211)	(\$275)
Other Than Personal Service	486	(364)	212
Debt Service	2	(40)	1,926
MAC Debt Service	0	0	0
NYCTFA Debt Service	(9)	(1)	0
Budget Stabilization & Discretionary Transfers	(297)	1,862	400
General Reserve	0	(200)	0
Subtotal	\$424	\$1,046	\$2,263
Less: Intracity Expenditures	(64)	(24)	(21)
<b>Total Expenditures</b>	<b><u>\$360</u></b>	<b><u>\$1,022</u></b>	<b><u>\$2,242</u></b>
<b><u>Gap To Be Closed</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>	<b><u>\$0</u></b>
<sup>a</sup> Allocates NYCTFA debt service to expenditures.			



## II. Balancing the FY 2008 Budget

The city has revised its economic outlook to include a mild national recession, with the local economy being severely affected by the huge losses sustained by the financial services industry. Despite this dire projection, the city is benefiting from the tail end of a four-year surge in tax revenues. Since the start of FY 2008, the city has raised its forecast of total revenues in FY 2008 by \$3.6 billion, of which \$2.4 billion are city funds, with tax collections improving by \$1.3 billion.

The city is prudently conserving its resources for the expected slowdown in tax collections, as it has set aside FY 2008 surplus budget resources to pay future-year expenses. The city expects to increase its accumulated budget surplus to nearly \$6.5 billion, up by almost \$3.9 billion since July. These additional resources are the result of city-fund revenue gains of over \$2.4 billion and reduced city spending worth more than \$1.5 billion.

The city has applied \$3.2 billion of the surplus to close its budget gap in FY 2009. To balance its FY 2010 budget, the city has applied \$1.986 billion of the FY 2008 surplus funds to prepay FY 2010 general obligation debt and \$969 million to the remaining budget gap. The final \$350 million of surplus has been assigned to address the budget gap in FY 2011. The city, however, did not continue the practice of setting aside part of the surplus to deal with the growing unfunded liability of retiree health benefits.

### **REVENUES**

The city has increased its revenue forecast for FY 2008 by \$3.6 billion, to \$62.8 billion. As shown in the figure to the right, city funds increased by \$2.4 billion, of which tax collections are up \$1.3 billion, since July. A third year of unusually strong tax audits added \$500 million to the revenue gain. Also contributing to the increase in city funds is a \$317 million increase in miscellaneous receipts.

Aside from taxes, the largest component of the revenue increase is categorical grants, which are up by nearly \$1.2 billion to \$18.3 billion. The increase in grants, over the course of the fiscal year, is mostly linked to the process of completing required documentation for grant-funded programs. The city's plan also shows a \$107 million increase in the state's School Tax Relief (STAR) Program 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.

<b>FY 2008 Revenues Increase by \$3.6 Billion Since Adoption</b> (\$ in millions)	
Taxes	\$1,311
Tax Program	290
Audit Revenue	500
STAR Aid	107
Miscellaneous Revenue	317
Intergovernmental Aid	(85)
<b>City Funds</b>	<b>\$2,440</b>
Categorical Grants	1,169
Other Revenue	15
<b>Total Revenue Increase</b>	<b>\$3,624</b>

At adoption, the city budget included a tax reduction program worth \$290 million, of which the city subsequently implemented \$222 million of the proposed tax cuts.<sup>1</sup> 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. Some environmental initiatives like tax incentives for solar panels, green roofs and hybrid vehicles, which were not implemented in FY 2008, remain on the legislative agenda for the FY 2009 tax program.

While most major taxes participated in the \$1.3 billion improvement in the city's tax collections outlook, the personal income, the unincorporated business and the sales taxes yielded the largest gains. Large downward adjustments, however, were reported for the general corporation tax and the mortgage recording tax, indicating that the revenue slowdown that the city has been preparing for has already begun to affect some sectors.

### **How the Downturn Affects the City**

The city's latest economic plan projects that the nation is entering a mild recession. We think that the economic slowdown that has already hit other areas of the nation will soon be felt in the city. The delayed arrival of the economic downturn to the city is one important reason why the city's FY 2008 tax collection target improved by \$1.3 billion over the course of the fiscal year.

The weakness of the national economy is apparent from two consecutive weak readings of national output growth. Real gross domestic product (GDP), which increased by 0.9 percent in the first quarter of 2008, has slowed markedly from the 2.2 percent growth rate reported for 2007 and the 2.9 percent growth in 2006. The city projects GDP growth of 1.1 percent for all of 2008, which is slightly lower than the May Blue Chip consensus forecast of 1.4 percent. While the sluggish GDP growth rates do not yet indicate recessionary conditions, the weakness of the national labor market could signify the presence of a recession.

The city's economic forecast sees a mild recession, with a peak-to-trough job loss reaching about 600,000 to 700,000 for the nation. According to this outlook, the city would see an employment decline of 90,000, with about 24,000 of these being high-paid finance sector jobs. The nation has lost jobs in each month since the start of 2008, with the four-month job loss at 260,000, through April. The unemployment rate, which climbed to 5.0 percent in April from 4.5 percent one-year earlier, confirms the weakness noted in the persistent reports of job losses.

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<sup>1</sup> The tax reduction program at adoption was listed as a negative \$290 million and was subsequently modified to zero upon implementation of most of its proposals, resulting in a positive plan-to-plan change of \$290 million. The \$222 million in implemented tax cuts resulted in a net increase of \$1.311 billion to the tax change category.

In contrast to the nation, the city employment numbers indicate that job growth is continuing, however growth is quickly decelerating. Local job growth averaged 1.3 percent in the first four months of the year, which is equivalent to an increase of about 45,000 jobs per year. Although these data portray a healthy labor market, growth has slowed considerably from the 78,800 jobs produced in 2007. The growth slowdown has had no effect on the local unemployment rate, which remained at 4.5 percent in April, unchanged from the previous April. Aside from the perpetually declining manufacturing sector, the weakest segment of the local labor market appears to be the securities industry, which contracted by about 9,000 jobs or five percent to 183,000 jobs since securities employment peaked at 192,000 jobs in August 2007.

The relative health of the local economy is largely responsible for the continued strength of local tax collections even as the national economy is visibly slowing down. As long as the national downturn remained focused on weakening housing prices and stalled construction in far off real estate markets, the city appeared to be impervious to any local fallout emanating from those national trends. This illusion was shattered, however, with the swift downfall of Bear Stearns due to losses on its holdings of subprime mortgages.

The Bear Stearns incident adds to the evidence that the city's finance sector is weakening. Additionally, the financial sector has announced write-downs of over \$200 billion in mortgage-backed securities. Largely because of these write-downs New York Stock Exchange member firms lost \$11 billion in 2007, following the near-record earnings of \$21 billion in 2006. These reports of a weaker financial services sector along with the already noticeable securities sector job losses provide convincing evidence that the locally-based finance industry has moved closer to the center of the national economic slowdown.

Both we and the city expect that the effects of the recession could be mitigated by the action taken by the Federal Reserve Board to assuage the troubled credit markets and by the federal administration's program to issue economic stimulus tax rebates. These well-timed monetary and fiscal stimuli along with a rising export sector could be sufficient to cut short the recession and lead the national economy back to recovery. For the city, however, the involvement of the financial services sector in the downturn could mean a prolonged period of economic weakness and tax revenue declines in FYs 2009 and 2010.

### **Tax Revenues**

Since adoption, the city has increased its tax collection plan for FY 2008 by \$1.3 billion, as shown in the figure to the right, to an estimated \$36.5 billion (excluding the STAR and tax audit programs). The city's estimate for the real property tax increased slightly over the year and remained close to \$13 billion since the budget was adopted. The nonproperty taxes, which increased by about \$1.3 billion, yielded revenue of \$23.5 billion in FY 2008. The largest upward

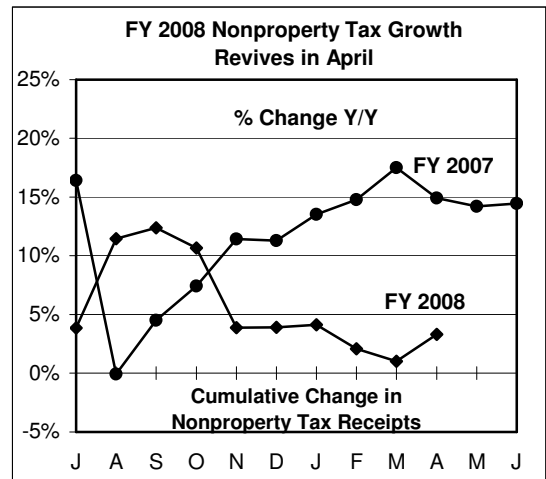
<b>FY 2008 Tax Revenues Improve \$1.3 Billion Since Adoption</b> (\$ in millions)	
Real Property	\$25
Personal Income	930
Sales	173
General Corporation	(269)
Banking Corporation	50
Unincorporated Business	343
Property Transfer	33
Mortgage Recording	(82)
Hotel Tax	34
Other	74
<b>Total Change in Taxes</b>	<b>\$1,311</b>

revisions were reported for the personal income and the unincorporated business taxes, which gained \$930 million and \$343 million, respectively. The strength of these income-based taxes indicates that rising locally-based jobs and incomes favored individuals and small businesses in FY 2008. These income and job gains, along with a strong tourist industry, resulted in a \$173 million positive variance for sales tax revenue. Hotel tax collections also benefited from strong tourism and gained \$34 million.

In contrast to the collections gains noted for most of the nonproperty taxes, two taxes sustained large downward adjustments. General corporation tax collections were revised downward by \$269 million, indicating that the multibillion-dollar losses sustained by the Wall Street business community are beginning to impact tax collections. Also, the mortgage recording tax is down by \$82 million, showing that the local real estate industry is no longer insulated from the effects of the national housing slump.

While the city has increased its plan-to-plan tax collection targets, tax revenue growth is slowing sharply in comparison to the previous year. The figure at the right, which shows the cumulative growth rates of the city's nonproperty tax collections for the past two fiscal years, indicates that the era of strong tax growth is coming to an end. Collections growth, which had soared to nearly 18 percent in March of FY 2007, retreated to 14 percent by the end of FY 2007.

At the start of the new fiscal year the collections trend looked as though growth might be continuing into FY 2008, when 12 percent growth was reported for September. The growth rate quickly fell to four percent by November and dropped to one percent in March. Unusually strong April collections from individual and small business income taxpayers revived the collections growth rate to three percent in April. A noticeable slowdown in bank tax and transfer tax collections and larger refund payouts on corporate taxes could cause the growth rate to decline by the end of the fiscal year. The city projects that nonproperty taxes will end FY 2008 with growth no higher than one percent, which would mark the end of a four-year span of strong nonproperty tax collections growth. Both we and the city expect that the impact of the finance sector losses will be felt later, resulting in a nonproperty tax revenue decline of 11 percent in FY 2009 and a smaller decline of three percent in FY 2010.



**Business Income Taxes.** Since the start of FY 2008, revenues for this group of taxes improved by \$124 million, to \$5.7 billion. The general corporation tax declined by \$327 million, the banking corporation tax increased \$50 million, and unincorporated business taxes gained \$343 million. Despite these gains against the adopted budget, revenues declined by about \$300 million or five percent from the record \$6 billion collected in FY 2007. Although the revenue trend was down, the three taxes in this group diverged considerably. Compared with the prior year, FY 2008 bank tax and the general corporation tax declined by 29 percent and seven percent, respectively, while the unincorporated business tax increased by 16 percent. The downward trend in this

group of taxes marks the end of a four year surge, during which business tax growth averaged 27 percent per year.

Evidence of a change in direction for the business taxes comes from national corporate profits, which increased by four percent in CY 2007, a huge downward shift from the average annual growth rate of 24 percent which had prevailed for the preceding four-year period. The city expects profits to weaken further in 2008 and decline by 14 percent. Similarly, New York Stock Exchange member firms lost \$11 billion in 2007, following the near-record earnings of \$21 billion in 2006. The city expects Wall Street profits to partially recover to \$7 billion in 2008.

Hedge fund profits might partially explain the resiliency of the business taxes, but it remains a mystery as to how this group of investment firms has, with the notable exception of the failed Bear Stearns hedge funds, mostly avoided the malaise affecting many mainstream Wall Street businesses. Another possibility is that corporate tax liabilities will eventually be reevaluated downward leading to a drop in tax payments while business tax refunds climb. The city, therefore, expects business tax revenue to shrink by another 13 percent in FY 2009 beyond the relatively small five-percent decline reported for FY 2008.

**Real Estate Transactions Taxes.** The city reports that large commercial transactions, which had been an impetus for much of the previous growth of the property transactions taxes, have slowed down sharply. The city has reduced its FY 2008 revenue plan for the transactions taxes by \$49 million, to a total of \$2.6 billion, since budget adoption. The new revenue estimate represents a 22 percent decline from the record \$3.3 billion collected in FY 2007. This decline marks the end of a five year run of strong growth, during which transactions tax collections grew an average of 30 percent per year. The city expects transaction tax revenues to decline an additional 25 percent in FY 2009 to \$1.9 billion, which would be a decline of \$1.4 billion in two years.

**Sales Tax.** The FY 2008 sales tax forecast grew by \$173 million to \$4.8 billion during the year, because of a number of fortunate events that took place in calendar years 2007 and 2008. Personal consumption expenditures were supported by record job growth of 78,800 on a year-over-year basis in CY 2007. Although job creation has slowed considerably so far in CY 2008, it has not turned negative on a year-over-year basis. Sales tax revenue also benefited from higher-than-expected bonus payouts from the securities industry during the December 2007 through March 2008 period. In addition, record numbers of domestic and (higher-spending) international travelers have been visiting the city for business and vacation trips. Also, the timing of the federal rebate may support additional consumer spending at the end of FY 2008. As a result of these positive factors, sales tax revenue is forecast to end FY 2008 up 6.6 percent before falling 3.1 percent in FY 2009 on a common rate and base.<sup>2</sup> The reasons for the projected drop in sales tax revenue in FY 2009 are that declines in employment (e.g. securities and professional services industries) and wages (e.g. bonuses) will add to the

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<sup>2</sup> "On a common rate and base" or "on a continuing base" refer to tax collections that have been adjusted to remove the effects of tax programs (and law changes) to focus on the influence of the economy.

prevailing environment of consumer pessimism, rising food and energy prices, and higher numbers of home delinquencies and foreclosures.

**Personal Income Tax.** Despite an almost unrelenting series of bad news in the financial sector since last summer, personal income tax (PIT) collections were raised by \$930 million over the course of FY 2008 and are estimated to end the year up 13.3 percent. If the city's estimate is proven correct, it would mark the fifth year in a row, starting in FY 2004, of over 10 percent annual growth on a continuing base. FY 2009 marks the end of the boom period with a forecasted decline of 10.5 percent in PIT revenue, on a common rate and base, due to a national economic slowdown and job losses on Wall Street. The turmoil in the financial industry that started with defaults on subprime mortgages has spread to other types of asset-backed securities, unrelated lines of business (e.g. mergers and acquisitions), and even the municipal bond market. This has occurred despite new lending programs for commercial and investment banks at the Federal Reserve Board, which are designed to increase liquidity in the credit markets, and seven cuts in the federal funds rate (starting in September 2007), which are intended to lower borrowing costs for individuals and businesses.<sup>3</sup>

Against this backdrop of further write-downs on the valuation of assets of financial institutions and record losses posted by New York Stock Exchange member firms in the third (\$3.8 billion) and fourth quarters (\$16.4 billion) of CY 2007, the PIT grew in FY 2008 largely because of two factors. First, in the beginning of the year, bonus payouts on CY 2006 profits (\$20.9 billion) were larger-than-expected to those who worked in areas unaffected by mortgage-related layoffs. Wage income in FY 2008 was also supported by employment gains of 78,800 on a year-over-year basis in CY 2007, which has continued, at a much reduced pace, into CY 2008.

Second, at the end of the fiscal year, the city estimates that managers of hedge funds and private equity funds earned billions of dollars in compensation that showed up in extraordinary amounts of extension payments on final returns in April collections and to a lesser extent, in higher installment payments. For example, extension payments soared 87 percent in April 2008 to \$1.4 billion from the prior year's record of \$743.9 million in April 2007. Also, on a year-over-year basis, installment payments leaped 17.7 percent to \$154.3 million in April 2008 due to unexpectedly strong growth in several nonwage income sources. Such sources included investment and fee income from hedge fund and private equity fund managers and income from industries with a large number of self-employed workers, such as professional services, information, and real estate. In addition, installment payments were also boosted by the city's estimate that capital gains realizations jumped 15.6 percent to a historical high of \$43.1 billion in CY 2007, and will fall 16.8 percent in CY 2008 to a still respectable \$35.8 billion.

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<sup>3</sup> Just prior to the rate cut on September 18, 2007, the federal funds rate was 5.25 percent. The federal funds rate currently stands at two percent.

## **Miscellaneous Revenue**

The city's FY 2008 miscellaneous revenue projection advanced by \$317.6 million to \$4.9 billion from last June's adopted budget through the May modification. If we exclude those parts of the city's miscellaneous revenue forecast that do not foster long-term growth and budget balance, and focus on the remaining core categories, the total projected increase amounted to \$328.5 million.<sup>4</sup> The \$328.5 million improvement in the FY 2008 estimate represents a gain of \$50 million to \$100 million for five out of the six core categories. Only the forecast of interest income decreased by \$29.8 million to \$357.5 million in FY 2008 primarily because of lower interest rates on the short-term investment of funds, even though cash balances have been historically high during the year.<sup>5</sup>

Of the five other core categories in FY 2008, the largest projected increase of over \$100 million was in the residual miscellaneous category, largely because of affirmative litigation settlements. Fines are projected to have grown by \$99 million to \$823.1 million in FY 2008 mostly due to a gain of 10.6 percent in parking ticket issuance year-to-date through April and more revenue from the Department of Buildings. The forecasts for licenses (e.g. cable revenue and building permits), charges (e.g. fees from housing and the Department of Finance), and rent (e.g. commercial and other rents) increased by about \$50 million each during the course of FY 2008. As of the FY 2009 Executive Budget, the city expects that the gains achieved in FY 2008 in the core categories will dissipate in FYs 2009 and 2010 before growth resumes in the outyears of the plan.

## **CHANGES IN EXPENDITURE PROJECTIONS**

The FY 2008 budget continues to remain in balance as the city has kept a lid on expenditures, and has mainly used surplus funds to help balance its outyear budget gaps. Debt service costs have been reduced by \$111 million since the FY 2008 budget was adopted. Fringe benefits costs have stabilized and actually decreased by \$26 million during FY 2008. The Department of Education forecasts a reduction in public school funding from \$17 billion projected in the FY 2008 Adopted Budget to \$16.8 billion in the May modification. The city is also estimating that salaries and wages expense will be approximately \$236 million less than what was forecasted in the FY 2008 Adopted Budget.

Due to worsening economic conditions, the city increased the FY 2008 agency program in March 2008 to \$618 million, which is up from the original projection of \$543 million. A significant portion of the expense savings and revenue increases is realized through initiatives taken by the Department of Education and the uniformed services.

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<sup>4</sup> The core categories are licenses, fees or charges, interest, rents, fines, and a residual miscellaneous category (less nonrecurring actions, tobacco proceeds, and payments from the Health and Hospitals Corporation). Dedicated funds such as water and sewer charges are also excluded from the analysis because they offset city expenditures and therefore are unavailable for budget balance.

<sup>5</sup> For a fuller discussion of interest income, see "Miscellaneous Revenue" in the March 2008 FCB Staff Report on page 21.

Based on an analysis of past trends, we expect the city to spend approximately \$60 million more in uniformed overtime in FY 2008 than it is forecasting. The city pension costs are also expected to increase moderately by about \$17 million by the end of the fiscal year.

### **Debt Service Savings**

Since the FY 2008 budget was adopted, debt service costs were trimmed by \$111 million. The FY 2008 debt service costs for the city, the New York City Transitional Finance Authority (NYCTFA) and the Municipal Assistance Corporation (MAC), excluding the effects of prepayments, are now estimated to total \$4.436 billion, as detailed in the figure to the right. At this level, debt service costs will consume 11.4 percent of the record high tax revenue collection forecasted for FY 2008. With tax revenues expecting to decline substantially in FY 2009 and rebound partially in FY 2010, the city also plans to set aside \$1.986 billion of windfall revenues that it collected in FY 2008 to pay FY 2010 debt service costs. This action will help to shrink the projected budget gap for FY 2010.

<b>FY 2008 Debt Service</b> (\$ in millions)		
	<b>Current Budget</b>	<b>Change From Adopted Budget</b>
City G.O.	\$3,505	(\$43)
City Lease Debt	219	(58)
NYCTFA	702	(10)
MAC	10	0
<b>Total</b>	<b>\$4,436</b>	<b>(\$111)</b>
Tax Revenues	\$38,850	\$2,208
Debt Service as % Of Tax Revenues	11.4%	

Approximately \$58 million of the debt service savings realized in FY 2008 stem from lease obligations the city has in connection with various components of its capital program. For example, the city was relieved of making a \$29 million interest payment on \$2 billion of bonds issued by the Hudson Yards Infrastructure Corporation (HYIC) to finance infrastructure development on Manhattan's far West Side including extension of the No. 7 subway line. With higher-than-expected revenue income, HYIC is able to make the interest payment on its bonds in FY 2008 without assistance from the city. An additional \$17 million of interest savings were achieved on the city's lease agreement with the New York State Housing Finance Agency (HFA) when the last maturities of the corresponding HFA bonds for health care facilities were called. The city also terminated its lease agreement with the Jay Street Development Corporation (JSDC) when it purchased the court facility that it was leasing from JSDC with proceeds from its sale of \$500 million of general obligation (g.o.) bonds. The final lease payment in FY 2008 ended up being \$12 million lower than previously planned.

The majority of the remaining debt service savings were derived from lower-than-projected interest costs on fixed rate bonds issued in FY 2008 and outstanding variable rate bonds. The debt service savings were marginally reduced by the city's exposure to bond insurers who had experienced credit downgrades. The city acted quickly to stem the spike in interest rates it paid on bonds insured by these troubled companies. During the month of March, the city sold \$1.76 billion of bonds to refund \$1.4 billion of outstanding auction rate securities (ARS) and \$140 million of insured



variable rate bonds, all of which were backed by bond insurers that were experiencing credit problems.<sup>6</sup> The refunding bonds include \$1.3 billion of uninsured adjustable rate bonds that are supported by liquidity facilities provided by banks, as well as \$450 million of uninsured fixed rate bonds. The city is left with approximately \$700 million of ARS outstanding, which are supported by bond insurers that have not been downgraded or placed on negative outlook. Meanwhile, the \$222 million of ARS that the NYCTFA has outstanding are backed by triple A rated bond insurance and have not been refunded.

It should be noted that by July 1, 2008 MAC will have retired in full all of its bonds. Created by the state legislature in June 1975, MAC was authorized to sell through January 1985 an aggregate \$10 billion of bonds and notes (with no limits on refundings) to assist the city in meeting its financing needs to emerge from the fiscal crisis of the 1970s. MAC issued approximately \$9.445 billion against its authorization, not including refundings. The debt service costs on these bonds as well as the operating expenses for MAC, and the two state agencies created to monitor the city's finances—the Financial Control Board (FCB) and the Office of the State Deputy Comptroller for the City of New York (OSDC)—have been paid from city sales tax revenues.

In FY 2005, the remaining \$1.758 billion of MAC's outstanding debt was refinanced by bonds issued by the Sales Tax Asset Receivable Corporation (STARC), a local development corporation created by the state to securitize 30 annual payments of \$170 million to be received from the state's Local Government Assistance Corporation. The bond proceeds were placed in escrow and have been used to pay the debt service on MAC's outstanding debt, with the last payment scheduled for July 1, 2008. This refinancing of MAC's bonds saved the city approximately \$2.5 billion in debt service costs.

MAC will go out of existence shortly after paying off its debt and other operating obligations. The FCB and OSDC will continue to monitor the city's finances, with operating expenses continuing to be paid from city sales taxes intercepted by the state. The FCB is authorized to remain in existence until the last of all city g.o. bonds issued through the end of FY 2003 is retired, which currently is scheduled for FY 2033. These bonds include the city's covenant to comply with the requirements of the Financial Emergency Act that created the FCB.

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<sup>6</sup> The March 2008 FCB Staff Report provides background information on the turmoil in the ARS market.

With tax revenue collections expecting to reach a record high, the debt service burden for FY 2008 is at a correspondingly historical low. At \$4.436 billion, debt service costs will absorb 11.4 percent of the city's projected \$38.85 billion of tax revenues in FY 2008. Additionally, the city intends to use \$2 billion of its FY 2008 revenues for the early retirement of FY 2010 debt service, as shown in the figure to the right. We would recognize this transaction as part of the FY 2008 debt service if the city were to legally defease the FY 2010 obligation in the current fiscal year. If the city is able to legally defease the bonds

scheduled to mature in FY 2010, such a transaction will augment the FY 2008 debt service costs by \$2 billion and skew the debt service burden upwards to 16.5 percent of tax revenues. At such a ratio, debt service as a percent of tax collection will exceed the 14.7 percent level in FY 2007, when the city used a \$1.25 billion budget surplus to call as well as legally defease bonds scheduled to mature in FYs 2009 and 2010. It should be noted that debt service is reduced by \$350 million in FY 2008 as a result of a legal defeasance with FY 2006 revenues.

<b>FY 2008 Debt Service</b> (\$ in millions)	
Total Debt Service	\$4,436
Tax Revenues	\$38,850
Debt Service as % Of Tax Revenues	11.4%
Early Debt Retirement	\$1,986
Augmented Debt Service	\$6,422
Augmented Debt Service as % Of Tax Revenues	16.5%

The use of budget resources for the early retirement of debt masks the fact that debt service costs are growing at an accelerated pace. Anticipating a slowdown in tax revenue collections, the city is forced to address the budgetary impact of rapidly growing debt service costs. Concerned that debt service, a major expense item, is rising at a rate that may be unaffordable, the city has announced a plan to stretch its four-year capital program for FYs 2009-12 over five years. The impact on future-year debt service costs of this capital program stretch-out will be discussed in full in the July 2008 FCB Staff Report.

### **Overtime**

In the May modification to the financial plan, the city expects to spend about \$681 million in uniformed agency overtime for FY 2008. Based on an analysis of past trends we anticipate that overtime expenditures will exceed plan spending and will likely rise above \$750 million. In recent years, uniformed agency overtime expenditures have trended above \$700 million though the city consistently budgets below actual agency spending in the \$600 million to \$700 million range. As the fiscal year progresses, the city analyzes agency spending and modifies its overtime budgets as it deems necessary.

TABLE 3

**FY 2008 UNIFORMED AGENCY OVERTIME SUMMARY**  
(\$ in millions)

	Adopted 08	Executive 08	FCB Projected 08	Actual YTD Spending*
Police	\$311.8	\$337.7	\$426.6	\$355.5
Fire	180.1	190.6	170.1	141.8
Correction	60.9	102.7	108.8	90.7
Sanitation	63.4	49.8	48.4	40.4
Totals	\$616.2	\$680.8	\$753.9	\$628.4
*Year-to-date actual spending through April 2008				

For FY 2008, the city originally estimated its overtime budget at \$616 million, as shown in Table 3. To date, it has raised that estimate by \$65 million. It now expects to spend \$681 million for the fiscal year. As mentioned above, our analysis, based upon actual overtime spending through April 2008, projects that the city will spend \$73 million more than what has been budgeted for in this fiscal year. The city has received nearly \$146 million of federal and state homeland security grants for use by the Police Department. Of this amount \$36.7 million will be used to cover overtime programs with the remaining grant money available for counterterrorism operations, technology and equipment. This grant money offsets overtime costs and has been factored into the budget. The Fire Department has also received grants which total \$96 million with a small portion available for overtime needs.

### **Pension Costs**

The city's pension cost for FY 2008 is expected to rise only moderately from the initial estimate reported in the adopted budget. The city's contribution to the New York City Retirement Systems (NYCRS) is projected to increase by about \$17 million, from \$5.557 billion to \$5.574 billion, as indicated in the May modification. Most of the increase is due to a settlement and retroactive payment to city teachers and an actuarial adjustment made to the city payroll. Growth in pension costs has remained relatively flat for FY 2008 because of health investment returns realized in prior years. However, that benefit to the city's budget will quickly disappear in the years ahead when the pension systems realize investment returns far below their required rates of returns and substantial investment losses are incurred.

At the end of the third quarter of FY 2008, NYCRS annualized investment return on its assets was a negative 4.46 percent. The impact of a negative return is more acute for the pension systems than for a simple investment portfolio. NYCRS has a required rate of return of eight percent which is used as a benchmark interest rate needed to fund the pension systems future liabilities from investment gains, and is the required investment return that pension assets must meet in order to keep the city's required pension contribution from increasing. When investment performance is poor, the city must contribute the difference, in dollar value, of what the investment returns are and what they are required to be. In the present case, the city will need to fund an investment loss of 12.46 percent, if the investment return remains unchanged by fiscal year end. In funding terms, the investment loss would equate to over \$11 billion. Based on a six-year phase-in and a two-year lag, the loss would likely cost the city \$166 million in FY 2010, \$332 million in FY 2011, \$498 million in FY 2012, \$664 million in FY 2013, \$885 million in FY 2014, and \$1.1 billion in FY 2015. The loss is phased-in cumulatively

over six years at 15 percent, 30 percent, 45 percent, 60 percent, 80 percent and 100 percent.

Even though the markets are down for the fiscal year and are still lingering in negative territory, the city has assumed that NYCERS will return zero percent on its assets. This implies that there will be no investment losses or gains. However, even based upon this assumption the city will be required to fund an investment loss of \$7.4 billion. After observing recent market data, we feel that this projection will fall short and will require the city to fund a larger investment loss as mentioned earlier.

NYCERS invests its assets in three main capital markets: domestic stocks, international stocks and debt securities. Because the investment strategy of the pension systems is one of a long-term investment horizon, NYCERS allocates more than two-thirds of its assets in domestic and international equities. Measured by historical performance, stocks have always outperformed bonds for the last century. However, in highly unstable equity markets, portfolio returns can experience significant swings in return from period to period. As shown on Chart 1, the Dow Jones Industrial Average (DJIA) has followed a highly volatile path in the period from July 2007 to March 2008. The stock market in this period of FY 2008 had fluctuated from record highs in October to unexpected lows just five months later. Much of the ups and downs are a reaction to the economic downturn the country is experiencing. Overall, stock prices and thus stock indexes, like the DJIA, have trended downward and have lost a great deal of the gains they realized in previous years. For the period shown, the DJIA had lost 9.4 percent of its value. Extending this analysis to the timing of this report, the DJIA has recouped some of those losses and is now down 3.8 percent for the period from July 2007 to May 2008.

#### **DJIA FALLS BY 9.4 PERCENT FOR THE FIRST THREE QUARTERS OF FY 2008**

CHART 1



In a broader measure, the Standard and Poor's 500 Index (S&P 500), shown on Chart 2 on page 16, illustrates an even larger loss than the DJIA. For the same period,

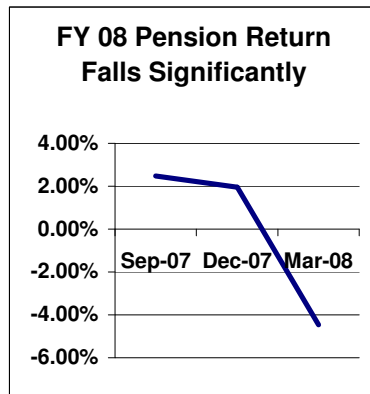
the first three quarters of FY 2008, the S&P 500 had declined by 12.9 percent. In comparison to the DJIA performance through May 2008, the S&P 500 has also gained back some of its value but is still off by 6.7 percent from July 2007.

### **S&P 500 FALLS BY 12.9 PERCENT FOR THE FIRST THREE QUARTERS OF FY 2008**

CHART 2



Just as the fiscal year started, the turmoil in the credit markets began to unfold. When what was called a “housing bubble” created by a protracted period of unusually low lending rates started to deflate, a spillover into the financial and capital markets occurred. Markets quickly reacted to the crisis as indicated in the DJIA and S&P 500 charts. Having a large allocation of its assets in equity securities, the pension systems began to feel the pain of declining investment performance. As the figure to the right clearly shows, over the first three-quarters of FY 2008, NYCERS annualized return on its assets fell precipitously from 2.47 percent to negative 4.46 percent, a fall of nearly seven percent. As mentioned earlier, the city will be responsible for funding investment losses incurred.



### **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>7</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.

The figure to the right shows the annual OPEB liability for FYs 2006 and 2007 and our projection for FY 2008. The city recognized an Unfunded Actuarial Accrued Liability (UAAL) for June 30, 2005 of \$50.5 billion. The city estimated that the cost of future benefits accrued to active employees to be about \$3 billion. Additionally, since the city has not funded this liability, there is no gain on invested assets. This represents an opportunity cost or interest charged to the liability annually at the rate of four percent. In addition to the \$1 billion allocated to the trust fund in FY 2006, the city expensed about \$1.2 billion for healthcare benefits. With those payments, the net OPEB liability grew to \$53.5 billion. The UAAL for FY 2007 grew by nearly \$7.2 billion, a combination of refinements in medical plan participation, data reclassifications, changes to Medicare Part B premium assumptions, accrued interest and future benefits 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.

<b>Growth of OPEB Cost FYs 2006-2008</b>	
(\$ in millions)	p=projected
<b>UAAL June 30, 2005</b>	<b>\$50,523</b>
Future Benefits	3,002
Interest	2,141
Payments	(2,183)
<b>UAAL June 30, 2006</b>	<b>\$53,483</b>
Adjustments	1,576
Future Benefits	3,262
Interest	2,333
Payments	(2,910)
<b>UAAL June 30, 2007</b>	<b>\$57,744</b>
Future Benefits	3,589
Interest	2,453
Payments	(1,438)
<b>UAAL June 30, 2008p</b>	<b>\$62,348</b>

We project, assuming that accrued benefits grow annually by 10 percent and employee headcount remains constant, the OPEB liability will grow to more than \$62 billion in FY 2008 after a healthcare benefit payment of \$1.4 billion and no additional funding to the trust fund, as shown in the figure. The city, in FY 2008 has chosen not to use any of the surplus to add additional money to the trust fund, despite this growing liability.

As reported in the May modification, the city will use the trust fund as a conduit to prepay FY 2009 OPEB liabilities in FY 2008. The city will allocate \$400 million from the BSA in FY 2008 to fund the trust fund and then make the payment in FY 2009. The city utilizes the trust fund as a means of paying OPEB obligations when due in each fiscal year.

### **Fringe Benefit Costs**

The cost to provide fringe benefits to over 300,000 city employees continues to be a considerable expense in the city's Personal Service budget. In fact, it accounts for almost 10 percent of the city's current total operating budget. As shown in Table 4 on

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<sup>7</sup> 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)).

page 18, fringe benefits consist of several major components, the largest and most important of which continues to be health insurance, which accounts for 53 percent of the fringe benefits budget.

#### **FRINGE BENEFITS SUMMARY IN FY 2008**

**TABLE 4**

(\$ in millions)

	<b>Adopted FY 2008</b>	<b>November Modification</b>	<b>January Modification</b>	<b>Executive FY 2009</b>
Health Insurance	\$3,413	\$3,426	\$3,397	\$3,367
Supplemental Welfare Benefit	1,000	982	975	1,009
FICA and Social Security	1,549	1,566	1,552	1,540
Worker's Compensation	202	205	205	196
Unemployment Insurance	40	42	42	42
Other	171	185	189	195
<b>Total</b>	<b>\$6,375</b>	<b>\$6,406</b>	<b>\$6,360</b>	<b>\$6,349</b>
City's Total Operating Budget	\$60,358	\$60,791	\$61,837	\$64,101
Fringe Benefits Percentage	10.6%	10.5%	10.3%	9.9%

Since the FY 2008 Adopted Budget, the city's fringe benefit estimates have decreased modestly by \$26 million from \$6.375 billion to \$6.349 billion, as shown in Table 4. The costs in health insurance are mainly attributed to the premiums set by the Health Insurance Plan (HIP), which statutorily drives the city's liability. The premium rate for FY 2008 is 9.36 percent up from 8.65 percent in FY 2007. Health insurance estimates reflect current levels of coverage based on the latest population and premium data available from the city's health insurance providers.

The city is projecting the receipt of an additional \$126 million in federal funds and \$95 million in state funds in FY 2008. This is an increase of \$70 million and \$58 million, respectively, from FY 2007. The federal funds will cover costs related to the increase of the Federal Fringe Benefit Reimbursement Rate (Fringe Benefit Rate) which increased by 10 percent, from 35 percent to 45 percent in FY 2008. The Fringe Benefit Rate is used for federal grant reimbursements, and is negotiated with the cognizant federal agency – the U.S. Department of Health and Human Services. The Fringe Benefit Rate is based on calculations of six components of benefit costs - Pensions, Social Security, Health Insurance, Supplemental Employee Welfare Benefits, Workers Compensation, and Unemployment Insurance Benefits. For each component, the Fringe Benefit Rate is calculated by dividing the city's actual (audited) expenditures by the total of actual (audited) salaries and wages paid. The state funds totaling \$95 million will cover costs for two areas: the fringe benefits costs related to the salary increase associated with the state takeover of Medicaid and additional staffing for the Protective Services unit at the Administration of Children's Services.

#### **Collective Bargaining**

On May 19, 2008, the Public Employees Relations Board (PERB) Impasse Panel issued an award covering over 23,000 police officers represented by the Patrolmen's Benevolent Association (PBA). The PBA arbitration award covers the period from August 1, 2004 through July 31, 2006. The principal features of this award include a 4.5 percent increase backdated to August 1, 2004 (the first day of the contract) and another five percent increase compounded backdated to August 1, 2005. The total increase over

the two-year period will be 9.73 percent compounded. Also, the award increases the top pay for veteran police officers from \$59,588 to \$65,382 and starting pay for police officers from \$25,100 to \$35,881 retroactive for those hired since January 1, 2006.

The city received a number of productivity improvements that total 2.81 percent in savings bringing the total cost of the contract to 7.41 percent, which the city estimates creates a 1.16 percent differential with the other uniformed services. Foremost among these productivity increases was the reduction of 10 annual leave days for new hires for each of the first five years of employment as well as the modification of the current six named rescheduling days for all employees without the payment of overtime in accordance with Detective Rules, which provides for greater flexibility in scheduling and will save the city overtime costs. Also, five additional rescheduling days for all employees without the payment of pre-tour or post-tour overtime upon 24-hour notice to the employee will be implemented. Presently, the Police Department has the right to reschedule employees on 15 such occasions. Going forward, 20 such opportunities will be available for use by the department. Rescheduling days allow the department optimal flexibility to assign employees without the payment of overtime.

We estimate that the PBA award will increase costs by \$203 million in FY 2008, which includes retroactive costs to FY 2005. Going forward costs will increase approximately \$110 million annually. If the other uniformed services unions exercise the “opt-out” provision of their contracts and restructure their agreements to that of the PBA, it would increase the city’s retroactive labor costs by approximately \$338 million in FY 2008 and by approximately \$166 million annually beginning FY 2009.

#### **FY 2008 Labor Contract Settlements**

During the course of FY 2008, the city ratified agreements with the Uniformed Sanitationmen’s Association (USA), the Captains Endowment Association (CEA), the Sergeants Benevolent Association (SBA), the Lieutenants Benevolent Association (LBA), the Correction Officers’ Benevolent Association (COBA), the Sanitation Officers Association (SOA), the Detectives’ Endowment Association (DEA), the Uniformed Fire Officers Association (UFOA), the Correction Captains’ Association (CCA), the New York State Nurses Association (NYSNA), and with the Assistant Deputy Wardens/Deputy Wardens Association (ADW/DWA). See Table 5 for a basic summary of each contract.

#### **SUMMARY OF COLLECTIVE BARGAINING AGREEMENTS IN FY 2008**

(\$ in millions)

<b>Union</b>	<b>Contract Term</b>	<b>Increase</b>	<b>Head Count</b>	<b>Costs FY 2008</b>
USA	Mar 2, 2007 – Sep 20, 2011	20.00%	6,642	\$ 29.1
CEA	Nov 1, 2003 – Mar 31, 2012	40.00%	747	14.7
SBA	June 1, 2005 – July 31, 2011	27.50%	4,649	46.5
LBA	Sep 1, 2007 – Oct 31, 2009	9.75%	1,668	6.3
COBA	Aug 1, 2007 – Oct 31, 2009	8.16%	8,316	22.5
SOA	Nov 13, 2007 – July 1, 2012	17.00%	1,142	2.9
DEA	Apr 1, 2008 – Mar 31, 2012	20.00%	5,348	5.3
UFOA	Mar 20, 2007 – Mar 19, 2011	20.00%	2,394	15.4
CCA	Dec 16, 2007 – Jun 30, 2012	20.00%	832	2.5
NYSNA	Dec 1, 2007 – Jan 20, 2010	7.00%	6,592	5.1
ADW/DWA	Mar 1, 2008 – June 30, 2012	20.00%	151	1.0

**TABLE 5**



In the May modification, the city is projecting \$496 million for FY 2008 in the labor reserve in the miscellaneous budget. Meanwhile, the city is estimating its FY 2008 salaries and wages expense to be at around \$20.7 billion. This is \$236 million below the FY 2008 forecast in the FY 2008 Adopted Budget.

### **The Department of Education**

The May modification of the FY 2008 forecast shows a reduction in public school funding from the FY 2008 Adopted Budget. The Department of Education (DOE) operational expenditures of approximately \$17 billion were reduced to \$16.8 billion. Both federal and city funds have been reduced, however, state funding has increased.

The city's FY 2008 funding for public schools went from \$7.2 billion in June 2007, to \$7 billion. The November modification saw little or no changes apart from a small amendment of \$5 million to fringe benefits. However, the Mayor, citing a bleak economic outlook, and a decline in city revenues due mostly to lower Wall Street profits and a national mortgage crisis, called for a 2.7 percent spending cut in FY 2008 and 4.3 percent in FY 2009. These spending cuts affected virtually all city agencies including the DOE, which saw a \$180 million reduction in the current fiscal year and \$324 million in FY 2009. In the city's most recent modification, an additional cut in expenditures will require DOE to reduce its city-funded expenditures by \$428 million in FY 2009.

State funding increased slightly since the FY 2008 Adopted Budget, going from a projected \$7.87 billion at adoption to just over \$7.9 billion in the May modification. This additional spending is being directed to school instruction services. The \$178 million which the state had planned on providing the city in Academic Achievement Grants was transferred to Foundation Aid in the state's enacted budget.

Federal funding since adoption changed from a projected \$1.856 billion to \$1.783 billion. This \$73 million decline was mostly due to a \$61 million reduction in federal miscellaneous special grants, which were lowered from \$86 million to \$25 million. This was more in keeping with its FY 2007 actual, which closed at \$24.6 million.

Finally, Other Categorical and Intra-city showed an increase of \$42 million since adoption, starting from approximately \$58 million and ending with a projected \$100 million in expenditures.

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

In March 2008, the Office of Management and Budget requested that all agencies submit an expense reduction program in addition to the program requested in November 2007. The city increased the FY 2008 agency program to \$618 million, or three percent, which is up from \$543 million, or 2.7 percent, in the November 2007 program. The city also increased the FY 2009 agency program to \$1.306 billion, or 6.4 percent, which is up from \$885 million, or 4.3 percent, in the November 2007 program.<sup>8</sup>

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<sup>8</sup> For a discussion of the November 2007 agency programs see FYs 2008 and 2009 Agency Program in the March 2008 FCB staff report, beginning on page 31.

As shown in Table 6, the FY 2008 program consists of \$512 million in expense reductions and \$106 million in increased revenue. Of these amounts approximately \$492 million, or 80 percent, are of a recurring nature. The FY 2009 agency program consists of over \$1.164 billion in expense reductions and almost \$142 million in increased revenues. Of these amounts approximately \$1.079 billion, or 83 percent, are of a recurring nature.

In FY 2008, the largest addition to the November 2007 expenditure savings is by the Department of Correction, which added \$19.1 million spread across three initiatives. A surplus of salary for uniformed officers will save \$9.5 million and \$5.4 million will be realized by leasing beds to Suffolk County at the rate of \$125 per day per bed. The State Criminal Aliens Assistance Program will generate a savings of \$4.2 million. The remainder of the additional FY 2008 expenditure savings is spread across a number of other city agencies. The largest increase to FY 2008 revenues is over \$10 million generated by the Department of Transportation of which \$5 million is due to re-estimate of Red Light Camera fines. Additional revenue from multi-space meters will produce almost \$4 million and additional building related permit revenue will come to approximately \$1 million.

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

TABLE 6 (\$ 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)	---	(\$428.3)	---
Police	(33.8)	---	(135.6)	---
Sanitation	(31.0)	(8.7)	(70.5)	(16.1)
Social Services	(75.9)	---	(38.2)	(0.7)
Children's Services	(21.8)	---	(57.2)	---
Transportation	(0.2)	(27.5)	(15.6)	(17.5)
Fire	(17.3)	(3.1)	(24.1)	(6.4)
Finance	(0.4)	(8.6)	(10.6)	(29.0)
Health & Mental Hygiene	(12.0)	(5.0)	(23.3)	(5.8)
Correction	(23.2)	(1.0)	(20.5)	---
Citywide Services	(0.5)	(16.6)	(6.2)	(12.3)
Homeless Services	(10.6)	---	(24.6)	---
Parks & Recreation	(1.9)	---	(9.8)	(14.1)
Health & Hospitals	---	(10.1)	---	(2.5)
Procurement Savings	---	---	(55.5)	---
Other Agencies	(102.8)	(25.8)	(244.6)	(37.3)
<b>Total</b>	<b>(\$511.5)</b>	<b>(\$106.4)</b>	<b>(\$1,164.6)</b>	<b>(\$141.7)</b>
Note: Negative numbers represent a reduction in the city's budget gap.				

In FY 2009 the Department of Education has the largest amount of additional savings with \$104 million. These savings are spread across 11 individual initiatives. Among the largest savings is \$35 million realized through lower accrual reserves. An additional \$18 million is saved due to a combination of facility and infrastructure reductions. Efficiencies achieved in Central and Field Administration will save \$17 million. The Police Department plans additional expense reductions of over \$40 million in FY 2009 of which over \$15 million will be realized by reducing the July 2008 Police Academy class by 1,000 recruits. Another approximately \$12 million will be saved by a combination of reductions in traffic enforcement, precinct custodians and civilian vacancies. The Department of Sanitation plans to reduce expenses by an additional \$26

million in FY 2009. Of this amount almost \$22 million is due to a waste disposal contingency reduction.

On the revenue side, in FY 2009 the largest addition to the program is approximately \$19 million by the Department of Finance. The two largest initiatives are enhanced collection efforts prior to docketing which will raise \$8 million and a revised strategy for top 100 delinquent taxpayer collections which will provide \$5 million.

In FY 2008, over \$34.4 million in additional expense reductions will be spread across a number of city agencies. In FY 2009, \$101 million in additional expense reductions and \$17.7 million in added revenue increases are also spread over a number of city agencies.

## **Glossary of Acronyms**

<b>ADW/DWA</b>	Assistant Deputy Wardens/Deputy Wardens Association
<b>AIR</b>	Actuarial Interest Rate
<b>ARS</b>	Auction Rate Securities
<b>BSA</b>	Budget Stabilization Account
<b>CCA</b>	Correction Captains' Association
<b>CEA</b>	Captains Endowment Association
<b>COBA</b>	Correction Officers' Benevolent Association
<b>CY</b>	Calendar Year
<b>DEA</b>	Detectives' Endowment Association
<b>DJIA</b>	Dow Jones Industrial Average
<b>DOE</b>	Department of Education
<b>FCB</b>	Financial Control Board
<b>FY</b>	Fiscal Year
<b>GASB</b>	Governmental Accounting Standards Board
<b>GDP</b>	Gross Domestic Product
<b>G.O. Bonds</b>	General Obligation Bonds
<b>HFA</b>	New York State Housing Finance Agency
<b>HIP</b>	Health Insurance Plan
<b>HYIC</b>	Hudson Yards Infrastructure Corporation
<b>JSDC</b>	Jay Street Development Corporation
<b>LBA</b>	Lieutenants Benevolent Association
<b>MAC</b>	Municipal Assistance Corporation
<b>NYCRS</b>	New York City Retirement Systems
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYSNA</b>	New York State Nurses Association
<b>OPEB</b>	Other Post-Employment Benefits
<b>OSDC</b>	Office of the State Deputy Comptroller for the City of New York

<b>OT</b>	Overtime
<b>OTPS</b>	Other than Personal Services
<b>PBA</b>	Patrolmen's Benevolent Association
<b>PEG</b>	Program to Eliminate the GAP
<b>PERB</b>	Public Employees Relations Board
<b>PIT</b>	Personal Income Tax
<b>PS</b>	Personal Service
<b>RHBT</b>	Retiree Health Benefits Trust Fund
<b>SBA</b>	Sergeants Benevolent Association
<b>SOA</b>	Sanitation Officers Association
<b>S&amp;P 500</b>	Standard and Poor's 500 Stock Index
<b>STAR</b>	School Tax Relief Program
<b>STARC</b>	Sales Tax Asset Receivable Corporation
<b>UAAL</b>	Unfunded Actuarial Accrued Liability
<b>UFOA</b>	Uniformed Fire Officers Association
<b>USA</b>	Uniformed Sanitationmen's Association