

**TESTIMONY OF COMMISSIONER DAVID J. BURNEY, FAIA
DEPARTMENT OF DESIGN AND CONSTRUCTION**

**CITY COUNCIL FINANCE COMMITTEE HEARING
CITY HALL, MARCH 9, 2009**

GOOD AFTERNOON CHAIRMAN WEPRIN AND MEMBERS OF THE FINANCE COMMITTEE. I AM DAVID BURNEY, COMMISSIONER OF THE DEPARTMENT OF DESIGN AND CONSTRUCTION. I AM PLEASED TO BE WITH YOU TODAY. I HAVE A BRIEF STATEMENT THAT I BELIEVE WILL BE OF INTEREST TO THE COMMITTEE, AFTER WHICH I WILL GLADLY ANSWER ANY QUESTIONS.

THE AGENCY'S CURRENT FISCAL YEAR 2009 OPERATING BUDGET IS \$98.1 MILLION. OF THAT, \$84.2 MILLION IS FOR PERSONAL SERVICES WITH A BUDGETED HEADCOUNT OF 1,310, AND \$13.9 MILLION IS FOR OTHER THAN PERSONAL SERVICES. THE PROJECTED FISCAL YEAR 2010 OPERATING BUDGET IS \$99.4 MILLION. OF THAT, \$85.8 MILLION IS FOR PERSONAL SERVICES WITH A BUDGETED HEADCOUNT OF 1,310, AND \$13.6 MILLION IS FOR OTHER THAN PERSONAL SERVICES.

WITH FOUR MONTHS REMAINING IN FISCAL YEAR 2009, I AM PLEASED TO REPORT THAT DDC EXPECTS TO MEET OR EXCEED ITS MAJOR STATISTICAL INDICATORS THAT REFLECT ITS MISSION TO DELIVER THE CITY'S CONSTRUCTION PROJECTS IN AN EXPEDITIOUS, COST-EFFECTIVE MANNER,

WHILE MAINTAINING THE HIGHEST DEGREE OF ARCHITECTURAL, ENGINEERING, AND CONSTRUCTION QUALITY. WE EXPECT TO MEET OR EXCEED OUR CONSTRUCTION COMPLETION INDICATORS WHILE MAINTAINING A CHANGE ORDER RATE WELL BELOW INDUSTRY STANDARDS.

OF THE 10 DDC CRITICAL PERFORMANCE INDICATORS INCLUDED IN THE CITY'S CPR (CITY-WIDE PERFORMANCE REPORTING) TOOL WHICH HAS APPEARED ON NYC.GOV FOR THE PAST YEAR, SIX ARE CATEGORIZED AS "GREEN," MEANING STABLE OR IMPROVING COMPARED TO THE SAME PERIOD LAST YEAR. THESE SIX INDICATORS ARE FOR STRUCTURES DESIGN PROJECTS COMPLETED EARLY OR ON-TIME, ACTIVE DESIGN AND CONSTRUCTION PROJECTS ON OR AHEAD OF SCHEDULE, THE DIFFERENCE BETWEEN SCHEDULED AND PROJECTED DURATIONS FOR ALL ACTIVE DESIGN AND CONSTRUCTION PROJECTS, AND AVERAGE COST CHANGE FOR ALL COMPLETED CONSTRUCTION PROJECTS. THE REMAINING INDICATORS ARE IN THE "YELLOW" CATEGORY, INDICATING A MINOR DOWNWARD TREND COMPARED TO THE PREVIOUS YEAR. THESE INDICATORS ARE FOR INFRASTRUCTURE DESIGN AND CONSTRUCTION PROJECTS COMPLETED EARLY OR ON-TIME, STRUCTURES CONSTRUCTION PROJECTS COMPLETED EARLY OR ON-TIME, AND FOR POST-CONSTRUCTION SATISFACTION SURVEYS.

COMMITMENT PLAN REGISTRATIONS FOR THE FIRST FOUR MONTHS OF FISCAL YEAR 2009 AMOUNTED TO 10 % OF THE ANNUAL TARGET. THIS IS COMPARED TO SEVEN PERCENT FOR THE SAME PERIOD LAST YEAR. AT THIS TIME, THE AGENCY EXPECTS TO MEET OR EXCEED THE TARGET BY THE END OF THE FISCAL YEAR.

WE ANTICIPATE A POSSIBLE 30% REDUCTION IN CAPITAL FUNDS FROM FY2010 ONWARD AND WE AWAIT OUR CLIENT AGENCY DECISIONS AS TO HOW THIS REDUCTION WILL BE IMPLEMENTED.

SUSTAINABLE BUILDING DESIGN HAS NOW BECOME A STANDARD THROUGHOUT THE CONSTRUCTION INDUSTRY. AS YOU KNOW, DDC ESTABLISHED AN OFFICE OF SUSTAINABLE DESIGN IN 1997 AND HAS PUBLISHED A NUMBER OF GUIDELINES FOR HIGH PERFORMANCE BUILDING GUIDELINES AS WE SOUGHT TO TAKE THE LEAD IN THIS FIELD. DDC WAS SUPPORTED IN THIS EFFORT BY THE PASSING OF LOCAL LAW 86 (THE LEED BASED REQUIREMENTS LEGISLATION PASSED BY COUNCIL AND IMPLEMENTED BY DDC IN 2006). DDC'S CAPITAL PROJECTS ARE BEING DESIGNED TO CONSUME LESS ENERGY AND POTABLE WATER, PRODUCE LESS GREEN HOUSE GAS, AND TO SPECIFY ENVIRONMENTALLY SOUND BUILDING MATERIALS. ACCORDING TO THE LOCAL LAW 86 ANNUAL REPORT, ISSUED BY THE MAYOR'S OFFICE IN NOVEMBER 2008, DDC PROJECTS REPRESENTED 57% OF THE CITY TOTAL CONSTRUCTION COSTS OF

PROJECTS SUBJECT TO LL86 PROVISIONS AND 64% OF THE TOTAL SQUARE-FOOTAGE OF SUCH PROJECTS. THE PROJECTS RANGE FROM SMALL LOCAL CULTURAL INSTITUTIONS TO A POLICE TRAINING ACADEMY. SINCE PROJECTS MUST BE COMPLETED TO DETERMINE SAVINGS AMOUNTS, FINAL CONCLUSIONS ARE YET TO COME. HOWEVER, EARLY DATA ON REPRESENTATIVE PROJECTS INDICATES AN AVERAGE SEVEN YEAR PAYBACK IN ENERGY SAVINGS ALONE FOR THE ADDITIONAL CONSTRUCTION COSTS.

THE CURRENT RATE OF ENERGY CONSERVATION SUPPORTS THE PlaNYC GOAL OF 30% REDUCTION IN GREENHOUSE GAS EMISSION FROM CITY OPERATIONS BY 2017.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO HIGHLIGHT SOME OF THE PROJECTS DDC IS CURRENTLY WORKING ON THAT MAY BE OF INTEREST TO YOU.

SCHEMATIC DESIGN WORK IS NEARING COMPLETION ON THE NEW POLICE ACADEMY, A CONSOLIDATED TRAINING COMPLEX THAT WILL REPLACE NYPD'S CURRENT OUTMODDED AND DISPERSED FACILITIES. THE PROGRAM INCLUDES APPROXIMATELY 2.5 MILLION SQUARE FEET OF INSTRUCTIONAL SPACE COMPRISED OF: CLASSROOM AND SUPPORT AREAS; A TACTICAL VILLAGE; INDOOR PISTOL RANGES; PHYSICAL TRAINING FACILITIES

INCLUDING AN OUTDOOR TRACK; AND AN EMERGENCY VEHICLE OPERATOR'S TRAINING COURSE. IT IS DESIGNATED FOR A 35-ACRE SITE IN COLLEGE POINT, QUEENS, WITH CONSTRUCTION SCHEDULED TO COMMENCE IN LATE 2009. DDC IS CURRENTLY WORKING WITH NYPD TO IDENTIFY THE FIRST CONSTRUCTION PACKAGE, TO BE REALIZED WITHIN EXISTING FUNDING ALLOCATION.

THE NEW PUBLIC SAFETY ANSWERING CENTER (PSAC) II, A NEW 550,000-SQUARE- FOOT FACILITY THAT WILL HOUSE THE CITY'S SECOND 911 CALL ANSWERING / DISPATCH CENTER, WILL BE LOCATED IN THE BRONX, ON A NINE-ACRE SITE AT THE INTERSECTION OF THE HUTCHINSON RIVER PARKWAY AND PELHAM PARKWAY. IT WILL OPERATE IN CONJUNCTION WITH PSAC I (LOCATED IN DOWNTOWN BROOKLYN), SHARING THE CALL LOAD AND PROVIDING REDUNDANT OPERATION THIS PROJECT IS EXPECTED TO START CONSTRUCTION IN LATE 2009, AND WILL TAKE APPROXIMATELY THREE YEARS FOR DDC TO COMPLETE ITS PORTION OF THE WORK. ACQUISITION OF THE PRIVATELY-OWNED SITE IS BEING HANDLED BY DCAS. THE ULURP APPLICATIONS FOR THIS PROJECT (SITE SELECTION AND ACQUISITION AND STREET MAPPING) WERE APPROVED BY THE DEPARTMENT OF CITY PLANNING LAST MONTH, WITH FINAL APPROVAL PENDING A VOTE BY THE CITY COUNCIL.

IN FEBRUARY 2008, DDC WAS ASKED TO ASSIST DCAS IN IMPLEMENTING VARIOUS REPAIR PROJECTS AT CITY HALL. THE PROJECTS INCLUDE:

- LIFE SAFETY REPAIRS TO VARIOUS BUILDING COMPONENTS INCLUDING REINFORCEMENT OF DETERIORATED WOOD ROOF TRUSSES IN VARIOUS AREAS**
- FIRE SAFETY MEASURES INCLUDING INSTALLATION OF A BUILDING-WIDE SPRINKLER SYSTEM**
- REPAIR AND RESTORATION OF THE COUNCIL CHAMBER CEILING.**
- REPLACEMENT OF THE ELEVATOR.**
- REPAIRS AND RECONFIGURATION OF COUNCIL AREAS ON THE GROUND FLOOR AND BASEMENT.**
- BUILDING-WIDE FIRE ALARM SYSTEM AND HVAC COMPONENTS.**

THIS WORK WILL BE COMPLETED OVER THE NEXT FEW YEARS AS WE WORK WITH THE BUILDING OCCUPANTS TO MINIMIZE DISRUPTION AND THE NEED FOR TEMPORARY RELOCATION.

IN ADDITION, DDC IS MANAGING DESIGN AND CONSTRUCTION FOR NEW OR RENOVATED FACILITIES THAT INCLUDE 79 LIBRARIES; 7 POLICE PRECINCTS; 35 FIRE / EMS FACILITIES; 57 DEPARTMENT OF HEALTH AND MENTAL

HYGIENE FACILITIES; AND 119 CULTURAL INSTITUTIONS FUNDED BY THE DEPARTMENT OF CULTURAL AFFAIRS.

IN BROOKLYN, WORK IS PROGRESSING ON THE RECONSTRUCTION OF 86TH STREET, FROM SHORE ROAD TO GATLING PLACE. THIS \$27 MILLION PROJECT, WHICH INCLUDES REPLACEMENT OF WATER MAINS AND SEWERS, IS SCHEDULED FOR COMPLETION IN THE FALL OF 2009. CONSTRUCTION IS ON AN ACCELERATED SCHEDULE AND WORK TO COMPLETE RESTORATION OF THE ROADWAY IN THE BUSINESS IMPROVEMENT DISTRICT ALONG 86TH STREET BETWEEN 4TH AVENUE & FORT HAMILTON PARKWAY WILL RESUME AS SOON AS THERE IS WARM ENOUGH WEATHER. THIS PROJECT IS BEING COORDINATED THROUGH THE COMMUNITY BOARD, BUSINESS IMPROVEMENT DISTRICT, MAYOR'S OFFICE COMMUNITY AFFAIRS UNIT AND WITH LOCAL ELECTED OFFICIALS.

IN MANHATTAN, WORK CONTINUES ON THE RECONSTRUCTION OF HOUSTON STREET, FROM WEST STREET TO THE BOWERY. IN ADDITION TO SEWER AND WATER MAIN REPLACEMENT, THIS \$30 MILLION PROJECT INCLUDES NEW LEFT TURN BAYS TO IMPROVE TRAFFIC FLOW, WIDER MEDIANS AND EXTENSIVE TREE PLANTING. WORK ON THIS PROJECT, WHICH IS NOW APPROXIMATELY 95 PERCENT COMPLETE, IS EXPECTED TO BE FINISHED BY JUNE OF 2009. THE SECOND PHASE OF THIS WORK –THE RECONSTRUCTION OF EAST HOUSTON STREET – WILL BE BID THIS SUMMER.

WORK IS PROCEEDING ON THE RECONSTRUCTION OF FULTON STREET IN MANHATTAN, A \$30 MILLION PROJECT IN WHICH CITY AND PRIVATE UTILITY WORK, WAS JOINTLY BID AS A SINGLE CONTRACT. THE WORK INCLUDES MAJOR UTILITY AND INFRASTRUCTURE UPGRADES AND ACCOMMODATIONS FOR THE NEW FULTON TRANSIT HUB. THE CONTRACTOR, WHO IS CURRENTLY WORKING AT SEVERAL LOCATIONS THROUGHOUT THE FULTON STREET CORRIDOR INCLUDING THE RECONFIGURATION AT DELURY SQUARE, HAS BEEN DIRECTED TO COMPLETE ALL WORK ON FULTON STREET BETWEEN GOLD AND CHURCH STREETS BY EARLY 2010 TO ALLOW THE EDC FULTON STREET STOREFRONT IMPROVEMENT PROGRAM TO COMMENCE. ACCOMMODATIONS FOR TRAFFIC AND BUILDING ACCESS HAVE BEEN A PRIORITY. COMPLETION OF THIS PROJECT IS SCHEDULED FOR THE FALL OF 2011.

AS A FOLLOW-UP TO MY PREVIOUS TESTIMONY CONCERNING CAPITAL PROJECTS ON NON-CITY OWNED PROPERTY, OUR STAFFS CONTINUE WORKING TOGETHER, ALONG WITH THE OMB TASK FORCE, TO FACILITATE THESE PROJECTS AND IMPROVE THE PROCESS. LAST YEAR, DDC LAUNCHED A COMPLETELY RE-DESIGNED INTERNET WEBSITE, AND ALONG WITH OTHER ENHANCEMENTS, THE DISCRETIONARY FUNDING SECTION HAS BEEN UPDATED WITH THE LATEST FORMS AND POLICY INFORMATION. AS OF THIS MONTH, IN TOTAL, 15 OF THESE PROJECTS HAVE BEEN REGISTERED SINCE THE BEGINNING OF THE FISCAL YEAR. TEN ADDITIONAL PROJECTS HAVE

APPROVED CP's AND ARE AWAITING REGISTRATION. WE CONTINUE TO WORK WITH THE NOT-FOR-PROFITS TO GET THEIR PROJECTS THROUGH VARIOUS STAGES OF THE APPROVAL PROCESS EITHER AT DDC, OMB, THE LAW DEPARTMENT OR THE COMPTROLLER'S OFFICE. AS I HAVE NOTED BEFORE, ENSURING THAT RECIPIENT ORGANIZATIONS ARE PROVIDED WITH COMPLETE INFORMATION ABOUT THE PROCESS UPFRONT, WILL RESULT IN FASTER COMPLETIONS. WE EXPECT THAT THE TASKFORCE'S NEW GUIDELINES AND APPLICATION FORMS RESULT IN MUCH FASTER PROCESSING OF THESE PROJECTS AS MANY ISSUES WE CURRENTLY DEAL WITH WILL BE RESOLVED BEFORE THEY REACH DDC. WE CONTINUE TO EXTEND OUR OFFER TO MEET WITH RECIPIENT ORGANIZATIONS TO PROVIDE ASSISTANCE AND ANSWER QUESTIONS.

DDC CONTINUES TO SEND SATISFACTION SURVEYS FOR COMPLETED CONSTRUCTION PROJECTS TO CLIENT CITY AGENCIES, RANDOMLY SELECTED RESIDENTS AND BUSINESSES IMPACTED BY STREET WORK, AND TO ELECTED OFFICIALS. THE SURVEY IS ALSO AVAILABLE TO THE GENERAL PUBLIC ON DDC'S WEB SITE. IT INCLUDES QUESTIONS ABOUT THE EFFECTIVENESS OF COMMUNICATION, THE LEVEL OF DISRUPTION TO THE COMMUNITY, HOW WELL THE SCHEDULE WAS ADHERED TO AND OVERALL SATISFACTION WITH THE RESULTS. FOR THE FIRST SIX MONTHS OF THIS FISCAL YEAR, 86 PERCENT OF THE RESPONDENTS GAVE AN OVERALL RATING OF SATISFIED OR MORE THAN SATISFIED BOTH WITH THE WAY THE

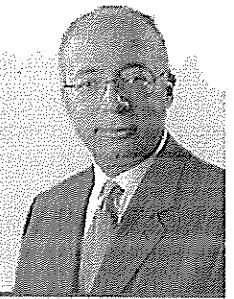
PROJECT WAS MANAGED AND THE OUTCOME. THE RESPONSE IS VALUABLE
IN PLANNING FOR FUTURE PROJECTS AND TO IDENTIFY AREAS FOR THE
AGENCY TO IMPROVE PERFORMANCE.

THAT CONCLUDES MY PREPARED REMARKS AND I WILL BE HAPPY TO
ANSWER ANY QUESTIONS YOU MAY HAVE.



NEWS

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FOR IMMEDIATE RELEASE

March 9, 2009

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THOMPSON TESTIFIES BEFORE NEW YORK CITY COUNCIL ON MAYOR'S PRELIMINARY FY 2010 BUDGET

New York City Comptroller William C. Thompson, Jr. today testified before the New York City Council Finance Committee on the Mayor's Preliminary Budget for Fiscal Year 2010 and the Financial Plan for Fiscal Years 2009 to 2013.

Thompson testified after releasing his analysis of the mayor's budget and financial plan. That report is available at www.comptroller.nyc.gov. Thompson's testimony is below:

Good afternoon. I would like to thank Committee Chair David Weprin and all of the members of the City Council Finance Committee for the opportunity to comment on the Mayor's Preliminary Budget for Fiscal Year 2010 and the Financial Plan for Fiscal Years 2009 to 2013.

With me today is Deputy Comptroller for Budget Marcia Van Wagner.

We meet this year under extraordinary circumstances. The collapse of a massive housing and credit bubble in the U.S. has propelled the world into a global recession. The reverberations within the financial sector have drained trillions of dollars of wealth from the balance sheets of U.S. households.

While New York City made it through much of 2008 without feeling the sting of the growing crisis, the city's economic and fiscal situation deteriorated rapidly last autumn, prompting the Mayor to significantly downgrade his economic and revenue forecast in the November modification.

The January Preliminary FY 2010 Budget and Five-Year Financial Plan presents more bad news, as the mayor has revised his economic and tax revenue forecasts further downward. Since the November projections, tax revenues are expected to decline by over a billion dollars for the current fiscal year, and by close to 2 billion dollars for fiscal years 2010 to 2013.

These contractions have widened the FY 2010 gap to 3.6 billion dollars and increased the out year gaps in the remaining years of the Financial Plan to almost 7 billion dollars before proposed initiatives to close the gap. Among those gap-closing initiatives are additional agency spending reductions, sales tax increases, pension reform, and employee health care restructuring.

As you know, the city is prevented by law from establishing a rainy day “reserve” account for use in later years. Instead, the City uses prepayments of future year expenses, especially debt service, to “roll” its surpluses forward.

This surplus roll grew every year between 2001 and 2008, as city revenues exceeded our expenses. This trend has now reversed. Of a 4.64 billion dollar prepayment made in Fiscal Year 2008, the City plans to roll forward only one and a half billion dollars, using the remaining three billion to balance the FY 2009 budget.

In my office’s review of preliminary FY 2010 Budget and Five-Year Financial Plan, we have identified a variety of risks and offsets to the Mayor’s projections. On net, these factors could result in significantly larger budget gaps throughout the Financial Plan period.

Indeed, instead of budget balance in fiscal years 2009 and 2010, the City may face gaps of 54 million dollars and 1.9 billion, respectively. Net risks are approximately 3 billion dollars in the out years, leading to gaps of 6.7 billion dollars in FY 2011, 7 billion dollars in FY 2012 and 6.9 billion dollars in FY 2013.

My office predicts that the national recession is likely to be deeper than what is anticipated by the current consensus forecast, and that the subsequent recovery will be weak. While we believe that the City’s downturn in 2009 will not be as sharp as the Mayor’s forecast suggests, the local economic recovery will be more tentative, and tax collections more anemic. This more pessimistic view underlies expectations of lower tax collections throughout the Financial Plan period.

For FY 2009, we project that collections of business, sales, and real-estate-related taxes will fall short of the Mayor’s forecast based on current collection trends. Additional risks include 242 million dollars related to partially restored revenue sharing and overtime spending on the order of 111 million dollars.

These risks will be partly offset by restitution agreements worked out by the Manhattan District Attorney’s Office that is 125 million dollars greater than what was anticipated in the FY 2009 budget.

In addition, under the State’s allocation plan for the enhanced FMAP¹ funding provision in the American Recovery and Reinvestment Act of 2009, the City will receive a net offset of \$607 million to Medicaid spending in FY 2009. However, the allocation will fall short of the City’s projections by \$77 million in FY 2010 and \$612 million in FY 2011, resulting in an overall net reduction of \$82 million from Plan assumptions.

Getting back to the issue of overtime for just a moment, I want to emphasize that the city routinely underestimates the amount budgeted for this cost, which then widens the budget gap that must be closed. Last year alone, the city’s overtime expenses for police,

firefighters and civilian workers exceeded 1 billion dollars for the first time since 9/11. It would serve the city's budget process greatly if OMB and the agencies were to budget overtime more realistically moving forward.

In the out years of the Plan, most of the risks result from gap closing initiatives that rely on actions by third parties, including an average of 1 billion dollars annually from proposed health insurance restructuring and employee premium contribution, pension reform, and the restoration of State revenue sharing. Until we get more clarity from the State and labor unions on how they will proceed with these proposals, the outcomes remain uncertain.

One gap closing idea the city is pursuing is an increase in the sales tax, which the Mayor suggests could bring in an average of 950 million dollars annually in fiscal years 2010 through 2013. Because that tax is regressive and disproportionately impacts the very New Yorkers struggling to make ends meet in the current downturn, I have proposed an alternative tax on individuals making 500,000 dollars and above.

Specifically, I am recommending a 4.3 percent tax rate on taxpayers with taxable income of 500,000 dollars and a 4.8 percent tax on taxpayers with taxable income of a million dollars or more, compared to the current rate of roughly 3.65 percent. As with the State income tax, these rates would be flat rates rather than applying only to the margin of income. Based on estimates by my office, this would yield nearly 1 billion dollars in calendar year 2009 and a similar amount in the City Fiscal Year 2010.

The City workforce is projected to decline more than 21,000 from FY 2009 to FY 2010 and remain at around 220,000 throughout the plan period. While the bulk of those positions – most of them teachers -- may be restored with Federal stimulus funds, the Financial Plan presents these headcount cuts as permanent. Thus stimulus funds may only delay, not prevent, the reductions.

Complicating the City's efforts are actions being taken by the State to close a gap of nearly 14 billion dollars that will increase the City's fiscal challenges. For instance, the State has interpreted the stimulus bill such that the City would receive about 80 million dollars less Federal Medicaid assistance in fiscal years 2009 through 2011 than it has budgeted.

Finally, to reduce debt service costs, the Mayor has proposed a 30 percent cut in the capital commitment plan beyond a 20 percent reduction outlined in the November capital plan. Together, the reductions would result in debt service savings of about 1 billion dollars in fiscal years 2010 through 2013 out of a total debt service expense of just over 20 billion dollars.

We don't yet know how the 30 percent reduction will be implemented, but it would be entirely appropriate for the city to focus on the preservation of maintenance and a state of good repair. Our experience with the fiscal crisis of the 1970s demonstrated that we defer maintenance at our own risk. Let's show that we really did learn that lesson.

Indeed New York City has acquired its reputation as a premiere place to live and do business by keeping crime down, by pursuing exciting new economic development initiatives, by luring new industries like motion pictures and high tech, and by expanding a thriving entertainment and hospitality industry.

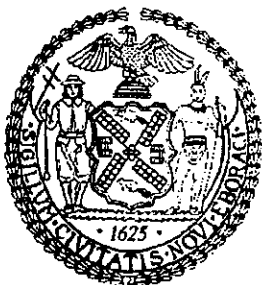
We must continue to do all we can to maintain that reputation. With careful nurturing and attention to the fundamentals of our economy, New York will continue to represent to new generations that place where dreams are forged and government faces down its challenges with a commitment to innovation, diversity, and progress.

Those are the values our great City was founded upon, those are the values that will see us through our current economic troubles, and those are the values that will keep us strong long into the future.

Thank you very much.

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The Comptroller's Comments on the Preliminary Budget for FY 2010 and the Financial Plan for FYs 2009-2013



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

March 2009

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I. Executive Summary

The collapse of a massive housing and credit bubble in the U.S. has propelled the world into a global recession. The reverberations within the financial sector have drained trillions of dollars of wealth from the balance sheets of U.S. households. While through much of 2008 New York City was slow to exhibit the impacts of the growing economic crisis, the city's economic and fiscal situation deteriorated rapidly in the autumn, prompting the Mayor to significantly downgrade his economic and revenue forecast in the November Modification to the Four-Year Financial Plan.

The January Preliminary FY 2010 Budget and Five-Year Financial Plan offers further downward revisions to the economic and tax revenue forecasts. Tax revenues are expected to decline \$1.1 billion in FY 2009, \$2 billion in FY 2010, \$1.8 billion in FY 2011, \$2 billion in FY 2012, and \$1.9 billion in FY 2013 from the November projections. The revisions widened the FY 2010 gap to \$3.611 billion and increased the outyear gaps in the remaining years of the Financial Plan to almost \$7 billion, before implementation of gap closing initiatives. Among the proposed actions to address the increased gaps are additional agency spending reductions, sales tax increases, pension reform, and employee health care restructuring.

Prevented by law from establishing reserve accounts for use in later years, the City uses prepayments of future year expenses (particularly debt service) to "roll" its surpluses forward. This surplus roll grew each year from FY 2001 to FY 2008, reflecting surging revenues that exceeded each year's expenses. This trend has now reversed. Of a \$4.635 billion prepayment made in FY 2008, the City plans to roll forward only \$1.553 billion, using the remaining \$3.082 billion to balance the FY 2009 Budget.

Final passage of the American Recovery and Reinvestment Act of 2009 was not completed at the time the January Plan was issued. Some portions of the Act will provide budget relief while other actions will restore services slated for cuts. The largest relief will come in the form of reduced Medicaid expenses for the City. This item was the only portion of the Act anticipated by the Mayor in the Financial Plan. In addition, funds for education spending will substitute at least in part for State education aid reductions that had led the Mayor to project a reduction of more than 14,000 in pedagogical headcount.

In its review of the Preliminary FY 2010 Budget and Five-Year Financial Plan, the Comptroller's Office has identified risks and offsets to the Mayor's projections. On net, these factors could result in significantly larger budget gaps throughout the Financial Plan period. Instead of budget balance in FY 2009 and FY 2010, the City may face gaps of \$54 million and \$1.865 billion, respectively. Net risks approximate \$3 billion in the outyears, leading to gaps of \$6.684 billion in FY 2011, \$6.982 billion in FY 2012 and \$6.862 billion in FY 2013.

In the view of the Comptroller's Office, the national recession is likely to be deeper than the current consensus forecasts, and the subsequent recovery will be weak. While the Comptroller's Office anticipates that the City's downturn in 2009 will not be as sharp as

portrayed in the Mayor's forecast, the local economic recovery will be more tentative, and tax collections more anemic. This more pessimistic view underlies expectations of lower tax collections throughout the Financial Plan period.

In FY 2009, the Comptroller's Office projects that collections of the business, sales, and real-estate-related taxes will fall short of the Mayor's forecast based on current collection trends. Legislation to increase sales taxes has not been acted upon by the State Legislature, so \$77 million of sales tax revenue are also at risk. Additionally, the Comptroller's Office identifies a risk of \$242 million pertaining to the City's assumption that there will be a partial restoration of revenue sharing by the State, and an overtime spending risk of \$112 million. These risks will be partly offset by restitution agreements achieved by the Manhattan District Attorney's Office that is \$125 million greater than anticipated in the FY 2009 Budget, and the timing of the enhanced funding for Federal Medical Assistance Percentage from the American Recovery and Reinvestment Act of 2009 that would reduce the City's Medical Assistance spending by \$607 million. Overall, however, the State's interpretation of language in the Act would leave the City \$82 million short of its projections.

Despite a more pessimistic overall tax revenue forecast, the Comptroller's Office expects a gradual return to normal levels of real estate transactions volume beginning in 2010. As a result, real-estate-related taxes are expected to exceed the Mayor's projections in FY 2010. Overall, risks to the sales, personal and business income taxes outweigh any upside to the Comptroller's real-estate-related tax revenues.

In the outyears of the Plan, the bulk of the risks result from gap closing initiatives that rely on actions by third parties. Specifically, the City expects an average of \$1 billion annually in budget relief in each of FYs 2010 through 2013 from proposed health insurance restructuring and employee premium contribution, pension reform and the restoration of State revenue sharing. These actions require either State or labor union approval. In addition, the City's assumption of additional sales tax revenues from sales tax increases would also require State legislative approval. Until there is some indication from the State or labor unions on how they will proceed with these proposals, the outcomes remain uncertain.

City-funded headcount is projected to decline more than 21,000 from FY 2009 to FY 2010 and remain at about 220,000 throughout the Plan period. The bulk of these reductions occur in the Department of Education. However, pedagogical headcount is likely to be restored with the American Recovery and Reinvestment Act funds. Reductions slated for the police department may also be at least partially offset with stimulus funds. Since the Financial Plan foresees these headcount reductions to be permanent, stimulus funds may only delay, but not prevent, the reductions.

To reduce debt service costs, the Mayor has proposed an additional 30 percent cut in the capital commitment plan. This reduction is on the heels of a 20 percent reduction outlined in the November capital plan. Together, the reductions would result in debt service savings of about \$1 billion in FYs 2010 through 2013 out of a total debt service expense of \$20.5 billion. The 30 percent reduction has not yet been itemized, but the projected savings

are included in the Financial Plan. The trade-offs made between expansion projects and maintaining City assets in a state of good repair cannot yet be evaluated, but they will be of growing concern as capital dollars become more limited.

The situation facing the City would be considerably worse had it not applied a portion of excess resources accumulated when the economy was growing to produce savings in future budgets. In FY 2007, the City defeased General Obligation (G.O.) and New York City Transitional Finance Authority (NYCTFA) debt, resulting in lower debt service spending of \$1.36 billion from FY 2008 through FY 2010. In FY 2008, the City prepaid nearly \$2 billion of FY 2010 debt service. The City also provided an asset base for a Retiree Health Benefit Trust Fund (RHBTF), to partially offset its growing liability for the value of health benefits promised to municipal retirees. However, the catastrophic scale of the global downturn has far outweighed the City's prudence.

Complicating the City's efforts is the daunting State budget deficit. The State Legislature is contemplating measures to close a gap of nearly \$14 billion in its upcoming 2009-2010 fiscal year. Since a large portion of State expenditure is devoted to various forms of aid to localities, municipalities suffer when the State closes budget gaps. Furthermore, the budgeting culture of Albany leads to "sweeps" of the cash reserves of a range of State entities, which form a haphazard State rainy day fund, and various cash flow manipulations and gimmicks. In addition to outright reductions in education aid and revenue sharing, for example, included in the Governor's Executive Budget is a proposal that the Battery Park City Authority borrow against its future revenues for the benefit of the state budget, which would reduce revenue to the City for the life of the bonds. The State Division of Budget also took actions that, while they have no budgetary impact for the City, will reduce the City's cash balances in the second half of this fiscal year and perhaps subsequent years as well. These actions include delaying reimbursements for the personal income tax component of School Tax Relief (STAR) aid and State aid for senior colleges.

The Bloomberg Administration's fiscal management has been notable for its minimal use of one-shots and gimmicks that has intermittently characterized City budgeting. There have been significant exceptions, such as the use of \$2 billion in emergency borrowing authority to close budget gaps in the aftermath of the 9/11 attacks and the 2001-2002 recession. In this Financial Plan, the City deems it necessary to draw upon \$1.2 billion of the balances accumulated in the RHBTF to partly offset increased City pension contributions that will be required as a result of market losses. These actions have a cost in the form of future debt service payments and higher future retiree health bills. It is critical that the City's budget planners explicitly consider the balance between costs to future taxpayers and the maintenance of current services should additional actions that yield one-time revenue infusions be contemplated.

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Table 1. FY 2009 – FY 2013 Financial Plan

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2009 – 2013	
						Dollar	Percent
Revenues							
Taxes:							
General Property Tax	\$14,500	\$16,390	\$17,322	\$17,911	\$18,299	\$3,799	26.2%
Other Taxes	\$20,937	\$19,126	\$20,992	\$22,619	\$24,182	\$3,245	15.5%
Tax Audit Revenues	\$680	\$596	\$596	\$595	\$594	(\$86)	(12.6%)
Miscellaneous Revenues	\$5,945	\$5,739	\$5,908	\$5,976	\$5,992	\$47	0.8%
Unrestricted Intergovernmental Aid	\$254	\$254	\$254	\$254	\$254	\$0	0.0%
Less: Intra-City Revenues	(\$1,631)	(\$1,462)	(\$1,462)	(\$1,462)	(\$1,462)	\$169	(10.4%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$40,670	\$40,628	\$43,595	\$45,878	\$47,844	\$7,174	17.6%
Other Categorical Grants	\$1,104	\$1,021	\$1,023	\$1,026	\$1,025	(\$79)	(7.2%)
Inter-Fund Revenues	\$477	\$445	\$437	\$434	\$433	(\$44)	(9.2%)
Total City & Inter-Fund Revenues	\$42,251	\$42,094	\$45,055	\$47,338	\$49,302	\$7,051	16.7%
Federal Categorical Grants	\$6,037	\$5,326	\$5,323	\$5,334	\$5,334	(\$703)	(11.6%)
State Categorical Grants	\$12,031	\$11,629	\$12,127	\$12,390	\$12,833	\$802	6.7%
Total Revenues	\$60,319	\$59,049	\$62,505	\$65,062	\$67,469	\$7,150	11.9%
Expenditures							
Personal Service							
Salaries and Wages	\$22,019	\$21,817	\$22,980	\$23,203	\$23,472	\$1,453	6.6%
Pensions	\$6,383	\$6,502	\$7,031	\$7,280	\$7,554	\$1,171	18.3%
Fringe Benefits	\$6,774	\$6,451	\$6,504	\$6,767	\$7,711	\$937	13.8%
Subtotal-PS	\$35,176	\$34,770	\$36,515	\$37,250	\$38,737	\$3,561	10.1%
Other Than Personal Service							
Medical Assistance	\$5,644	\$4,756	\$4,916	\$6,089	\$6,270	\$626	11.1%
Public Assistance	\$1,313	\$1,299	\$1,299	\$1,299	\$1,299	(\$14)	(1.1%)
All Other	\$18,477	\$17,787	\$18,601	\$19,256	\$19,834	\$1,357	7.3%
Subtotal-OTPS	\$25,434	\$23,842	\$24,816	\$26,644	\$27,403	\$1,969	7.7%
Debt Service							
Principal	\$1,567	\$1,649	\$1,963	\$2,022	\$2,022	\$455	29.1%
Interest & Offsets	\$2,296	\$2,735	\$2,820	\$3,189	\$3,474	\$1,178	51.3%
Subtotal Debt Service	\$3,863	\$4,384	\$4,783	\$5,211	\$5,496	\$1,633	42.3%
FY 2007 BSA	(\$34)	(\$31)	\$0	\$0	\$0	\$34	(100.0%)
FY 2008 BSA	(\$4,089)	\$0	\$0	\$0	\$0	\$4,089	(100.0%)
FY 2009 BSA	\$1,553	(\$1,007)	\$0	\$0	\$0	(\$1,553)	(100.0%)
FY 2010 BSA	\$0	\$350	(\$350)	\$0	\$0	\$0	N/A
Prepayments	\$0	(\$2,036)	\$0	\$0	\$0	\$0	N/A
Debt Retirement							
Call 2009/2010 GO Debt	(\$279)	(\$277)	\$0	\$0	\$0	\$279	(100.0%)
Defease NYCTFA Debt	(\$362)	(\$382)	\$0	\$0	\$0	\$362	(100.0%)
Subtotal Debt Retirement	(\$641)	(\$659)	\$0	\$0	\$0	\$641	(100.0%)
Transfer for NYCTFA Debt Service	(\$546)	(\$546)	\$0	\$0	\$0	\$546	(100.0%)
NYCTFA							
Principal	\$475	\$497	\$575	\$634	\$634	\$159	33.3%
Interest & Offsets	\$658	\$646	\$539	\$524	\$528	(\$130)	(19.8%)
Subtotal NYCTFA	\$1,134	\$1,144	\$1,114	\$1,158	\$1,162	\$28	2.5%
General Reserve	\$100	\$300	\$300	\$300	\$300	\$200	200.0%
Less: Intra-City Expenses	(\$1,631)	(\$1,462)	(\$1,462)	(\$1,462)	(\$1,462)	\$169	(10.4%)
Total Expenditures	\$60,319	\$59,049	\$65,716	\$69,101	\$71,636	\$11,317	18.8%
Gap To Be Closed	\$0	\$0	(\$3,211)	(\$4,039)	(\$4,167)	(\$4,167)	N/A

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

Table 2. Plan-to-Plan Changes
January 2009 Plan vs. November 2008 Plan

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012
Revenues				
Taxes:				
General Property Tax	(\$249)	\$40	(\$41)	(\$259)
Other Taxes	(\$737)	(\$1,149)	(\$831)	(\$768)
Tax Audit Revenues	\$0	\$7	\$7	\$6
Miscellaneous Revenues	\$124	\$276	\$402	\$453
Unrestricted Intergovernmental Aid	(\$86)	(\$86)	(\$86)	(\$86)
Less: Intra-City Revenues	(\$24)	(\$15)	(\$16)	(\$16)
Disallowances Against Categorical Grants	\$0	\$0	\$0	\$0
Subtotal: City Funds	(\$972)	(\$927)	(\$565)	(\$670)
Other Categorical Grants	\$29	\$2	\$3	\$3
Inter-Fund Revenues	\$13	\$20	\$17	\$14
Total City & Inter-Fund Revenues	(\$930)	(\$905)	(\$545)	(\$653)
Federal Categorical Grants	\$221	\$27	\$43	\$44
State Categorical Grants	\$363	(\$317)	(\$678)	(\$718)
Total Revenues	(\$346)	(\$1,195)	(\$1,180)	(\$1,327)
Expenditures				
Personal Service				
Salaries and Wages	\$107	(\$908)	(\$1,183)	(\$1,255)
Pensions	\$87	(\$402)	(\$246)	(\$363)
Fringe Benefits	\$48	(\$426)	(\$654)	(\$726)
Subtotal-PS	\$242	(\$1,736)	(\$2,083)	(\$2,344)
Other Than Personal Service				
Medical Assistance	\$0	(\$1,000)	(\$1,000)	\$0
Public Assistance	\$122	\$127	\$127	\$127
Pay-As-You-Go Capital	\$0	\$0	\$0	\$0
All Other	(\$208)	(\$149)	\$10	\$162
Subtotal-OTPS	(\$86)	(\$1,022)	(\$863)	\$289
Debt Service				
Principal	\$0	\$0	\$0	\$0
Interest & Offsets	(\$18)	(\$9)	(\$34)	(\$138)
Subtotal Debt Service	(\$18)	(\$9)	(\$34)	(\$138)
FY 2007 BSA	\$0	\$0	\$0	\$0
FY 2008 BSA	(\$10)	\$0	\$0	\$0
FY 2009 BSA	(\$250)	\$250	\$0	\$0
FY 2010 BSA	\$0	\$0	\$0	\$0
Prepayments	\$0	\$0	\$0	\$0
Debt Retirement				
Call 2009/2010 GO Debt	(\$1)	\$0	\$0	\$0
Defease NYCTFA Debt	\$1	\$0	\$0	\$0
Subtotal Debt Retirement	\$0	\$0	\$0	\$0
Transfer for NYCTFA Debt Service	\$0	\$0	\$0	\$0
NYCTFA Debt Service				
Principal	\$0	\$0	\$0	\$0
Interest & Offsets	\$0	\$0	\$0	\$0
Subtotal NYCTFA	\$0	\$0	\$0	\$0
General Reserve	(\$200)	\$0	\$0	\$0
Less: Intra-City Expenses	(\$24)	(\$15)	(\$16)	(\$16)
Total Expenditures	(\$346)	(\$2,532)	(\$2,996)	(\$2,209)
Gap To Be Closed	\$0	\$1,337	\$1,816	\$882

NOTE: Tax revenues include STAR and PIT revenue retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

As the November Plan did not contain a forecast for FY 2013, plan-to-plan changes are unavailable for that fiscal year.

Table 3. Risks and Offsets to the FYs 2009 – 2013 Financial Plan

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
City Stated Gap	\$0	\$0	(\$3,211)	(\$4,039)	(\$4,167)
Tax Revenues					
Property Tax	\$0	(\$14)	(\$40)	\$26	\$38
Personal Income Tax	0	0	(565)	(655)	(495)
Business Taxes	(115)	(170)	(404)	(555)	(525)
Sales Tax	(237)	(989)	(1,000)	(1,057)	(1,083)
Real-Estate-Related Taxes	(87)	481	676	798	810
Subtotal	(\$439)	(\$692)	(\$1,333)	(\$1,443)	(\$1,255)
Restitution Agreement	\$125	\$0	\$0	\$0	\$0
Restore Revenue Sharing to FY 2008 Level	(\$242)	(\$242)	(\$242)	(\$242)	(\$242)
Expenditures					
Overtime	(\$112)	(\$142)	(\$100)	(\$100)	(\$100)
Medical Assistance	607	(77)	(612)	0	0
Health Insurance Restructuring	0	(200)	(200)	(200)	(200)
10% Health Insurance Premium Co-pay	0	(357)	(386)	(418)	(423)
New Pension Tier Proposal	0	(200)	(200)	(200)	(200)
Judgments and Claims	7	45	100	160	225
GASB 49	0	0	(500)	(500)	(500)
Subtotal	\$502	(\$931)	(\$1,898)	(\$1,258)	(\$1,198)
Total Risk/Offsets	(\$54)	(\$1,865)	(\$3,473)	(\$2,943)	(\$2,695)
Restated (Gap)/Surplus	(\$54)	(\$1,865)	(\$6,684)	(\$6,982)	(\$6,862)

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II. The State of the City's Economy

It is apparent that the deterioration of the national economy intensified during the last quarter of 2008, almost a year after the recession officially began. The economy contracted at an annualized rate of 6.2 percent (preliminary estimate) during the fourth quarter, as households severely cut back spending in response to rising unemployment and the alarming financial turmoil of September and October. Sharp economic contraction is expected to continue in the first quarter of 2009, before the rate of Gross Domestic Product (GDP) decline and job losses moderate during the spring and summer months.

New York City's economy, which withstood the weakening national economic trend during the first half of 2008, also appears to have contracted dramatically late in the year. The spreading of the national recession to nearly all sectors of the economy virtually ensures that 2009 will be one of the worst years for the local economy since 2002, and possibly since the end of the Second World War. Moreover, the city's financial sector has been seriously damaged and its ability to serve as the engine for future economic recovery is in question.

The present recession, in terms of GDP decline and job loss, is thus far comparable to the contractions of 1974-75, 1981-82, and 1990-91. However, the unique circumstances of this downturn, in particular the distress of the housing market and the disarray of the banking sector, make this potentially the most severe slump since 1945-1947. While the unique conditions characterizing this downturn pose serious risks to the country's future prosperity, they also make the current situation extremely sensitive to policies adopted by the Federal government and the Federal Reserve to mitigate it. Our outlook anticipates that such federal initiatives, including the economic stimulus package signed by the President on February 16, 2009 and the second phase of the banking sector rescue announced on February 10th, will be successful in preventing further destabilization of economic institutions but will not forestall the structural adjustments the economy must make, and the slower economic recovery that will result.

A. U.S. ECONOMIC OUTLOOK

As of early 2009, the outlook for the U.S. economy is highly uncertain. The most immediate concern is the recent rate of economic contraction. The sharp rate of decline estimated for the fourth quarter of 2008 is expected to continue through the first quarter of 2009, further undermining confidence and causing excessive cutbacks in household and business spending. Eventually, the reported rate of job loss, which has recently been running at nearly 650,000 per month, will begin to moderate and with it, the rate of GDP decline. The Comptroller's Office anticipates that such moderation will occur sometime in the spring, buoying hopes that the end of the recession is in sight and making the trajectory of the economy somewhat more predictable. Until that happens, however, there remains significant downside risk to the economic forecasts.

A second major source of uncertainty is the course of home prices. The run-up in home prices during the period of easy credit was a root cause of the current economic

crisis, encouraging households to take on excessive debt, encouraging banks to underwrite risky loans, and lulling investors to underestimate the risks associated with mortgage-related securities. While few analysts expected homes to continue to appreciate at double-digit rates, equally few expected the correction in home prices to be so precipitous or severe. From July, 2006 through December, 2008, national home prices, as measured by the Case-Shiller 20-city average, fell by 27 percent, and in some metropolitan areas by over 40 percent. The fall in home prices has had serious consequences. It has prevented millions of homeowners from refinancing onerous variable-rate or teaser-rate mortgages, straining family budgets and causing some to default. Millions of other homeowners find themselves "under water," with mortgage principal greater than the market value of their homes. Many of those underwater homeowners may be tempted to default on their mortgages, even if their incomes are sufficient to pay the monthly carrying costs. With nearly 10 percent of all home mortgages either in foreclosure or 30 days or more delinquent at the end of the third quarter of 2008, the value of mortgage-backed securities has plummeted and asset write-downs by the institutions that hold them have soared.

As long as home prices keep falling, losses on those assets will continue to mount, and the damage to the financial system will be difficult to assess. The International Monetary Fund (IMF), for example, raised its estimate of potential losses on U.S.-originated credit assets from \$1.4 trillion in October 2008 to \$2.2 trillion in January 2009. The uncertainty about the scope of the losses, and in turn about the financial stability of institutions with large mortgage and mortgage-backed securities holdings, has been a primary cause of the freezing of credit markets, especially since the failure of Lehman Brothers in September. Once home prices stabilize, the value of mortgage-related assets will be easier to determine, and the overall risks to the financial system easier to measure.

Unfortunately, there is not yet any evidence that the slide in nationwide home prices has run its course. The rate of price decline slowed during the summer of 2008, but accelerated once again after the financial turmoil of September and October. According to one common view, home prices must fall an additional 10 to 15 percent in order to re-establish historical price-to-income relationships. That view, however, presumes that whatever base period is chosen reflects the "true" ratio and ignores other factors, such as the low interest rates that now prevail. Such factors considered, the Comptroller's Office believes that the adjustment in home prices that has already occurred is sufficient to re-establish balance in most regional markets, but that prices are now in danger of over-correcting. Continued downward pressure on housing prices is being exerted by foreclosure sales, by extraordinarily tight credit conditions, and by the recession. Nevertheless, the favorable combination of lower prices and lower interest rates will eventually draw buyers back into the housing market, and home prices should stabilize sometime during late 2009.

Another significant source of uncertainty is the deteriorating international economy. Although the current economic slump originated in the United States, it quickly spread to the European Union and is threatening emerging economies in Eastern Europe, Asia, Africa and Latin America. The IMF recently forecast that world economic growth will fall to 0.5 percent in 2009, the slowest annual rate of growth since World War II, with the advanced economies contracting by 2.0 percent and the growth of

emerging economies such as China and India falling to half the rate of recent years. Trade bolstered the U.S. economy for much of 2008 but the globalize recession now threatens to turn the trade sector into a net negative in 2009. A stronger dollar and recession-plagued trading partners make it very unlikely that export demand will be a stimulus to recovery during the coming year. Moreover, the possibility of a negative feedback loop of financial instability, from the U.S. to Europe and Asia and back again, exists. On the positive side, world economic leaders have been unusually vigorous and coordinated in their response to this crisis.

Left entirely to the workings of the private market, the present problems would eventually be solved, but probably only after a protracted economic slump that could rival the Great Depression. Seeking to avert such a severe event, the Federal government and the Federal Reserve have taken unprecedented steps to repair the damage and mitigate the costs.

In early 2008, Congress enacted a \$152 billion fiscal stimulus package, and in early 2009, an even larger stimulus program. The American Recovery and Reinvestment Act 2009 provides a fiscal stimulus of \$787 billion, of which \$185 billion will be made through September 2009 and an additional \$399 billion during the following 12 months. The Congressional Budget Office estimates that the stimulus legislation will result in an increase in real GDP of between 1.4 and 3.8 percent by the fourth quarter of 2009, compared to the baseline projection, and between 1.1 and 3.3 percent by the fourth quarter of 2010.

In October 2008, Congress enacted the \$700 billion Troubled Assets Relief Program (TARP), intended to stabilize the financial system. The first \$350 billion of TARP money was used to provide immediate capital injections to banking institutions, and on February 12, 2009 the Obama Administration outlined its plans to use the remainder of the TARP funds. Although all the details of the plan have not been disclosed, thorough "stress tests" of banks, additional capital injections, and a public-private partnership to purchase distressed assets appear to be its principal components. A third Federal initiative, intended to prevent foreclosures and provide assistance to financially distressed homeowners, was announced on February 18th. It is unclear how effective these federal initiatives will be, but at minimum the TARP money did help to stabilize a dangerously fragile financial system and avert a deepening of the credit crisis.

The Federal Reserve system has also taken aggressive actions to free up credit channels and stimulate the economy. Having lowered the benchmark federal funds rate from 5.25 percent in mid-2007 to 0.15 percent by early 2009, the Fed has also implemented a number of programs to provide liquidity to the financial system and to encourage a return to normal credit conditions. Among those special liquidity programs are the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), the Commercial Paper Funding Facility (CPFF), the Money Market Investor Funding Facility (MMIFF), the Primary Dealer Credit Facility (PDCF), and the Term Securities Lending Facility (TSLF), all of which were recently extended through October 30, 2009. Moreover, the Fed announced on February 10, 2009 that it intends to expand the scope of the Term Asset-Backed Securities Loan Facility (TALF), which will make loans to owners of asset-backed securities backed by newly and recently originated

auto loans, credit card loans, student loans, and small business loans, to as much as \$1 trillion. The Fed also indicated that it may broaden the eligible collateral to encompass other types of newly issued AAA-rated asset-backed securities, such as commercial mortgage-backed securities and private-label residential mortgage-backed securities. The programs already in operation have brought some stability to critical credit markets and the newer initiatives, such as the TALF, will help to further encourage credit extension to households and small businesses.

The Comptroller anticipates that federal stimulus spending, Treasury and Federal Reserve programs to ease credit conditions, and the normal cyclical rebound in consumer and business spending will combine to stabilize the economy in the second half of 2009, producing slight GDP growth in the fourth quarter of the year. For the full year, the Comptroller projects GDP to decline 3.5 percent, and to increase only 0.3 percent in 2010. The Comptroller's forecast remains somewhat more pessimistic than the consensus forecasts; the Blue Chip Economic Indicators consensus forecast (February 10), the Wall Street Journal consensus forecast (February 13), and the National Association of Business Economists consensus forecast (February 23), all project a 1.9 percent decline in real GDP for 2009.

The Comptroller's forecast for real GDP is similar to the Mayor's for 2009, but anticipates a weaker recovery through 2011. Even after the current recession ends, the Comptroller expects economic growth to be unusually sluggish for two principal reasons. First, it is apparent that the recession has spread worldwide, and many of America's important trading partners are now experiencing a virulent economic contraction. It is unlikely that they will rebound in time to provide a foreign trade stimulus to U.S. production; it is more likely that the trade sector will be a drag on domestic growth through 2010. Second, American households have suffered an enormous diminution of their net worth due to the plunge in home prices and the decline in the stock market. The resulting "negative wealth effect" can be expected to amplify recession-induced restraint in consumer spending, while tighter lending standards will constrain the rebound in housing and durable goods purchases that normally follows a recessionary period.

Tables 4 and 5 show the Comptroller's and the Mayor's forecast of five economic indicators for 2007 and 2008.

Table 4. Selected U.S. Economic Indicators, Annual Averages, Actual 2008 and Comptroller's Forecasts, 2009-2013

	2008	2009	2010	2011	2012	2013
Real GDP, (2000 \$), % Change	1.1	(3.5)	0.3	2.3	2.8	3.0
Payroll Jobs (Annual Change in Millions)	(0.4)	(4.2)	(1.6)	1.6	2.0	2.0
Inflation Rate (%)	3.8	1.2	2.1	2.7	2.5	3.0
Fed Funds Rate (%)	1.9	0.2	0.7	1.2	1.5	3.2
10-Year Treasury Notes (%)	3.7	2.9	3.5	3.9	4.4	4.3

SOURCE: Actual 2008 U.S. data are from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors.

Table 5. Selected U.S. Economic Indicators, Annual Averages, Actual 2008 and Mayor's Forecasts, 2009-2013

	2008	2009	2010	2011	2012	2013
Real GDP, (2000 \$), % Change	1.2	(2.5)	2.2	3.2	2.8	2.6
Payroll Jobs (Annual Change in Millions)	(0.3)	(3.6)	0.0	2.1	2.3	1.9
Inflation Rate (%)	3.8	(1.2)	2.4	3.4	2.5	2.5
Fed Funds Rate (%)	1.9	0.1	0.9	3.3	4.8	4.7
10-Year Treasury Notes (%)	3.7	2.3	3.4	4.9	5.4	5.4

SOURCE: The NYC Office of Management and Budget in the January 2009 Financial Plan.

B. NEW YORK CITY'S ECONOMIC CONDITION AND OUTLOOK

From December, 2007 through August, 2008, national employment, measured by seasonally-adjusted nonfarm payroll jobs, decreased every month for a total loss of 1,100,000 jobs. Throughout the same period, New York City's total payroll employment actually grew by about 36,800. During that period, the resiliency of the city's employment base was encouraging, and even somewhat perplexing, considering that many of the nation's economic problems emanated from the financial sector. In fact, in 2008, even the city's finance and insurance sector maintained its employment better than the nation's, losing only 4,000 jobs, or 1.2 percent, compared to 117,000 nationwide, a 1.9 percent drop.

That favorable pattern changed abruptly in September 2008. From September 2008 through January 2009, the city's employment base contracted by 84,800 jobs, while national jobs declined by 2.6 million. Other indicators also suggest that the national economic storm blew into New York City late in the year. According to Prudential-Douglas Elliman, the median sales price of Manhattan condominiums declined 8.2 percent in the fourth quarter, while the City's sales tax collections, a good indicator of consumer and business spending, dropped 5.1 percent compared to the same period of 2007.

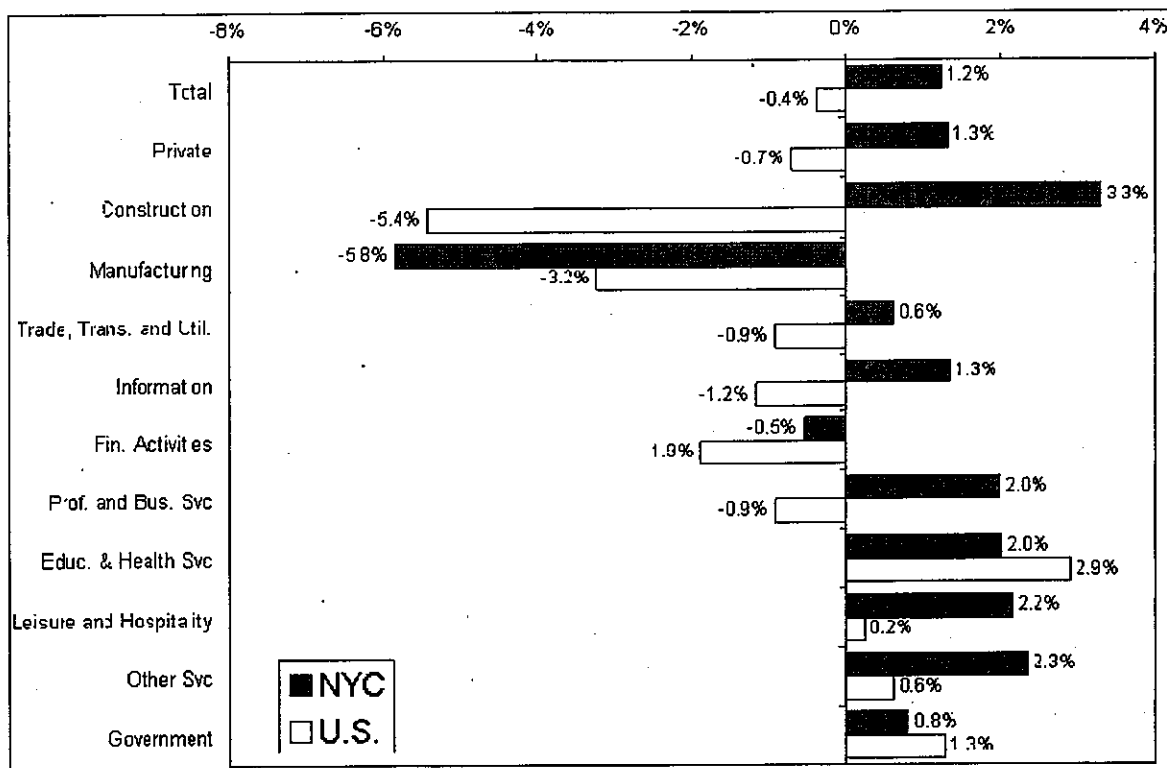
It would be an exaggeration to attribute the rapid deterioration of the city's economy to the dramatic failure of Lehman Brothers and the sudden acquisition of Merrill Lynch by Bank of America in mid-September. Those events surely intensified the subsequent contraction, because of their direct effects on the city's businesses and households and through their shock effects on resident and visitor spending. It is unlikely,

however, that the city's economy would have withstood the national recession much longer, and there is anecdotal evidence that the relative stability of the city's financial employment was partly a mirage, as finance workers already laid off continued to receive severance payments for a period of time. Nevertheless, the failure of Lehman Brothers, in particular, is widely considered to have destabilized the entire world's financial system and in years to come it will likely be remembered as a watershed economic event.

The major determinant of the city's economic performance in 2009 and 2010 will be the course of the national economy. Many of the city's key industries, including professional and business services, retail trade and hospitality, and the financial services sector itself, are directly affected by the health of the national economy. As already discussed, there are currently profound uncertainties about the country's economic direction which translate into equally serious questions about the city's immediate economic future. Moreover, the city's sensitivity to national economic conditions is not constant, so even if a national economic recovery could be predicted with certainty, the city's return to economic health would not be guaranteed.

Chart 1 shows the year-over-year change in jobs for the city and the nation in 2008.

Chart 1. NYC and U.S. Job Growth, Percent Change, 2008 vs. 2007



Source: NYS Department of Labor.

NOTE: Jobs are based on annual averages of monthly data. Differences between years are shown in thousands and in parenthesis the percentage changes.

Many regional economic forecasters believe that this recession will take a disproportionate toll on New York, because the city is the center of the financial industry and the financial industry is at the center of the present economic crisis. The Comptroller's Office agrees with that position, insofar as the financial industry accounts for more than 30 percent of all wages paid in the city and approximately 50 percent of very-high income households residing in the city have at least one earner employed in the industry. The Comptroller expects that the financial crisis and recession will ultimately result in the loss of more than 46,000 financial industry jobs in the city, and that those job losses will cause, directly and indirectly, another 60,000 job losses in other sectors. Moreover, in addition to the loss of many high-wage jobs in financial services and associated fields, those who retain their jobs are likely to see reduced incomes due to slower base-pay growth and smaller annual bonuses, translating into sharply lower personal income tax collections, lower selling prices for luxury apartments, and a difficult sales environment for retail businesses providing high-end goods and services.

At the same time, there is some reason to be cautiously optimistic about the effect of the financial industry crisis on a broader cross-section of city businesses and households. The city's financial industry experienced significant consolidation and technological innovation during the past two decades, and even at its peak employment in August, 2007, the total number of financial industry jobs in the five boroughs was about 50,000 lower than it was in August, 1990. Furthermore, because of the streamlining of the industry over that time, a smaller proportion of the city's middle-income and upper-middle income households now derive all or part of their income from financial sector employment.

Similarly, there is reason to believe that the city is better positioned to weather this recession than some of those in the recent past. The recessions of 1973-75 and 1990-91, both of which were economically devastating for the city, came at a time when the city was also suffering significant structural change and fiscal fragility. In the four years prior to the onset of the mid-1970s recession, the city lost nearly 300,000 jobs, and it continued to lose jobs for more than two years after the national recession officially ended. Likewise, the city began losing jobs more than a year before the 1990-91 recession officially began, and continued to lose jobs for more than a year after it ended. In both of those slumps deficient city services, high crime, unfavorable tax rates, a declining population, and a vulnerable industry mix exacerbated the cyclical shocks. All of those conditions were more favorable entering this recession, and should cushion some of the damage that will certainly result from the turmoil in the financial industry.

Despite the city's stronger position when compared to earlier national recessions, the severity of the present downturn and the unique obstacles it presents to a healthy recovery ensure that 2009 and 2010 will be difficult years for the local economy. The Comptroller expects real Gross City Product (GCP) to contract by 4.6 percent in 2009 and by an additional 2.9 percent in 2010, with local economic growth not resuming until late 2010. On a year-over-year basis, the Comptroller expects the city to lose approximately 121,000 payroll jobs in 2009 and another 83,000 in 2010. The Comptroller's forecast for the city's economy is similar to the Mayor's, except that it anticipates a somewhat less precipitous decline in output and employment during 2009

but a later and more tentative recovery in 2010. Tables 6 and 7 compare the Comptroller's and Mayor's forecasts for the local economy.

Table 6. Selected NYC Economic Indicators, Annual Averages, Actual 2008 and Comptroller's Forecasts, 2009-2013

	2008	2009	2010	2011	2012	2013
Real GCP, (2000 \$), % Change	0.3	(4.6)	(2.9)	0.7	2.7	3.0
Payroll Jobs (Annual Change), '000s	46.6	(120.5)	(82.7)	6.0	44.4	52.8
Wage-Rate Growth, %	(1.0)	(5.8)	(1.1)	1.1	2.6	2.6
Consumer Price Index (1982=100), % Change	3.9	1.7	1.9	2.5	2.9	3.2
Unemployment Rate, %	5.5	8.8	8.5	7.4	6.6	5.8

Source: Actual 2008 NYC data are from NYS Department of Labor, Bureau of Labor Statistics, and Federal Reserve Board of Governors.

Table 7. Selected NYC Economic Indicators, Annual Averages, Actual 2008 and Mayor's Forecasts, 2009-2013

	2008	2009	2010	2011	2012	2013
Real GCP, (2000 \$), % Change	(5.9)	(11.2)	0.0	4.0	3.9	2.9
Payroll Jobs (Annual Change), '000s	20.0	(175.0)	(100.0)	24.0	36.0	51.0
Wage-Rate Growth, %	(0.4)	(7.5)	0.2	3.8	4.6	5.0
Consumer Price Index (1982=100), % Change	3.8	(1.0)	2.4	3.3	2.6	2.6
Unemployment Rate, %	NA	NA	NA	NA	NA	NA

Source Actual=preliminary NYC data from NYS Department of Labor, Bureau of Labor Statistics, and Bureau of Economic Analysis. Comptroller=forecast by the NYC Comptroller's Office. GCP=Gross City Product.

III. The FY 2009 Budget

The January Modification to the FY 2009 Budget has revised the City-funds part of the budget to \$42.25 billion, a reduction of \$251 million from the Adopted Budget.¹ The January Modification reflects \$1.39 billion of budget relief initiatives implemented or proposed since the Adopted Budget. Without these initiatives, the January Modification would have shown a deficit of \$653 million. This deficit is due primarily to a decline in revenue forecast.²

After lowering its FY 2009 City-funds revenue forecast by \$233 million in November, the City has reduced its FY 2009 forecast by another \$1 billion in the January Modification, bringing the total downward revision to FY 2009 revenue forecast since budget adoption to \$1.25 billion.³ Revisions to the City's tax revenue forecasts account for the bulk of this decrease. The continued deterioration of the financial markets and national economy has compelled the City to lower its tax revenue forecast more than \$1 billion from \$36.55 billion in the Adopted Budget to \$35.46 billion in the January Modification. The drop in tax revenue is driven by downward revisions to the economically sensitive taxes. Collectively, the current estimates for sales, business, real estate transaction, and personal income tax (PIT) revenues are \$1.26 billion less than those at budget adoption, offset partially by an increase in estimated tax audit revenues.

Downward revisions to spending have offset some of the drop in the revenue forecast. Estimated City-funds expenditures in the January Modification are \$597 million less than the Adopted Budget.⁴ However, the decrease results from a reduction of \$200 million in the General Reserve, and the recognition of \$500 million in prior-year payable savings, actions which typically are taken during the January Modification, together with an adjustment of \$97 million in energy costs to reflect lower oil prices. Partially offsetting this reduction is an increase in agency spending of \$200 million.

¹ Total-funds FY 2009 Budget, which includes Federal and State categorical grants and expenditures, total \$60.32 billion, \$925 million more than the Adopted Budget, reflecting a combined \$1.2 billion increase in Federal and State categorical grants and a concomitant increase in Federal and State categorical expenditures. The change in Federal and State grants however, do not impact the budget gap because every dollar of Federal and State categorical grants is matched with a dollar of Federal and State categorical spending.

² The \$653 million deficit is based on the assumption that the City will maintain the \$812 million Budget Stabilization Account (BSA) in the Adopted Budget to prepay FY 2010 debt service. The City has the option to reduce the BSA to balance the current year budget, except that such action would increase the gap in the following fiscal year by an equal amount.

³ City-funds revenue in this report includes the portion of personal income tax revenue (PIT) retained for New York City Transitional Finance Authority (NYCTFA) debt service, other categorical revenues and inter-fund agreement revenues.

⁴ City-funds expenditures include NYCTFA debt service, other categorical and inter-fund agreement spending.

Table 8 shows the \$1.39 billion budget relief initiatives that the City has taken in response to the revenue shortfalls. Programs to eliminate the gap (PEGs) since budget adoption total \$499 million, comprised of \$396 million in agency spending reductions and \$103 million in agency revenue initiatives. A proposal in the November Modification for a mid-year repeal of the 7.0 percent property tax reduction in FY 2009 was approved by the City Council in December. The repeal is expected to generate \$576 million in FY 2009. In the current Modification, the City has proposed two additional revenue initiatives which if approved, are expected to boost revenues by another \$319 million. The revenue proposals are sales tax increases as discussed in greater detail in "Tax Revenues" beginning on page 19, and a proposal to the State to restore revenue sharing to its FY 2008 level. Together, all these actions will more than offset the shortfall in projected revenues and increase the FY 2009 Budget Stabilization Account (BSA) by \$741 million to \$1.553 billion.

Table 8. Changes to FY 2009 City-Funds Estimate from the Adopted Budget

(\$ in millions, positive numbers increase the BSA)

Revenue Change	
Tax Revenues	(\$1,092)
State Budget Revenue Impact	(327)
Non-Tax Revenues	169
Total Revenues	(\$1,250)
Expenditure Change	
Prior-Year-Payable Adjustment	\$500
General Reserve Reduction	200
Energy Cost	97
Other Expenses	(200)
Total Expenditure Change	\$597
Budget Relief Initiatives	
Programs to Eliminate the Gap (PEGs)	\$499
Mid-Year Repeal of 7% Property Tax Reduction	576
Restore State Revenue Sharing to FY 2008 Level	242
Sales Tax Increase	77
Total Budget Relief	\$1,394
Net Change (Increase/(Decrease) to BSA)	\$741

Despite the souring economy, the City expects to end FY 2009 in balance and fund a BSA of \$1.553 billion, due largely to budget surpluses accumulated in prior years. Budget surpluses accumulated in prior years are typically rolled into the outyears by prepaying select expenditures, after recording a \$5 million surplus in the City's official accounts. In FY 2008, the City prepaid \$4.635 billion of FY 2009 expenditures. In the January Modification, the City expects to use the entire BSA to prepay FY 2010 debt service. This indicates that the City expects to use \$3.082 billion of the "roll-in" from FY 2008 to balance FY 2009. Combined with the \$34 million prepayment of FY 2009 lease purchase debt service in FY 2007, the use of prior-year surplus in FY 2009 totals \$3.116 billion. Table 9 on page 15 shows the City was able to increase its prepayments in each of FYs 2003 through 2007 as revenues generated in these years exceeded expenditures and the prior-year prepayments were not needed for budget balance. While revenues generated in FY 2008 exceeded expenditures, the FY 2008 prepayments of

\$4.635 billion were less than the FY 2007 prepayments. This is because only \$4.6 billion of the FY 2007 surplus were used to prepay FY 2008 expenses. The remaining \$65 million were used to prepay FYs 2009 and 2010 lease purchase debt service.

Table 9. Addition to and Use of the Year-End Surplus

(\$ in millions)

	Addition to/ (Use of) Prior-Year Prepayments	Year-End Surplus Used for Prepayments
FY 2001	(\$243)	\$2,955
FY 2002	(\$2,263)	\$684
FY 2003	\$736	\$1,417
FY 2004	\$506	\$1,923
FY 2005	\$1,606	\$3,529
FY 2006	\$222	\$3,751
FY 2007*	\$914	\$4,665
FY 2008**	\$35	\$4,635
FY 2009***	(\$3,116)	\$1,553

*The \$4.665 billion FY 2007 year-end surplus was used to prepay \$4.6 billion of FY 2008 expenses, \$34 million of FY 2009 lease purchase debt service, and \$31 million of FY 2010 lease purchase debt service.

**The FY 2008 year-end prepayment of \$4.635 billion was \$35 million more than the \$4.6 billion prepayment of FY 2008 expenditure in FY 2007.

***FY 2009 use of prior-year prepayments includes \$3.082 billion of FY 2008 roll-in and \$34 million in lease purchase debt service prepayment in FY 2007.

However, the City's operating results are worse than the use of the accumulated budget surplus suggests. This is because the FY 2009 budget reflects defeasance of General Obligation (G. O.) and NYCTFA bonds in FY 2007 which reduced FY 2009 debt service by \$641 million. After accounting for this and the reduction in prepayments, the City's operating expenses in FY 2009 are expected to exceed revenues by \$3.757 billion.

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IV. The Preliminary FY 2010 Budget

The City narrowed the FY 2010 budget gap to \$1.34 billion in the November 2008 Financial Plan, from \$2.34 billion in the June 2008 Financial Plan. The FY 2010 Preliminary Budget gap has since ballooned to \$3.61 billion as the City's tax base continues to be eroded by the decline of Wall Street and the broader economy. The Preliminary FY 2010 Budget tax revenue estimates are down approximately \$2 billion from November. Fall-off in the economically sensitive personal income, business, sales, and real-estate-related tax revenue projections account for almost all the downward revision, while the property tax revenue estimate was adjusted upward by \$40 million.⁵

City-funds expenditures have been revised upwards \$66 million. As discussed in "The FY 2009 Budget" the City has reduced its prepayments for FY 2010 by \$250 million. The City also expects that proposed legislation to expand the red light camera program will result in additional cost of \$32 million in FY 2010.⁶ Revisions to agency spending account for another \$121 million spending increase. These increases are partially offset by the revision to the budget for energy reflecting the lower cost of oil and the removal of the FY 2010 funding for changes to actuarial assumptions and methodology, reflecting the City's expectations that no change will be made to the FY 2010 funding calculation.

As Table 10 on page 18 shows, the City has proposed gap-closing initiatives totaling \$2.61 billion to balance the FY 2010 budget. Of these, \$918 million are agency PEGs, the implementation of which is within the control of the City. Approximately \$1.7 billion would require actions by the State and labor unions to implement. The remaining \$1 billion is expected to be closed with an increase in Federal matching funds for Medical Assistance (\$1 billion in each of FYs 2010 and 2011).

After gap-closing actions, the Preliminary FY 2010 Budget totals \$42.09 billion, a decline of \$156 million from City-funds estimated FY 2009 spending of \$42.25 billion.⁷ However, as discussed in "Expenditure Analysis" beginning on page 27, expenditures in the Preliminary FY 2010 Budget are distorted by prepayments. City-funds expenditures, after adjusting for prepayments, total \$46 billion relatively unchanged from the adjusted FY 2009 expenditures.

⁵ The business tax revenues comprise General Corporation, Banking Corporation, and Unincorporated Business Tax revenues. The real-estate-related tax revenues consist of Real Property Transfer and Mortgage Recording Tax revenues

⁶ The additional revenues from the expansion of the program, however, will result in a projected net benefit of \$101 million.

⁷ The \$42.09 billion is the City-funds total of the Preliminary Budget and excludes Federal and State categorical aid and expenditures. Federal and State categorical aid and expenditures do not affect the gap, as every dollar of Federal and State categorical aid is matched with a dollar of Federal and State categorical expenditure. The total-funds Preliminary Budget, which includes Federal and State categorical aid and expenditures total \$59.05 billion.

Table 10. Changes to FY 2010 Estimates from the November 2008 Plan

(\$ in millions, positive numbers decrease the gap)

November Gap	(\$1,337)
Revenue Change	
Tax Revenues	(\$1,999)
Non Tax Revenue	(15)
State Budget Impact	(194)
Total Revenue Change	(\$2,208)
Expenditure Change	
Funding for Changes in Actuarial Assumptions And Methodology	\$200
Energy	137
State Budget Impact	(32)
Decrease in Prepayments	(250)
Other Expenses	(121)
Total Expenditure Change	(\$66)
January Gap	(3,611)
Gap Closing Initiatives	
Agency PEGs	\$918
New Pension Tier Proposal	200
10% Health Insurance Premium Co-pay	357
Restore Revenue Sharing to FY 2008 Level	242
Sales Tax Program	894
Total	\$2,611
Increase in Federal Medical Assistance Percentage	\$1,000
Remaining Gap	\$0

Risks and Offsets

As Table 3 on page 3 shows, the Comptroller's Office has identified risks ranging from \$54 million to \$3.473 billion in FYs 2009 through 2013. The risks in FY 2009 stem mainly from the Comptroller's lower tax revenue projections and higher overtime estimate, tempered by the timing of the enhanced funding for Federal Medical Assistance Percentage (FMAP) from the American Recovery and Reinvestment Act of 2009 (ARRA) and additional fines and forfeitures revenues not anticipated in the Financial Plan. The additional fines and forfeitures revenues arise from restitution agreements achieved by the Manhattan District Attorney's Office that is \$125 million more than anticipated in the January Modification.

The enhanced funding of FMAP in FY 2009 results from the State's allocation plan for a temporary increase in FMAP. The City's Financial Plan assumes that the City will receive additional FMAP funding for two years beginning in FY 2010, with \$1 billion in each of FYs 2010 and 2011. The State's allocation plan shows that the City will receive \$607 million in FY 2009. However, the funding will fall short of the City's projections by \$77 million in FY 2010 and \$612 million in FY 2011, resulting in an overall net reduction of \$82 million from the Plan assumptions.

In the outyears of the Plan, the bulk of the risks result from gap closing initiatives that rely on actions by third parties. Specifically, the City expects an average of \$1 billion annually in each of FYs 2010 through 2013 from proposed health insurance restructuring and employee premium contributions, pension reform and the restoration of State revenue sharing. These actions require either State or labor union approval. In addition, the City's assumption of additional sales tax revenues from sales tax increase would also require State legislative approval. Until there is some indication from the State or labor unions on how they will proceed with these proposals, the outcomes of these proposals remain uncertain.

The Comptroller's Office expects overall tax revenues to be lower than the City's forecast in each of the five years of the Financial Plan. The Comptroller's forecast for personal income, business and sales tax revenues are lower than the City's as discussed in "Risks and Offsets to Tax Revenues" beginning on page 22. A significant portion of the risks is due to the City's assumption of an increase in the sales tax which is expected to generate \$77 million in FY 2009, \$894 million in FY 2010, \$920 million in FY 2011, \$972 million in FY 2012, and \$1.023 billion in FY 2013. However, the Comptroller expects a quicker recovery in the real estate market than the City, and hence expects real property transfer and mortgage recording tax revenues to exceed the City's projections.

A. REVENUE OUTLOOK

In the Preliminary Budget, the City projects City-fund revenues to decrease slightly in FY 2010 to \$42.1 billion. Property tax revenues are expected to increase 13 percent in FY 2010, mostly due to revenue gained from the repeal of the 7.0 percent property tax cut, while non-property tax revenues are expected to decrease 9.0 percent, reflecting the national recession and the decline in Wall Street profitability. Over the Plan period, non-property taxes are projected to grow at an average annual rate of 3.5 percent. Total tax revenues are projected to grow at an average annual rate of 4.5 percent, reflecting the City's assumption of continued growth in property tax revenues.

Total revenues, which include tax and miscellaneous revenues and Federal and State categorical grants, are forecast to grow 12 percent between FYs 2009-2013, an average annual growth rate of less than 3.0 percent.

Tax Revenues

The Preliminary Budget projects \$36.1 billion in total tax revenues for FY 2010, including tax programs and NYCTFA revenues. This forecast reflects no growth from the FY 2009 level, after a 6.8 percent decrease in the current year.⁸ A continued decline in common rate and base tax revenues in FY 2010 is expected to be offset by new tax

⁸ Throughout this section, the definition of tax revenue for each single tax includes the proposed tax program. Personal income tax (PIT) revenue includes School Tax Relief (STAR) reimbursement and the portion of PIT retained for New York City Financial Authority (NYCTFA) debt service. Property tax revenue includes STAR reimbursement. Total tax revenue includes STAR, NYCTFA, and tax audit revenues.

programs, including \$1.2 billion from rescinding the 7.0 percent property tax cut, \$256 million from the concomitant repeal of the \$400 property tax rebate, and \$894 million from sales tax programs. Compared with FY 2009, property tax and sales tax revenues are forecast to increase \$1.9 billion and \$401 million, respectively, while personal income tax (PIT), business taxes and real-estate-related taxes are expected to decline a total of \$2.2 billion. Attributable to an expected economic recovery in the outyears, total tax revenue is forecast to grow at an average annual rate of 4.5 percent from FY 2009 to FY 2013.

Changes from November Modification

Total tax revenue projections for FY 2009 and FY 2010 have decreased \$986 million and \$1.1 billion, respectively, since the November Modification. This downward revision is attributable to declines in non-property tax revenue forecasts. The City also lowered its forecasts for total tax revenue \$856 million, \$1 billion, and \$913 million for FY 2011, FY 2012, and FY 2013 respectively.

The City lowered its FY 2009 forecast for property tax revenue by \$249 million, or 1.7 percent. The reduction is due to the loss of \$256 million that the City expected to realize through the elimination of the \$400 homeowner rebate scheduled to be paid in FY 2009. The City Council did not approve the City's proposal to eliminate the rebate and checks were mailed out in January.

Compared to the November Plan, property tax revenue forecasts are lower by \$41 million, \$259 million, and \$646 million for FYs 2011, 2012 and 2013 respectively while up slightly by \$40 million in FY 2010.

The largest forecast decline in non-property tax revenue in the January Financial Plan comes from the PIT. The City has decreased its FY 2010 PIT forecast \$964 million, or 12.3 percent, compared to the forecast included in the November Plan. This change reflects further declines in wage earnings, bonuses, and capital gains realizations in tax year 2009. Wage earnings are expected to decline 11.3 percent and Wall Street bonuses are expected to decline over 50 percent in Calendar Year 2009. The forecasts for the outyears were also reduced \$665 million, \$616 million, and \$505 million in FY 2011, FY 2012, and FY 2013, respectively.

The business tax revenue projection for FY 2010 has decreased \$208 million, or 4.7 percent, from the November Modification. The decrease is attributable to a downward revision in the general corporation tax (GCT) and the unincorporated business tax (UBT) forecasts. The GCT revenue forecast declined \$148 million and the UBT revenue forecast declined \$60 million, compared with the previous plan. For the outyears, the total business tax forecast was reduced by \$173 million in FY 2011, \$160 million in FY 2012, and \$41 million in FY 2013.

Due to the proposed sales tax revenue program, the sales tax revenue forecast has increased \$548 million, or 12.2 percent, from the November forecast. The proposed initiatives, including repealing sales tax exemptions on clothing, a 0.25 percent sales tax rate increase, and sales tax base broadeners, if enacted, will increase City sales tax

revenue \$894 million, \$920 million, \$972 million, and \$1 billion in FY 2010, FY 2011, FY 2012, and FY 2013, respectively. Because the underlying economic outlook has deteriorated, these changes translate into increased revenue forecasts of only \$496 million, \$597 million, and \$790 million, for FY 2011, FY 2012, and FY 2013, respectively.

Projected real-estate-transaction tax revenues for FY 2010 were revised downward \$505 million, or 30.4 percent, reflecting the City's anticipation of a further decline in both sales volume and prices for residential and commercial properties. The January plan reflects a \$286 million decline in the real property transfer tax revenue projection, as well as \$219 million drop in anticipated revenues from the mortgage recording tax. The estimated real-estate-related tax revenue has been revised down by \$447 million, \$495 million, and \$399 million for FY 2011, FY 2012, and FY 2013, respectively. The City's tax revenue assumptions for FYs 2009-2013 are illustrated in Table 11.

Table 11. Changes to the City's Tax Revenue Assumptions, FYs 2009-2013

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Property	(\$249)	\$40	(\$41)	(\$259)	(\$646)
PIT	(242)	(964)	(665)	(616)	(505)
Business	(85)	(208)	(173)	(160)	(41)
Sales	(117)	548	496	597	790
Real-Estate Transaction	(318)	(505)	(447)	(495)	(399)
All Other	24	(13)	(35)	(88)	(112)
Total	(\$986)	(\$1,102)	(\$865)	(\$1,021)	(\$913)

SOURCE: Office of Management and Budget.

Tax Revenue Trends

Total tax revenue is projected to increase \$7.0 billion from FY 2009 to FY 2013, an average annual rate of growth of 4.5 percent. This growth reflects the impact of tax revenue initiatives which include the repeal of the \$400 rebate to homeowners, the rescission of the 7.0 percent property tax cut and sales tax initiatives. Without these actions, projected tax revenues would grow only \$5 billion, or 3.3 percent annually, over the same period.

Real property tax revenues, which account for approximately 40 percent of FY 2009 tax revenues, are expected to grow 9.8 percent in FY 2009 and an even stronger 13 percent in FY 2010. The spike in FY 2010 is due in part to the first full year of revenues from the rescission of the 7.0 percent property tax cut and the first year of the repeal of the \$400 rebate to home owners. These actions are expected to generate additional revenues of \$1.2 billion and \$256 million, respectively, in FY 2010. More modest increases of 5.7 percent, 3.4 percent, and 2.2 percent are projected in the outyears from FYs 2011 to 2013. Average annual property tax revenue growth during the Financial Plan period is estimated at 6.0 percent.

Non-property tax collections are expected to decline in FYs 2009 and 2010 before rebounding in FY 2011, reflecting the City's expectation of a prolonged recession of the national and local economies. While non-tax revenues are expected to grow in each of the three years from FY 2011 through 2013 at an average annual rate of almost 8.0 percent, projected FY 2013 non-tax revenues will still be \$785 million below the FY 2008 level.

Real-estate-related tax revenues are projected to experience the sharpest decline, with drops of 40.8 percent in FY 2009 and 23.1 percent in FY 2010, reflecting expectations of continuing weakness in both the commercial and residential real estate markets. The City anticipates that real-estate-related tax revenues will turn around in FY 2011 and grow at an annual rate of 9.3 percent from FYs 2011 to 2013. Despite the anticipated recovery, real-estate related tax revenues at the end of the Plan period will still be approximately 40 percent below the FY 2008 level.

Personal income tax growth averages 2.6 percent from FYs 2009 to 2013. The City estimates a decline in PIT revenues of 16 percent in FY 2009 and 17.3 percent in FY 2010 followed by increases of 16.3 percent, 8.1 percent, and 6.8 percent in FYs 2011 through 2013, respectively.

The City anticipates that business tax revenue will also decline in FYs 2009 and 2010, before recovering to a 9.5 percent average annual growth rate from FY 2011 to FY 2013. Business taxes are expected to grow 4.7 percent on an average annual basis over the Financial Plan period, as shown in Table 12.

Revenues from the sales tax are expected to grow on average 6.7 percent annually from FY 2009 to FY 2013. Sales tax revenue is forecast to decline 4.8 percent in FY 2009, followed by four years of consecutive growth. The growth in FY 2010 is driven by the sales tax initiatives which include repealing the tax exemption on purchases of clothing and footwear, increasing the sales tax rate from 4.0 percent to 4.25 percent, and expanding the sales tax base. Without the revenues these initiatives are expected to generate, projected sales tax revenues would decline 9.1 percent in FY 2010. Growth in the remaining outyears is fueled by both the sales tax programs and the economic recovery that is expected to begin in the second half of 2009.

Table 12. Tax Revenue Forecast, Growth Rate, FYs 2009 –2013

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FYs 2009-2013
Property	9.8%	13.0%	5.7%	3.4%	2.2%	6.0%
PIT	(16.0%)	(17.3%)	16.3%	8.1%	6.8%	2.6%
Business	(14.7%)	(8.4%)	9.5%	11.9%	7.1%	4.7%
Sales	(4.8%)	8.7%	4.5%	6.6%	7.0%	6.7%
Real-Estate Transaction	(40.8%)	(23.1%)	7.5%	5.9%	14.6%	0.1%
All Other	(10.5%)	(4.8%)	1.4%	0.3%	1.0%	(0.6%)
Total	(6.8%)	0.0%	7.7%	5.7%	4.7%	4.5%

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

Risks and Offsets to Tax Revenues

The Comptroller's Office projects the risks and offsets to the City's tax revenue assumptions, based on current year collections and economic growth projections.

For FY 2009, the Comptroller's Office expects tax revenues to be \$362 million lower than the City's estimate, reflecting collections in the first six months of FY 2009. The differences stem from a more pessimistic forecast of business taxes, sales tax and real-estate-related taxes.

The Comptroller's Office expects real property tax revenues will be slightly lower than the City's estimate in FYs 2010 and 2011 by \$14 million and \$40 million respectively and slightly higher than the City's estimates in FYs 2012 and 2013 with offsets of \$26 million and \$38 million respectively. Although, the billable value in the FY 2010 Tentative Assessment Roll grew by 8.0 percent, market value decreased by 1.2 percent. Growth in property tax revenues is expected to be sustained by the pipeline buildup of positive assessed values in classes 2 and 4. Market value is expected to fall again in FY 2011 but increase in the last two years of the Plan. Market values for single family and small multi-family homes, which are Class 1 properties and make up most of the parcels in the City, have already fallen 5.0 percent in the recently released assessment roll. The Comptroller's Office projects revenues from real property tax will grow on average 5.5 percent annually over the Plan period.

The Comptroller's Office forecasts real-estate-related tax revenues will rise over the Financial Plan period from the unusually depressed base of FY 2009. The real property transfer tax is expected to increase on average 13.7 percent annually and the mortgage recording tax is expected to increase an average of 12.3 percent annually, as financial conditions stabilize and real estate transactions volume returns to a more typical level. Revenue from real property transfer taxes is forecast to be higher than the City's forecast by \$238 million, \$353 million, \$432 million, and \$438 million during FYs 2010 to 2013 respectively. The Comptroller's Office anticipates, however, that FY 2009 transfer tax revenues will be \$56 million lower than the City's estimate. The Comptroller also anticipates that mortgage recording tax revenue will be \$31 million lower than the City's forecast in FY 2009 and higher in FYs 2010-13, generating offsets of \$243 million, \$323 million, \$366 million, and \$372 million, respectively, in the last four years of the Plan period.

The Comptroller's Office's forecasts of PIT, business tax, and sales tax revenues for FYs 2009-2013 reflect the Comptroller's expectation of an unusually weak recovery from the current recession. In addition, the Comptroller's forecasts do not assume any additional revenues from proposed sales tax initiatives. This is because the proposed sales tax initiatives, which are expected to generate additional revenues of \$77 million in FY 2009, \$894 million in FY 2010, \$920 million in FY 2011, \$972 million in FY 2012, and \$1.023 billion in FY 2013, require State legislative approval. Since State legislative approval of the proposed sales tax initiatives is uncertain at this point, the assumed revenues represent risks to the sales tax forecast. Overall, the Comptroller's Office expects combined risks of \$439 million, \$692 million, \$1.33 billion, \$1.44 billion, and \$1.26 billion for FYs 2009, 2010, 2011, 2012, and 2013, respectively, for PIT, business tax, and sales tax revenues.

Table 13. Risks and Offsets to the City's Revenue Projections

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Property	\$0	(\$14)	(\$40)	\$26	\$38
PIT	0	0	(565)	(655)	(495)
Business	(115)	(170)	(404)	(555)	(525)
Sales	(237)	(989)	(1,000)	(1,057)	(1,083)
Real-Estate Related	(87)	481	676	798	810
Total	(\$439)	(\$692)	(\$1,333)	(\$1,443)	(\$1,255)

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

Miscellaneous Revenues

Miscellaneous revenues are locally raised non-tax revenues such as fees charged for licenses and franchises, charges for municipal services, fines, rental income, water and sewer revenues, interest income and nonrecurring revenues deriving from asset sales and other one-time resources. The City projects miscellaneous revenues will decline slightly in FY 2010 to \$4.27 billion (exclusive of private grants and intra-City revenues). This forecast represents an increase of \$261 million over the amount projected in the November Plan stemming from \$165 million in additional revenue from agency gap closing actions and \$133 million in expected revenue from proposed legislation to expand the red light camera program, including an increase in the fine amount from \$50 to \$100. Without these combined initiatives, the FY 2010 miscellaneous revenue forecast would have been approximately \$37 million lower than the November forecast.

Excluding interest income, FY 2010 estimates for all other categories of miscellaneous revenues were revised upwards. The largest forecast increase, \$153 million, is for fines and forfeitures. The change in this category includes the above mentioned \$133 million in expected fine revenues from the proposed legislation to expand the red light camera program and \$7.5 million in additional red light camera fines associated with increasing the number of cameras in existing locations. The forecast increase in the "other miscellaneous" category is mostly due to \$84 million in revenues the City expects to collect if the State Legislature approves a proposal to charge a five-cent fee for each plastic bag dispensed in city stores. The initiative is expected to generate recurring revenues totaling \$476 million over the Plan period.

Projected revenues from fees for City services increased by \$29 million from the November Plan. This increase includes an additional \$17 million the City expects to collect in revenues from an increase in single-space meter prices, from 50 cents/hour to 75 cents/hour, and \$9.7 million in additional revenue from a CUNY tuition increase.

Table 14. City forecast of Miscellaneous Revenue

(\$ in millions)

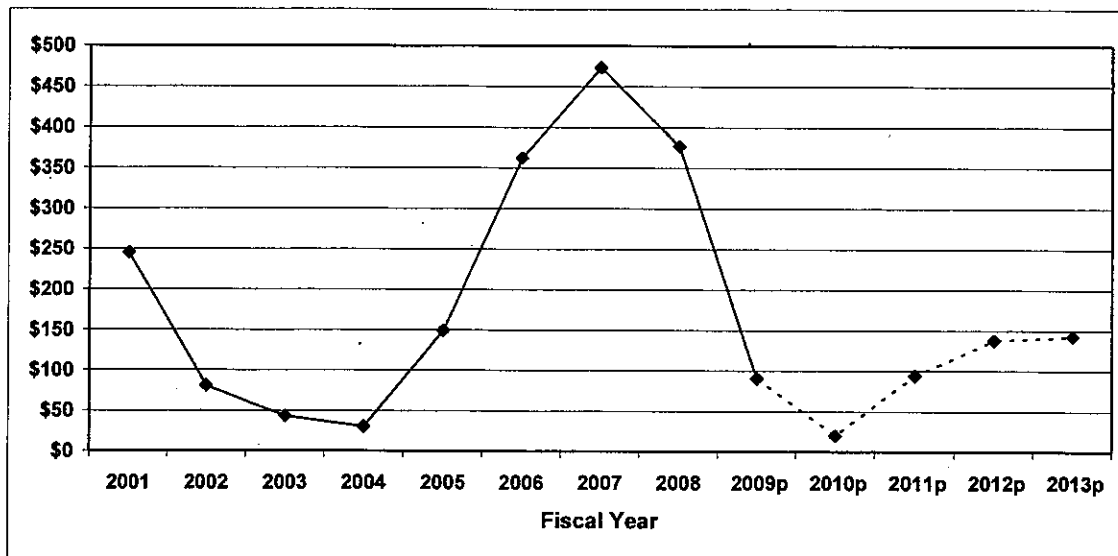
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Licenses, Franchises, Permits	\$484	\$476	\$478	\$481	\$482
Interest Income	90	20	94	138	142
Charges for Services	631	648	644	644	644
Water and Sewer	1,312	1,253	1,280	1,296	1,311
Rental Income	228	212	212	212	212
Fines and Forfeitures	782	1,005	1,056	1,099	1,098
Other Miscellaneous	787	663	682	644	641
Total Miscellaneous Revenue	\$4,314	\$4,277	\$4,446	\$4,514	\$4,530

Note: Water & Sewer Revenues are not available for operating purposes because they are offset by expenditures related to providing water & sewer services.
Source: NYC Office of Management and Budget.

As shown in Chart 2, interest income, which peaked in FY 2007 at nearly half a billion dollars due to favorable interest rates and historically high levels of cash balances, is expected to drop to \$20 million in FY 2010 reflecting interest rate cuts and expected lower levels of cash balances. Beginning in FY 2011 interest income is expected to rebound and stabilize at higher levels.

Chart 2. Interest Income

(\$ in millions)



Over the Financial Plan period, miscellaneous revenue is expected to grow only 5.0 percent, from \$4.3 billion in FY 2009 to \$4.5 billion in FY 2013. Non-recurring resources, which yielded over \$200 million in FY 2009, are not expected to be significant in FY 2010 or the outyears.

Federal and State Aid

The January Plan projects total Federal and State aid of nearly \$17 billion for FY 2010, representing close to 29 percent of the City's revenue budget. Compared with the November Plan, the City's Federal and State aid assumptions have fallen by a net of \$290 million. The decline is actually greater because the January Plan recognizes \$347 million in new education building aid in support of school construction debt service costs. The money represents pass-through funds that have no net impact on the City's budget since a corresponding outflow is shown in Miscellaneous Agency spending. This funding, which was previously shown as a direct transfer to the NYCTFA, is now reflected in this manner to comply with enhanced disclosure requirements of the Governmental Accounting Standards Board. Excluding this change, the revenue decline more than doubles, primarily because of potential education aid loss proposed in the Governor's budget. Beyond FY 2010, Federal and State aid is expected to range between \$17.5 billion and \$18.2 billion annually, averaging about 28 percent of total revenues.

As part of the January Plan presentation, the City estimates the proposed State budget, excluding sales tax increases, will have a net negative impact of \$1.5 billion in FYs 2009-10. The chief components of this impact are the proposed elimination of revenue sharing aid and reduction of education aid. The elimination of revenue sharing aid would lower the City's revenue projection by \$328 million in FY 2010. However, since the State makes revenue sharing aid payments on a lag basis, with respect to the City fiscal year, the first installment of the cut would actually begin in FY 2009. Thus, the impact would double to \$656 million in FYs 2009-10 combined. The plan estimates that education aid would fall by \$771 million under the Governor's proposal to delay the phase-in of the State's Education Investment Plan and shift special education costs to the City. In addition, the City projects that State aid loss would total more than \$400 million across various functions, with social services (\$221 million), uniform services (\$84 million) and health (\$69 million) representing the majority of this estimate. These cuts are partly offset by savings and revenue increases totaling about \$350 million, mainly from red light cameras (\$100 million) and a new pension tier (\$200 million).

In an unusual move, the City has incorporated a significant portion of this budget impact in the January Plan. The move represents a more conservative approach by the City, which normally does not reflect an impact until the State budget is finalized. The January Plan includes key pieces of the Governor's budget proposals that total \$635 million in FYs 2009-10. It assumes a loss of \$766 million in education aid that the Department of Education needs to absorb without any City funds offset, which the City claims could require layoffs of 14,000 teachers. Also, the January Plan reflects an annual reduction in revenue sharing aid of \$85 million or a total of \$170 million for FYs 2009-2010. The smaller impact is based on the assumption that the State will not completely eliminate this funding and would only reduce annual payment to a level comparable to the \$242 million that the City received in FY 2008. Offsetting these changes, the Plan assumes \$200 million in pension savings from the creation of a new tier and \$100 million in revenue from additional red light cameras.

The January Plan also assumes \$1 billion in annual savings for FYs 2010 and 2011 from a temporary increase in the Federal Medicaid Assistance Percentage (FMAP),

based on provisions in the American Recovery and Reinvestment Act of 2009. The change is reflected as a direct offset against the City's Medicaid spending without any impact on its Federal aid assumptions. However, the State's current allocation plan of the enhanced FMAP funding to localities show that the City would receive only \$1.92 billion in net offsets between FY 2009 and FY 2011, resulting in a risk of \$82 million against plan assumptions. The State plan indicates that of the \$11.1 billion in total FMAP relief for New York State, the State would keep about 76 percent, or \$8.4 billion, of these funds for its own use. This is a significantly higher share than stated in the Governor's earlier announcement that the State would retain only 70 percent of the overall FMAP relief. If the Governor had kept his promise, about \$2.37 billion in new FMAP funding would have been available to the City based on its share of the total local FMAP benefits under the State's plan.

The Act will also provide the City with substantial funding for Education. While the Department of Education will be a major beneficiary, the funding would not provide the City with additional gap closing relief. Though the distribution of a certain portion of the new aid is subject to the State's discretion, the DOE could potentially receive up to \$1 billion annually over the next two years through a combination of State Fiscal Stabilization funds, Title I grants and special education aid. The additional funding has not yet been reflected in the DOE budget.

B. EXPENDITURE ANALYSIS

All-funds expenditures for FY 2010 in the January Financial Plan total \$59.05 billion, or \$1.27 billion (2.3 percent) less than projected FY 2009 expenditures.⁹ However, the City's FY 2010 expenditure estimates are lowered by net prepayments and transfers totaling \$3.9 billion. After adjusting for net prepayments, FY 2010 expenditures total \$62.98 billion.¹⁰ This is a more modest decline of 1.7 percent from the adjusted FY 2009 expenditure estimate of \$64.08 billion. From FY 2009 to FY 2013, expenditures, after adjusting for prepayments, are projected to grow by 11.8 percent, or 2.8 percent annually.

As Table 15 shows, projected spending increases over the Financial Plan period are dominated by growth in health insurance costs, debt service, pensions, and judgments and claims (J&C) settlements. The combined spending in these areas, which accounts for approximately 24.3 percent of FY 2009 spending, is projected to grow 29.81 percent to 28.2 percent of spending by FY 2013. The City has proposed several initiatives to rein in pension and health insurance costs. If successfully implemented, these initiatives will lower pension and health insurance by \$757 million in FY 2010 and \$853 million by FY 2013, but will have little impact on their growth rates over this period. This is because while these initiatives will reduce costs in these areas, the reduction remains relatively

⁹ Expenditures include NYCTFA debt service.

¹⁰ Net prepayment for a given fiscal year is the prepayment of that fiscal year's expenditures minus the prepayment for the following year's expenditures.

constant each year. All other expenditures are projected to grow 7.8 percent over the Plan period, averaging 1.9 percent growth annually.

Table 15. FY 2009–FY 2013 Expenditure Growth Adjusted for Prepayments

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Growth FYs 09-13	Annual Growth
Pension	\$6,259	\$6,578	\$7,107	\$7,356	\$7,629	21.9%	5.1%
Debt Service	4,997	5,528	5,898	6,369	6,658	33.2%	7.4%
Health Insurance	3,672	3,888	4,288	4,797	5,065	37.9%	8.4%
Judgments and Claims	638	675	732	793	856	34.3%	7.6%
Subtotal	\$15,565	\$16,668	\$18,025	\$19,315	\$20,208	29.8%	6.7%
Wages and Salaries	\$21,729	\$21,524	\$22,686	\$22,909	\$23,178	6.7%	1.6%
Other Fringe Benefits	3,101	3,202	3,197	3,260	3,300	6.4%	1.6%
Medicaid	5,644	4,756	4,916	6,089	6,270	11.1%	2.7%
Public Assistance	1,313	1,299	1,299	1,299	1,299	(1.0%)	(0.3%)
Other OTPS	16,721	16,368	17,125	17,718	18,233	9.0%	2.2%
Subtotal	\$48,509	\$47,149	\$49,223	\$51,276	\$52,281	7.8%	1.9%
Health Insurance Cost Reduction	\$0	(\$557)	(\$586)	(\$618)	(\$653)	N/A	N/A
Retiree Health Benefit Trust	0	(82)	(395)	(672)	0	N/A	N/A
Pension Reform	0	(200)	(200)	(200)	(200)	N/A	N/A
Total Expenditure	\$64,075	\$62,978	\$66,066	\$69,101	\$71,636	11.8%	2.8%

SOURCE: NYC Office of the Comptroller.

NOTE: Expenditures are All-fund expenditures and include NYCTFA debt service.

Pensions

Pension expenditures are projected to increase at an average annual rate of 4.38 percent from \$6.3 billion in FY 2009 to \$7.4 billion by FY 2013. The current projections of pension expenses reflect the impact of a combined investment loss of 5.4 percent on pension fund investments through June 30, 2008, and reserves to fund a combined loss of 20 percent for FY 2009.¹¹ The projections also reflect annual savings of \$200 million beginning in FY 2010 from pension reform and a reserve of \$200 million annually beginning in FY 2011 to fund potential changes in actuarial assumptions and methods.

In the January Plan, the City increased pension contributions by \$188 million in FY 2011, \$347 million in FY 2012, and \$513 million in FY 2013 to offset projected FY 2009 investment losses relative to the actuarial investment return assumption (AIRA) of 8.0 percent, bringing the total added since the November Plan to \$431 million in FY 2011, \$794 million in FY 2012, and \$1.173 billion in FY 2013. The assumption of a 20 percent loss in FY 2009 matches the 20 percent loss pension investments had suffered fiscal year-to-date through December 31, 2008. Every percentage point in pension investment return on June 30, 2009 above or below the City's assumption will result in

¹¹ Reductions of \$82 million in FY 2010, \$152 million in FY 2011, and \$225 million in FY 2012 in retiree pay-as-you-go health insurance contributions will fund a portion of the phase-in of FY 2008 investment losses.

additional or reduced pension contributions of \$15 million in FY 2011, \$28 million in FY 2012, and \$42 million in FY 2013.

Currently, there is a proposal in the State Legislature to create a new tier of retirement benefits for future employees. This proposal calls for a modification to the pension benefits structure for new members. Under this proposal, civilian workers would be required to work until age sixty-two to qualify for a full pension and to contribute to the pension plan for all years of service. Uniformed employees would be required to work at least twenty-five years and be at least fifty years old to qualify for a full pension compared to twenty years with no age requirements for current workers. All new employees under the new tier would be required to complete ten years of credited service before their pensions are vested. The creation of a new tier of pension benefits is expected to reduce future employer contributions.

Health Insurance

Total pay-as-you-go health insurance expenses for employees and retirees are projected to grow from \$3.212 billion in FY 2009 to \$4.412 billion in FY 2013. The FY 2009 cost reflects a prepayment in FY 2008 of \$460 million of FY 2009 pay-as-you-go retiree health expenses. Adjusted for this prepayment, estimated FY 2009 health insurance is \$3.672 billion, as shown in Table 16, 11 percent more than in FY 2008.

Table 16. Pay-As-You-Go Health Expenditures

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Department of Education	\$1,392	\$1,414	\$1,547	\$1,790	\$1,783
CUNY	37	39	42	46	46
All Other	1,783	2,153	2,103	2,089	3,036
Health Insurance Savings	0	(357)	(386)	(418)	(453)
Total Pay-As-You-Go Health Insurance Costs	\$3,212	\$3,249	\$3,306	\$3,507	\$4,412
Health Insurance Cost Containment	0	200	200	200	200
Health Insurance Savings	0	357	386	418	453
Reduction to RHBT	0	82	395	672	0
Prepayment	460	0	0	0	0
Adjusted Pay-As-You-Go Health Insurance Costs	\$3,672	\$3,888	\$4,287	\$4,797	\$5,065

Projected health insurance expenditures reflect reductions of \$639 million in FY 2010, \$981 million in FY 2011, \$1.290 billion in FY 2012, and \$653 million in FY 2013. The City intends to negotiate with its municipal unions to reduce health insurance expenditures by \$557 million in FY 2010, \$586 million in FY 2011, \$618 million in FY 2012, and \$653 million in FY 2013. Approximately, two-thirds would come from a 10 percent premium contribution from active and retired members. The remaining \$200 million annually is expected to be generated from as yet undefined cost containment initiatives. Additionally, \$1.15 billion of retiree pay-as-you-go health insurance cost for FYs 2010 through 2012 will be paid from assets previously accumulated in the Retiree Health Benefits Trust (RHBT). The savings from the reduced retiree health insurance cost will be used to fund additional pension contributions as a result of investment losses from the financial market crisis.

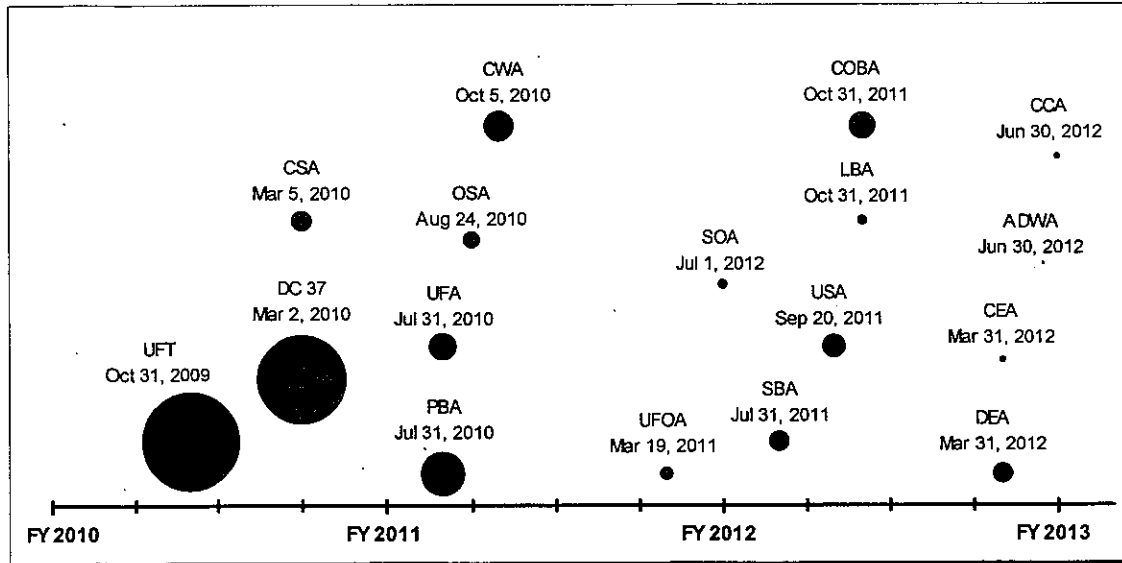
Health insurance costs, without the potential reductions, are expected to be \$3.9 billion in FY 2010, \$4.3 billion in FY 2011, \$4.8 billion in FY 2012, and \$5.1 billion in FY 2013. Over the Financial Plan period, health insurance is projected to grow 38 percent or 8.4 percent annually. The growth reflects premium increases of 9.73 percent for FY 2010 and 8.0 percent in each of the outyears and lower cost from expected headcount reductions, mainly at DOE.

Labor

The current balance in the City's labor reserve is \$509 million in FY 2009, \$1.086 billion in FY 2010, \$1.465 billion in FY 2011, \$1.860 billion in FY 2012, and \$1.888 billion in FY 2013. Since the FY 2008 November Financial Plan, \$208 million in FY 2009, \$321 million in FY 2010, \$340 million in FY 2011, \$376 million in FY 2012, and \$367 million in FY 2013 were transferred to various agencies to fund costs associated with recent labor agreements. The remaining funds in the labor reserve are budgeted primarily to cover potential costs associated with future collective bargaining agreements.

Other than employees represented by the United Federation of Teachers (UFT), principals and staff nurses, the City has contracts in place for the current collective bargaining round with all the other major unions (see Chart 3 for the contract expiration dates for the major unions). The UFT contract expires on October 31, 2009, but the labor reserve contains funding for a two-year contract with a 4.0 percent increase on the first day of the new contract, and another 4.0 increase on the first day of the 13th month of the contract, consistent with the current contracts of other City employees. The labor reserve also contains funding for increases for approximately 13,000 managers and non-unionized employees. These employees usually receive wage increases that mirrors the pattern negotiated with District Council 37 (DC37). The labor reserve contains funding of about \$53 million in FY 2009 and \$100 million annually beginning in FY 2010 for these employees.

Chart 3. Municipal Contracts Expiration Dates



Note: Bubble size indicates the relative number of full-time City employees in each union.

Headcount

FY 2009 City-funded full-time headcount in the January Plan totals 241,263, almost 2,000 less than the actual headcount of 243,086 on December 31, 2008. The projected FY 2009 headcount is 0.3 percent above the November Modification. As Table 17 shows, headcount is expected to be reduced drastically in FY 2010 and remain relatively stable thereafter. In fact, since the November Modification the City has slashed its full-time headcount plan by more than 19,000 in FY 2010 and by nearly 20,000 in each of FYs 2011 to 2012, with the Department of Education (DOE) slated to absorb approximately 80 percent of these cuts.

DOE's FY 2010 target for full-time pedagogical staff has been reduced by 15,625 positions, and the current plan is to maintain all of these cuts through FY 2012. A proposed reduction in State education funding has led the City to respond with a proposed layoff of nearly 14,000 teachers and not filling over 200 additional vacancies. However, the American Recovery and Reinvestment Act of 2009 that was passed recently will alleviate many of the proposed reductions in State funding, allowing the City to avert the proposed layoffs. Further cuts of 1,440 teaching positions, unrelated to State education funding, will be realized through attrition.

The Police Department will use attrition to achieve its planned headcount, and expects the number of police officers and civilian employees, respectively, to be below November 2008 targets by 1,000 and 342 positions in each of FYs 2010 to 2012. Provisions for Community Oriented Policing Services (COPS) will provide additional funding to the City to mitigate planned police reductions. Thus, it is likely that the City will increase its police headcount plan in the Executive Budget. The Fire Department will similarly meet the headcount reduction requirements of several gap closing initiatives with attrition, resulting in net Plan to Plan reductions of 451 uniformed and 160 civilian

positions in each of FYs 2010 to 2012. Specifically, 17 companies (including one for Governor's Island) will no longer be manned, thus eliminating the need for 419 uniformed jobs. The remaining 32 uniformed jobs will be cut by closing the Queens Fire Marshal Base. Attrition will also account for most of the civilian headcount reductions. The Fire Department plans to eliminate thirty Basic Life Support Tours which translates to the loss of 121 civilian jobs. The Department also will not fill 48 other civilian positions, and further intends to remove 29 civilian positions that are currently vacant. This will be offset by the hiring of 40 civilians to form a Fire Prevention Inspection Team to inspect buildings under construction, demolition, and abatement.

The gap closing initiatives at the Department of Correction (DOC) will result in more than 140 uniformed vacancies not being filled in each of FYs 2010 to 2012. The Five Day Recreation Schedule, which compresses the recreation schedule for adult inmates from seven to five days a week, will eliminate the need for 50 uniformed workers with a corresponding savings of \$4.5 million per year beginning in FY 2010. Similarly, 61 fewer correction officers will be needed when three initiatives to minimize processing backlogs are implemented. The first pertains to a reduction in conviction to sentencing time, which the City intends to accomplish by better coordinating the schedules of attorneys and judges. The second seeks to expedite hearings for certain criminal cases by allocating dedicated court resources, and the third initiative speeds up bail processing and reduces pre-trial detention. Finally, other PEGs such as the increased use of Video Teleconferencing technology, and the Supervised Release of Low-Risk NYC Defendants (pre-trial detainees) to the Department of Probation will result in the need for 50 fewer DOC officers.

The Department of Sanitation (DOS) has four PEGs in the January 2009 Financial Plan, all of which will be facilitated by attrition. Beginning in FY 2010, DOS will attempt to operate some front-loading collection trucks with one person as opposed to two, subject to union approval, thus lowering uniformed headcount by 31 jobs. Two other PEGs, also beginning in FY 2010, will reduce civilian headcount by 20 employees through attrition and the elimination of existing vacancies. Finally, DOS intends to realize significant efficiency gains in refuse and recycling collections that presumably can be accomplished with 164 fewer field personnel in FY 2011, and 192 fewer field personnel in FY 2012 than anticipated in the November Plan.

The Administration for Children's Services (ACS) will implement new gap closing initiatives that will trim approximately 840 positions from this agency by the end of FY 2010, when compared to the November Modification. No restorations are expected for the remainder of the Plan period. Layoffs will account for cuts of 315 employees in the Family Permanency and Family Support Services, as well as 293 administrative personnel. Finally, much of the Family Preservation Program's current caseload will be served by the Family Services Unit or contracted providers. The resulting vacancies from attrition will not be filled, and current estimates put this number at 234 positions, beginning in FY 2010.

The Department of Homeless Services (DHS) has three PEGs that will reduce targeted headcount by 222 positions in each of FYs 2010 through 2012 compared to the November Modification. Specifically, the re-engineering of functions performed by

Community Assistants is expected to yield greater efficiencies, while DHS has managed to get concessions from those commercial hotels housing homeless families that were not providing social service staff. Other personnel reductions throughout the agency complete this triad of PEGs with recurring savings. DHS also plans to delay hiring in FY 2010, which will further reduce the need for 43 staff members in FY 2010.

The January 2009 Modification shows a net Plan to Plan reduction of more than 160 positions at the Department of Social Services (DSS) beginning in FY 2010. Technical offsets aside, the reductions are driven by the elimination of existing vacancies. The current Financial Plan also utilizes attrition to reduce the November 2008 estimates for the Department of Parks and Recreation by 109 positions.

Table 17. City-Funded Full-Time Year-End Headcount Projections

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Pedagogical					
Dept. of Education	95,868	80,841	80,827	80,827	80,827
City University	2,686	2,656	2,656	2,656	2,656
Sub-total	98,554	83,497	83,483	83,483	83,483
Uniformed					
Police	35,128	33,217	34,109	35,002	35,284
Fire	11,222	10,771	10,771	10,771	10,771
Corrections	8,646	7,749	7,798	7,798	7,798
Sanitation	7,452	7,234	7,319	7,291	7,291
Sub-total	62,448	58,971	59,997	60,862	61,144
Civilian					
Dept. of Education	7,905	7,906	7,904	7,904	7,904
City University	1,640	1,475	1,475	1,475	1,475
Police	14,640	14,148	14,103	14,103	14,103
Fire	4,837	4,637	4,637	4,637	4,637
Corrections	1,423	1,502	1,502	1,502	1,502
Sanitation	1,895	1,871	1,917	1,917	1,917
Admin for Children's Services	6,702	5,966	5,963	5,963	5,963
Social Services	11,347	10,891	10,885	10,885	10,885
Homeless Services	2,221	1,989	2,032	2,032	2,032
Health and Mental Hygiene	4,037	3,916	3,949	3,949	3,949
Finance	2,112	2,119	2,101	2,083	2,083
Transportation	2,226	2,249	2,331	2,353	2,353
Parks and Recreation	3,092	2,849	2,925	2,925	2,925
All Other Civilians	16,184	15,846	15,387	15,263	15,267
Sub-total	80,261	77,364	77,111	76,991	76,995
Total	241,263	219,832	220,591	221,336	221,622

As shown in Table 18, City-funded full-time equivalent (FTE) headcount is expected to be approximately 26,700 in FY 2009, and remain at roughly 26,400 in the outyears, consistent with the November 2008 Financial Plan.

Table 18. City-Funded FTE Year-End Headcount Projections

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Pedagogical					
Dept. of Education	1,053	1,053	1,053	1,053	1,053
City University	1,440	1,393	1,393	1,393	1,393
Sub-total	2,493	2,446	2,446	2,446	2,446
Civilian					
Dept. of Education	14,917	14,917	14,917	14,917	14,917
City University	738	687	687	687	687
Police	1,801	1,784	1,783	1,783	1,783
Health and Mental Hygiene	1,348	1,438	1,438	1,430	1,430
Parks and Recreation	3,566	3,381	3,409	3,413	3,416
All Other Civilians	1,798	1,731	1,733	1,733	1,733
Sub-total	24,168	23,938	23,967	23,963	23,966
Total	26,661	26,384	26,413	26,409	26,412

Overtime

The City has included approximately \$843 million in the FY 2010 Preliminary Budget for overtime expenditures. This estimate is \$64 million lower than the current FY 2009 overtime projection of \$907 million. Through December 2008, the City has spent almost \$500 million for FY 2009 overtime and is on track to spend just over \$1 billion for the entire fiscal year. As shown in Table 19, overtime spending patterns indicate that the City's overtime projections for FY 2009 and FY 2010 are, once again, under-budgeted. The Comptroller's office estimates that overtime spending could be higher than budgeted by at least \$111 million in FY 2009 and about \$142 million in FY 2010.

As in the past, the risk to the FY 2010 overtime budget stems mainly from expected overtime spending for uniformed employees. The Comptroller's Office estimates that uniformed employees overtime will be about \$746 million in FY 2010, \$122 million higher than the City's estimate. Overtime spending for uniformed police officers poses the largest risk. Uniformed police overtime spending, which was \$406 million in FY 2008, is expected to remain relatively flat through FY 2010. Through December 2008, the department has spent \$204 million for uniformed overtime and is on target to spend about \$410 million for FY 2009.

Table 19. Projected Overtime Spending, FY 2009 and FY 2010

(\$ in millions)

	City Planned Overtime FY 2009	Comptroller's Projected Overtime FY 2009	FY 2009 Risk	City Planned Overtime FY 2010	Comptroller's Projected Overtime FY 2010	FY 2010 Risk
Uniform						
Police	\$347	\$410	(\$63)	\$334	\$420	(\$86)
Fire	194	194	0	175	175	0
Correction	64	95	(31)	59	95	(36)
Sanitation	60	60	0	56	56	0
Total Uniformed	\$665	\$759	(\$94)	\$624	\$746	(\$122)
Others						
Police-Civilian	\$43	\$60	(\$17)	\$40	\$60	(\$20)
Admin for Child Svcs	13	13	0	13	13	0
Environmental						
Protection	21	21	0	21	21	0
Transportation	32	32	0	28	28	0
All Other Agencies	133	133	0	117	117	0
Total Civilians	\$242	\$259	(\$17)	\$236	\$256	(\$20)
Total City	\$907	\$1,018	(\$111)	\$843	\$985	(\$142)

The FY 2010 overtime budget in the Department of Correction (DOC) totals \$59 million, a modest reduction from the FY 2009 Budget of \$64 million. However, in FY 2008, the City spent \$98 million on correction officers' overtime and is on target to spend about the same amount for FY 2009. Through December 2008, correction officers earned \$47 million for overtime. While the Department of Correction (DOC) is working to improve operational efficiencies, which, if successful will lower overtime spending, the City projects that by June 30, 2010 there will be 7,749 correction officers, just over nine hundred fewer than the 8,657 officers employed as of December 30, 2008. The reduction in headcount will likely exert some pressure on overtime spending. As such, the Comptroller's Office projects overtime spending of \$95 million for FY 2010, closer to the current spending level.

Public Assistance

For the current year, the City's public assistance caseload has averaged 338,420 recipients per month through January 2009. A year-over-year comparison shows that average caseload through January has declined 4.2 percent, or about 14,800 recipients, in FY 2009. Welfare caseload continues to hover near the 340,000 threshold, representing a dramatic 70 percent drop from the peak reached in 1995. Meanwhile, monthly grant expenditures have averaged about \$98 million in the current year, showing no major deviation from this level over the past 18 months. Similarly, grant spending has also experienced a decline of over 60 percent from the historical peak of \$252 million in 1995.

In the January Plan, the City has revised its public assistance caseload projections upward for FY 2010, with projected average caseload increasing from 342,509 in the November Plan to 350,838. The caseload revision is accompanied by a net \$36 million

boost in funding for baseline grants expenditures, reaching \$1.17 billion in FY 2010. Both caseload and grants spending projections will be maintained at these levels over the remainder of the Plan. Given recent caseload levels, it appears that adequate funding has been provided in this area, barring a significant reversal in future caseload trend.

Department of Education

Building on a pattern that has set mounting challenges for the Department of Education (DOE) budget, the January Plan reflects another significant round of reductions that the Department must absorb if fiscal conditions for both the City and the State fail to improve or worsen in FY 2010. The January Plan changes mark the steepest cuts to have hit the Department in recent budget modifications, requiring the DOE to lower its FY 2010 spending projection by nearly \$1.1 billion due to declining City and State support. Both the Chancellor and the Mayor have stressed the need to trim the Department's projected pedagogical workforce by 16 percent or 15,630 positions in FY 2010 to attain this level of savings. Of this total, nearly 14,000 positions will need to be eliminated through layoffs. It appears the fortuitous timing of the Federal Economic Stimulus Plan will help the Department stave off a majority, if not all, of these cuts, thus averting the possibility of layoffs. Early estimates indicate that the Federal Plan could provide the Department with up to \$1 billion assistance each year in FYs 2010 and 2011.

The Department, which already sustained a \$385 million reduction in City funds in the November Plan, now faces additional cuts totaling \$306 million in City funds for FY 2010 in the January Plan. This brings the cumulative decline in City support to \$691 million for FY 2010 since the June Plan. Overall, DOE spending is projected to fall from \$17.6 billion in FY 2009 to \$17.3 billion in FY 2010. The City funds portion of DOE spending is expected to remain constant at about \$7.3 billion for FY 2009 and FY 2010, meeting the minimum maintenance-of-effort funding requirement under State education laws. Combined with prior reductions dating back to the January 2008 Plan, about \$944 million in City support has been carved out of the DOE budget for FY 2010.

Under the January Plan PEG program, school-based spending would fall by \$120 million, including \$91 million from the elimination of 1,440 positions through attrition. The latest round of cuts also includes recognition of potential surpluses in food services, transportation and fringe benefits to provide net savings of \$113 million, after covering \$79 million in new needs mostly for special education private school payments and instructional support services. State aid offsets for certain special education programs would provide an additional \$46 million in tax levy savings. Other major savings are expected from central/field support staff reduction (\$9 million), Medicaid revenue (\$9 million), and transportation and special education efficiency savings (\$6 million).

The City has also opted to reflect the potential impact of the Governor's budget on the DOE budget in the January Plan. The plan reflects a loss of about \$669 million mainly from the Governor's plan to extend the phase-in period of the State's Educational Investment Plan from four years to eight years. The lower support is almost entirely in foundation aid and could force layoffs of almost 14,000 pedagogues at the Department. In addition, the Governor's proposal to shift a greater burden of financing the special education pre-kindergarten program to the City would cost \$97 million, bringing the total

impact of the State Executive Budget to about \$766 million in FY 2010. State education support is projected to decline \$290 million to \$8.22 billion in FY 2010, compared with an estimate of \$8.51 billion in FY 2009.

The American Recovery and Reinvestment Act of 2009 proves to be the lone bright spot amid budget cuts contemplated by the City and State. The Act contains a sizable education component that will provide a major boost in funding for the Department over the next two years. While details are still preliminary in nature, the creation of a Fiscal Stabilization Fund to help states restore funding cuts to local education districts will provide the State with \$2.5 billion in new Federal dollars. Assuming the City will receive its traditional education funding share under the State's allocation plan for these resources, more than \$1 billion could become available to the Department in FYs 2010 and 2011. In addition, the City could receive more than \$800 million in other aids over the next two years, primarily in Federal Title I grants for economically disadvantaged pupils and special education grants, bringing the potential two-year impact to almost \$2 billion.

Health and Hospitals Corporation

The City projects the Health and Hospitals Corporation (HHC) to finish the current fiscal year with a cash balance of slightly more than \$1.4 billion, a slight decline of less than \$10 million from the November Plan estimate. This balance is predicated upon the receipt of \$525 million in retro-supplemental Medicaid payments. As shown in the January Plan projections, the Corporation expects to retain a majority of this cash balance at the end of FY 2010. However, over the longer term, the Corporation's cash position is expected to weaken in the latter years of the Plan due to rising deficits in its operating projections, falling below \$600 million by the end of the Plan in FY 2013.

The January Plan shows projected deficits for the Corporation, on an accrual basis, have increased by a total of more than \$80 million in FYs 2009 and 2010 combined, primarily for additional personal services and fringe benefits spending reflected in its baseline assumptions. The Corporation faces a current year deficit of \$976 million and an estimated gap of \$1.34 billion in FY 2010. Over these two years, the January Plan has recognized an additional \$380 million in the Corporation's gap-closing program, mainly in offsets through Federal and State actions and internal savings. As a result, the size of HHC's gap-closing program covering FYs 2009 and 2010 has expanded from \$1.27 billion in the November Plan to about \$1.65 billion in the January Plan, with Federal and State actions representing about \$1.34 billion or 81 percent of this total.

The chief components of these assumptions include over \$900 million from maximization of Medicaid Disproportionate Share (DSH) revenue and almost \$300 million from Medicaid Upper Payment Limit (UPL) revenue. The bulk of the UPL revenue assumption is contingent upon the continuation of Federal moratorium on a Medicaid regulation change that would terminate this funding for hospitals. The current moratorium, which was set to expire in April, has now been extended to the end of June 2009 under the Federal Economic Stimulus Plan. The net impact of the January Plan changes raises HHC's projected FY 2010 year-end cash balance to nearly \$1.3 billion, compared with \$1 billion in the November Plan. Despite uncertainty surrounding the

Federal and State actions, the Corporation's near-term outlook remains stable, as evidenced by the high level of cash balance it will likely carry forward to the latter part of the Plan.

Over the longer term, however, HHC will face greater challenges as budget deficits climb to higher levels in FYs 2011-13. The Corporation projects that budget gaps will range between \$1.49 billion and \$1.74 billion during the remainder of the Plan. As a function of the rising deficits, year-end cash balances are expected to fall sequentially to \$1.1 billion in FY 2011 and \$883 million in FY 2012, before settling to \$582 million in FY 2013. While these estimates represent an improvement over the November Plan, to reach these targets, the Corporation needs to achieve gap closing measures averaging about \$1.1 billion annually in FYs 2011-13. Federal and State actions continue to be the most important element of these proposals, constituting 70 percent of the overall value of these programs.

Debt Service

As shown in Table 20, debt service, after adjusting for the impact of prepayments, is projected to grow from \$5.07 billion in FY 2009 to \$6.75 billion in FY 2013, an increase of \$1.68 billion, or 33 percent.¹² These represent decreases from the November 2008 Financial Plan of \$29 million in FY 2009, \$10 million in FY 2010, \$33 million in FY 2011, and \$139 million in FY 2012.

Table 20. January 2009 Financial Plan Debt Service Estimates

(\$ in millions)

Debt Service Category	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Change from FYs 2009 – 2013
G.O. ^a	\$3,677	\$4,115	\$4,532	\$4,964	\$5,250	\$1,573
NYCTFA ^b	1,134	1,144	1,114	1,158	1,162	28
Lease-Purchase Debt	176	269	252	247	246	70
TSASC, Inc.	88	89	90	91	92	4
Municipal Assistance Corp.	0	0	0	0	0	0
Total	\$5,075	\$5,617	\$5,988	\$6,460	\$6,750	\$1,675
Change from Nov. Plan	(\$29)	(\$10)	(\$33)	(\$139)	N/A	N/A

SOURCE: January 2009 Financial Plan, January 2009.

NOTE: Debt service is adjusted for prepayments.

^a Includes long term G.O. debt service and interest on short term notes.

^b Amounts do not include NYCTFA building aid bonds.

The decrease of \$29 million in FY 2009 compared to the November projection is due primarily to \$20 million of interest savings related to interest exchange agreement payments, also known as swap agreements, and \$7 million in lease-purchase savings

¹² Includes debt service on G.O., TFA, and TSASC bonds as well as lease-purchase debt and interest on short-term notes.

related to debt issued by the Dormitory Authority of the State of New York. In addition to these planned savings, however, the low variable interest-rate environment should provide significant savings in FY 2009.

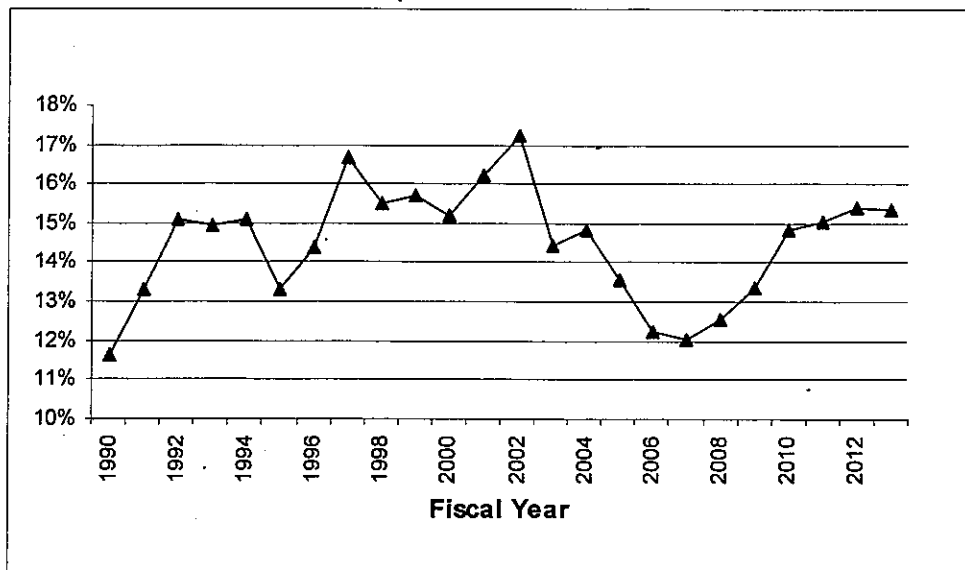
Decreases from the November 2008 Plan projected debt service in FYs 2010 – 2012 are due primarily to reductions in projected borrowing beginning in FY 2010 and continuing throughout the Financial Plan, as part of the 30 percent capital reduction program discussed further in the “Financing Program” section on page 40.

Debt Affordability

Debt service as a percent of local tax revenues is an accepted measure of affordability used by rating agencies and government officials alike. The January Plan projects debt service to consume 13.6 percent of local tax revenues in FY 2009, 15.1 percent in FY 2010, 15.3 percent in FY 2011, and 15.6 percent in FYs 2012 and 2013. The average debt service growth of 7.4 percent per year between FYs 2009 and 2013 is significantly greater than estimated annual tax revenue growth of 4.5 percent over the same period. The City has reduced its capital plan to bring the growth of debt service in line with other tax revenue growth, but the slower debt-service growth will not manifest itself until FY 2014.¹³

Chart 4. Debt Service as a Percent of Tax Revenues, 1990 – 2013

(\$ in millions)



SOURCE: Office of Management and Budget, City of New York, January 2009 Financial Plan.

¹³ Detailed debt-service documents from OMB contain estimates through FY 2019, beyond the traditional Financial Plan period.

Financing Program

The January 2009 Financial Plan contains \$42.1 billion of planned borrowing in FYs 2009 through 2013 from combined City and State sources, as shown in Table 21. G.O. bonds account for \$26.68 billion of expected borrowing over the period, or 63.3 percent of the total. Planned NYC Water Finance Authority borrowing of \$10.45 billion also accounts for a significant share of capital resources, at 24.8 percent of the total. The use of NYCTFA Building Aid Revenue Bonds (BARBs) to support the DOE capital program is assumed to continue throughout the Financial Plan period with \$5 billion of NYCTFA BARBs issuances planned, accounting for 11.9 percent of capital borrowing over the Plan period. There is no pay-as-you-go capital in the financing program.

Table 21. January 2009 Plan, FYs 2009 – 2013

(\$ millions)		
Description:	Estimated Borrowing and Funding Sources	
	FYs 2009-2013	Percent of Total
General Obligation Bonds	\$26,678	63.3%
NYC Water Finance Authority	10,448	24.8%
NYCTFA – BARBs	5,000	11.9%
Total	\$42,126	100.0%

SOURCE: January 2009 Financial Plan, Office of Management and Budget.

Over the period FYs 2009 – 2012, total borrowing is estimated to increase by \$108 million from the estimates in the November 2008 Financial Plan. This relatively small increase from November masks two key programmatic changes. G.O. borrowing is forecast to decline by \$1.45 billion over FYs 2009-2012 as a direct impact of the 30 percent capital reduction program. This decrease, however, is offset by an assumed increase in NYCTFA BARBs borrowing of \$1.55 billion over the same four-year period.¹⁴

The City has exhausted the \$13.5 billion cap on NYCTFA borrowing for general purposes that is supported by PIT revenues. The Governor's budget, however, includes a proposal to increase the cap on NYCTFA borrowing for the City. The NYCTFA has traditionally been a less expensive cost of financing than G.O. bonds. Should the State authorize the increase in the cap on NYCTFA borrowing, the City has indicated that it would use the additional debt capacity to supplant G.O. borrowing.

Capital Plan

The January 2009 Capital Commitment Plan, for FYs 2009-2013, reflects a 30 percent reduction in the Capital Plan. The assumed commitment reductions begin in

¹⁴ The November Plan Financing Program included projections for FYs 2009-2012 only.

FY 2010 and continue through FY 2013. The reduction is computed by multiplying the City-funded portion of the commitment plan, exclusive of DEP commitments, by 30 percent. City-funded reductions sum to \$5.64 billion over the four-year period, from FYs 2010 through 2013. The 30 percent reduction in non-City commitments is entirely in DOE, and consists of \$1.27 billion in BARBs supported commitments. In all, total commitment reductions are projected to be \$6.917 billion over the four-year period. As of this plan, the reductions are “below the line” adjustments and are not yet incorporated in the programmatic detail of the Plan. OMB indicates that they will be incorporated in the programmatic detail during the Executive Budget and Financial Plan process.

Through January of FY 2009, City-funded year-to-date capital commitments were \$3.63 billion. If City capital commitments were to continue at this pace, they would fall short of the FY 2009 City-funded commitment plan by \$5.08 billion or 44.9 percent. Even if the remaining months averaged twice the amount of the first seven months, City-funded commitments would total \$8.82 billion, or \$2.5 billion below plan. Any amount not committed in FY 2009 will likely be rolled over to FY 2010, thereby increasing planned commitments above the 30 percent reduction to the extent of the rollover.

The January 2009 Capital Plan at a Glance

The January 2009 Capital Plan for FYs 2009 — 2013 contains \$50.56 billion in authorized all-fund commitments, averaging \$10.11 billion per year, as shown in Table 22.¹⁵ This represents an increase of \$192 million, or 0.4 percent, from the November 2008 Commitment Plan. Consistent with prior plans, capital commitments in DOE and CUNY, the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for more than 60 percent of all-fund commitments with 67.6 percent of the total.

After adjusting for the reduction program and the reserve for unattained commitments, the Capital Plan over FYs 2009 through 2013 totals \$40.87 billion in all-funds commitments, and \$32.61 billion in City-funds commitments. The plan is front-loaded with all-fund commitments totaling \$14.656 billion in FY 2009, decreasing to \$8.963 billion in FY 2010, \$6.243 billion in FY 2011, and \$4.870 billion in FY 2012, before increasing to a projected \$6.135 billion in FY 2013. Thus, FY 2009 comprises about 36 percent of the five-year total.

¹⁵ Commitment Plan refers to a schedule of anticipated contract registrations. However, capital spending is not recorded in the Commitment Plan.

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

(\$ in millions)

Project Category	January 2009-2013 Commitment Plan	Percent of Total
Education & CUNY	\$11,801	23.3%
Environmental Protection	10,064	19.9
Dept. of Transportation & Mass Transit	7,050	13.9
Housing and Economic Development	5,243	10.4
Administration of Justice	3,694	7.3
Technology and Citywide Equipment	2,564	5.1
Parks Department	2,649	5.2
Hospitals	854	1.7
Other City Operations and Facilities	6,636	13.2
Total	\$50,555	100.0%
30 Percent Reduction Program	(\$6,917)	n/a
Reserve for Unattained Commitments	(\$2,771)	n/a
Adjusted Total	\$40,867	n/a

SOURCE: Office of Management and Budget, FY 2009 January Capital Commitment Plan, January 2009.

The City-funded portion of the authorized Plan totals \$41.03 billion over FYs 2009 through 2013, as shown in Table 23. After adjusting for the reduction program and the reserve for unattained commitments, the City-funded plan totals \$32.614 billion. Capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development constitute 61 percent of the City-funds plan. The significant difference between the DOE's 14.3 percent share of the City-funded capital plan and its 23.3 percent share of the all-funds capital plan reflects the State-supported commitments of \$5.91 billion over FYs 2009 through 2013. This \$5.91 billion in State support for the education portion of the commitment plan comprises 62 percent of the total State and Federal support to the entire commitment plan over FYs 2009 through 2013.

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

(\$ in millions)

Project Category	January 2009-2013 Commitment Plan	Percent of Total
Environmental Protection	\$9,833	24.0%
Education & CUNY	5,858	14.3
Dept. of Transportation & Mass Transit	5,052	12.3
Housing and Economic Development	4,273	10.4
Administration of Justice	3,690	9.0
Technology and Citywide Equipment	2,548	6.2
Parks Department	2,420	5.9
Hospitals	854	2.1
Other City Operations and Facilities	6,500	15.8
Total	\$41,028	100.0%
30 Percent Reduction Program	(\$5,643)	
Reserve for Unattained Commitments	(\$2,771)	n/a
Adjusted Total	\$32,614	n/a

SOURCE: Office of Management and Budget, FY 2009 January Capital Commitment Plan, January 2009.

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Appendix – Revenue and Expenditure Details

Table A1. January 2009 Preliminary Budget Revenue Detail

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2009-13	
						Percent	Dollar
Taxes:							
Real Property	\$14,500	\$16,390	\$17,322	\$17,911	\$18,299	26.2%	\$3,799
Personal Income Tax	\$8,287	\$6,851	\$7,968	\$8,616	\$9,198	11.0%	\$911
General Corporation Tax	\$2,433	\$2,192	\$2,458	\$2,799	\$3,021	24.2%	\$588
Banking Corporation Tax	\$447	\$570	\$662	\$707	\$741	65.8%	\$294
Unincorporated Business Tax	\$1,739	\$1,470	\$1,512	\$1,675	\$1,787	2.8%	\$48
Sale and Use	\$4,632	\$5,033	\$5,261	\$5,609	\$6,002	29.6%	\$1,370
Commercial Rent	\$828	\$653	\$703	\$745	\$853	3.0%	\$25
Real Property Transfer	\$679	\$506	\$543	\$575	\$660	(2.8%)	(\$19)
Mortgage Recording Tax	\$556	\$543	\$531	\$533	\$557	0.2%	\$1
Utility	\$397	\$391	\$420	\$434	\$439	10.6%	\$42
Cigarette	\$389	\$418	\$436	\$427	\$427	9.8%	\$38
Hotel	\$102	\$99	\$97	\$94	\$92	(9.8%)	(\$10)
All Other	\$446	\$400	\$401	\$405	\$405	(9.3%)	(\$41)
Tax Audit Revenue	\$680	\$596	\$596	\$595	\$594	(12.7%)	(\$86)
Total Taxes	\$36,116	\$36,112	\$38,910	\$41,125	\$43,075	19.3%	\$6,959
Miscellaneous Revenue:							
Licenses, Franchises, Etc.	\$484	\$476	\$478	\$481	\$482	(0.4%)	(\$2)
Interest Income	\$90	\$20	\$94	\$138	\$142	57.8%	\$52
Charges for Services	\$631	\$648	\$644	\$644	\$644	2.1%	\$13
Water and Sewer Charges	\$1,312	\$1,253	\$1,280	\$1,296	\$1,311	(0.1%)	(\$1)
Rental Income	\$228	\$212	\$212	\$212	\$212	(7.0%)	(\$16)
Fines and Forfeitures	\$782	\$1,005	\$1,056	\$1,099	\$1,098	40.4%	\$316
Miscellaneous	\$787	\$663	\$682	\$644	\$641	(18.6%)	(\$146)
Intra-City Revenue	\$1,631	\$1,462	\$1,462	\$1,462	\$1,462	(10.4%)	(\$169)
Total Miscellaneous	\$5,945	\$5,739	\$5,908	\$5,976	\$5,992	0.8%	\$47
Unrestricted Intergovernmental Aid:							
N.Y. State Per Capital Aid	\$242	\$242	\$242	\$242	\$242	0.0%	\$0
Other Federal and State Aid	\$12	\$12	\$12	\$12	\$12	0.0%	\$0
Total Unrestricted Intergovernmental Aid	\$254	\$254	\$254	\$254	\$254	0.0%	\$0
Other Categorical Grants	\$1,104	\$1,021	\$1,023	\$1,026	\$1,025	(7.2%)	(\$79)
Inter Fund Agreements	\$477	\$445	\$437	\$434	\$433	(9.2%)	(\$44)
Reserve for Disallowance of Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	(\$15)	0.0%	\$0
Less: Intra-City Revenue	(\$1,631)	(\$1,462)	(\$1,462)	(\$1,462)	(\$1,462)	(10.4%)	\$169
TOTAL CITY FUNDS	\$42,250	\$42,094	\$45,055	\$47,338	\$49,302	16.7%	\$7,052

Table A1 (Con't). January 2009 Preliminary Budget Revenue Detail

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2009-13	
						Percent	Dollar
Federal Categorical Grants:							
Community Development	\$290	\$257	\$253	\$253	\$253	(12.8%)	(\$37)
Welfare	\$2,629	\$2,463	\$2,469	\$2,471	\$2,471	(6.0%)	(\$158)
Education	\$1,758	\$1,774	\$1,791	\$1,800	\$1,800	2.4%	\$42
Other	\$1,360	\$832	\$810	\$810	\$810	(40.4%)	(\$550)
Total Federal Grants	\$6,037	\$5,326	\$5,323	\$5,334	\$5,334	(11.6%)	(\$703)
State Categorical Grants							
Social Services	\$2,169	\$2,004	\$1,999	\$1,989	\$1,989	(8.3%)	(\$180)
Education	\$8,517	\$8,232	\$8,698	\$8,907	\$9,283	9.0%	\$766
Higher Education	\$211	\$211	\$211	\$211	\$211	0.0%	\$0
Department of Health and Mental Hygiene	\$484	\$461	\$469	\$472	\$472	(2.5%)	(\$12)
Other	\$650	\$721	\$750	\$811	\$878	35.1%	\$228
Total State Grants	\$12,031	\$11,629	\$12,127	\$12,390	\$12,833	6.7%	\$802
TOTAL REVENUES	\$60,318	\$59,049	\$62,505	\$65,062	\$67,469	11.9%	\$7,151

Table A2. January 2009 Preliminary Budget Expenditure Detail

(\$ in thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Changes FY 2009 - 13	
						Percent	Dollar
Mayorality	\$93,169	\$82,687	\$82,364	\$82,387	\$82,393	(11.6%)	(\$10,776)
Board of Elections	\$89,374	\$71,849	\$72,043	\$72,115	\$72,130	(19.3%)	(\$17,244)
Campaign Finance Board	\$11,466	\$11,080	\$11,083	\$11,086	\$11,090	(3.3%)	(\$376)
Office of the Actuary	\$5,275	\$5,288	\$5,290	\$5,291	\$5,293	0.3%	\$18
President, Borough of Manhattan	\$4,860	\$3,032	\$3,069	\$3,075	\$3,079	(36.6%)	(\$1,781)
President, Borough of Bronx	\$6,005	\$4,275	\$4,335	\$4,343	\$4,349	(27.6%)	(\$1,656)
President, Borough of Brooklyn	\$5,705	\$3,874	\$3,933	\$3,941	\$3,947	(30.8%)	(\$1,758)
President, Borough of Queens	\$4,772	\$3,495	\$3,543	\$3,549	\$3,554	(25.5%)	(\$1,218)
President, Borough of Staten Island	\$4,049	\$2,995	\$3,032	\$3,038	\$3,042	(24.9%)	(\$1,007)
Office of the Comptroller	\$69,138	\$67,108	\$67,111	\$67,111	\$67,111	(2.9%)	(\$2,027)
Dept. of Emergency Management	\$64,634	\$8,228	\$8,233	\$8,237	\$8,241	(87.2%)	(\$56,393)
Tax Commission	\$4,071	\$3,710	\$3,712	\$3,714	\$3,717	(8.7%)	(\$354)
Law Dept.	\$125,668	\$125,860	\$117,920	\$118,084	\$118,084	(6.0%)	(\$7,584)
Dept. of City Planning	\$33,582	\$23,759	\$22,919	\$22,911	\$22,903	(31.8%)	(\$10,679)
Dept. of Investigation	\$17,752	\$15,800	\$15,656	\$15,656	\$15,656	(11.8%)	(\$2,096)
NY Public Library - Research	\$24,772	\$21,511	\$21,511	\$21,511	\$21,511	(13.2%)	(\$3,261)
New York Public Library	\$120,009	\$104,692	\$104,442	\$104,442	\$104,442	(13.0%)	(\$15,567)
Brooklyn Public Library	\$89,179	\$77,807	\$77,557	\$77,557	\$77,557	(13.0%)	(\$11,622)
Queens Borough Public Library	\$87,729	\$76,630	\$76,380	\$76,380	\$76,380	(12.9%)	(\$11,349)
Dept. of Education	\$17,594,840	\$17,306,645	\$18,421,708	\$18,652,748	\$19,156,701	8.9%	\$1,561,861
City University	\$669,723	\$629,906	\$622,203	\$623,906	\$623,964	(6.8%)	(\$45,759)
Civilian Complaint Review Board	\$11,448	\$10,629	\$10,644	\$10,652	\$10,657	(6.9%)	(\$791)
Police Dept.	\$4,307,548	\$4,148,263	\$4,246,639	\$4,325,298	\$4,312,089	0.1%	\$4,541
Fire Dept.	\$1,640,676	\$1,582,712	\$1,594,393	\$1,592,560	\$1,589,740	(3.1%)	(\$50,936)
Admin. for Children Services	\$2,724,898	\$2,595,301	\$2,599,548	\$2,599,472	\$2,599,473	(4.6%)	(\$125,425)
Dept. of Social Services	\$8,689,753	\$7,721,149	\$7,876,925	\$9,050,274	\$9,230,919	6.2%	\$541,166
Dept. of Homeless Services	\$740,550	\$614,953	\$616,535	\$616,535	\$616,535	(16.7%)	(\$124,015)
Dept. of Correction	\$1,022,061	\$982,860	\$1,021,045	\$1,037,314	\$1,034,168	1.2%	\$12,107
Board of Correction	\$956	\$963	\$963	\$963	\$963	0.7%	\$7
Citywide Pension Contribution	\$6,258,704	\$6,377,580	\$6,906,765	\$7,156,067	\$7,429,242	18.7%	\$1,170,538
Miscellaneous	\$6,298,290	\$6,628,376	\$7,184,574	\$7,788,286	\$8,976,727	42.5%	\$2,678,437
Debt Service	\$3,863,917	\$4,384,144	\$4,783,495	\$5,211,005	\$5,495,749	42.6%	\$1,641,832
N.Y.C.T.F.A. Debt Service	\$1,132,541	\$1,143,877	\$1,114,032	\$1,157,812	\$1,161,522	2.6%	\$28,981
Pre-payments	\$0	(\$2,036,374)	\$0	\$0	\$0	N/A	\$0
FY 2007 BSA	(\$33,905)	(\$30,865)	\$0	\$0	\$0	(100.0%)	\$33,905
FY 2008 BSA	(\$4,089,418)	\$0	\$0	\$0	\$0	(100.0%)	\$4,079,418
FY 2009 BSA	\$1,553,448	(\$1,007,701)	\$0	\$0	\$0	(100.0%)	(\$1,553,448)
FY 2010 BSA	\$0	\$350,000	(\$350,000)	\$0	\$0	N/A	\$0
Transfer for N.Y.C.T.F.A. Debt Service	(\$545,747)	(\$545,747)	\$0	\$0	\$0	(100.0%)	\$545,747
Defeasance of N.Y.C.T.F.A. Debt Service	(\$362,000)	(\$382,000)	\$0	\$0	\$0	(100.0%)	\$362,000
Call 2009/2010 Go Debt	(\$279,334)	(\$276,634)	\$0	\$0	\$0	(100.0%)	\$279,334
Public Advocate	\$2,834	\$1,833	\$1,858	\$1,862	\$1,865	(34.2%)	(\$969)
City Council	\$52,304	\$52,260	\$52,260	\$52,260	\$52,260	(0.1%)	(\$44)
City Clerk	\$4,753	\$4,704	\$4,704	\$4,704	\$4,704	(1.0%)	(\$49)
Dept. for the Aging	\$284,776	\$244,675	\$243,675	\$243,675	\$243,675	(14.4%)	(\$41,101)
Dept. of Cultural Affairs	\$153,978	\$132,783	\$132,783	\$132,783	\$132,783	(13.8%)	(\$21,195)
Financial Info. Serv. Agency	\$60,602	\$49,196	\$50,871	\$49,307	\$49,329	(18.6%)	(\$11,273)
Dept. of Juvenile Justice	\$135,595	\$133,163	\$134,327	\$138,207	\$138,216	1.9%	\$2,621
Office of Payroll Admin.	\$14,150	\$11,624	\$11,455	\$11,375	\$11,360	(19.7%)	(\$2,790)
Independent Budget Office	\$3,158	\$3,054	\$3,055	\$3,056	\$3,056	(3.2%)	(\$102)
Equal Employment Practices Comm.	\$811	\$765	\$776	\$776	\$777	(4.2%)	(\$34)

Table A2 (Con't). FY 2009 Preliminary Budget Expenditure Detail

(\$ in thousands)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Changes FY 2009 - 13	
						Percent	Dollar
Civil Service Commission	\$644	\$611	\$612	\$613	\$613	(4.8%)	(\$31)
Landmarks Preservation Comm.	\$4,756	\$4,515	\$4,515	\$4,515	\$4,515	(5.1%)	(\$241)
Taxi & Limousine Commission	\$30,572	\$28,791	\$28,870	\$28,870	\$28,870	(5.6%)	(\$1,702)
Commission on Human Rights	\$7,096	\$6,901	\$6,901	\$6,901	\$6,901	(2.7%)	(\$195)
Youth & Community Development	\$357,386	\$269,699	\$255,436	\$255,436	\$255,436	(28.5%)	(\$101,950)
Conflicts of Interest Board	\$1,963	\$1,850	\$1,850	\$1,850	\$1,850	(5.8%)	(\$113)
Office of Collective Bargain	\$1,883	\$1,763	\$1,796	\$1,797	\$1,799	(4.5%)	(\$84)
Community Boards (All)	\$15,095	\$13,070	\$13,072	\$13,072	\$13,072	(13.4%)	(\$2,023)
Dept. of Probation	\$81,168	\$79,686	\$78,860	\$78,860	\$78,860	(2.8%)	(\$2,308)
Dept. Small Business Services	\$175,427	\$122,949	\$92,218	\$92,139	\$88,217	(49.7%)	(\$87,210)
Housing Preservat'n & Developm't	\$672,080	\$487,789	\$479,746	\$479,419	\$479,351	(28.7%)	(\$192,729)
Dept. of Buildings	\$112,499	\$96,072	\$91,589	\$91,589	\$91,589	(18.6%)	(\$20,910)
Dept. of Health & Mental Hygiene	\$1,719,455	\$1,590,617	\$1,605,175	\$1,616,136	\$1,616,356	(6.0%)	(\$103,099)
Health and Hospitals Corp.	\$111,638	\$97,657	\$96,249	\$96,379	\$96,424	(13.6%)	(\$15,214)
Dept. of Environmental Protection	\$1,044,293	\$940,304	\$935,403	\$935,060	\$935,060	(10.5%)	(\$109,233)
Dept. of Sanitation	\$1,292,939	\$1,315,567	\$1,421,550	\$1,447,422	\$1,445,124	11.8%	\$152,185
Business Integrity Commission	\$6,358	\$6,315	\$6,315	\$6,315	\$6,315	(0.7%)	(\$43)
Dept. of Finance	\$213,657	\$200,851	\$198,937	\$198,410	\$198,410	(7.1%)	(\$15,247)
Dept. of Transportation	\$813,069	\$701,533	\$717,538	\$730,875	\$730,875	(10.1%)	(\$82,194)
Dept. of Parks and Recreation	\$319,853	\$289,889	\$282,778	\$282,797	\$282,787	(11.6%)	(\$37,066)
Dept. of Design & Construction	\$107,712	\$106,047	\$106,049	\$106,050	\$106,051	(1.5%)	(\$1,661)
Dept. of Citywide Admin. Services	\$370,715	\$350,469	\$350,112	\$344,226	\$345,207	(6.9%)	(\$25,508)
D.O.I.T.T.	\$264,922	\$234,838	\$231,486	\$230,005	\$230,074	(13.2%)	(\$34,848)
Dept. of Record & Info. Services	\$6,445	\$4,632	\$4,637	\$4,639	\$4,978	(22.8%)	(\$1,467)
Dept. of Consumer Affairs	\$21,693	\$18,685	\$16,288	\$16,288	\$16,288	(24.9%)	(\$5,405)
District Attorney - N.Y.	\$90,784	\$81,716	\$70,810	\$70,810	\$70,810	(22.0%)	(\$19,974)
District Attorney - Bronx	\$48,451	\$45,905	\$41,769	\$41,769	\$41,769	(13.8%)	(\$6,682)
District Attorney - Kings	\$77,570	\$77,697	\$71,181	\$71,083	\$71,083	(8.4%)	(\$6,487)
District Attorney - Queens	\$43,918	\$45,613	\$41,439	\$41,220	\$41,220	(6.1%)	(\$2,698)
District Attorney - Richmond	\$7,866	\$7,521	\$6,822	\$6,822	\$6,822	(13.3%)	(\$1,044)
Office of Prosecut'n. & Spec. Narc.	\$16,966	\$16,112	\$14,747	\$14,747	\$14,747	(13.1%)	(\$2,219)
Public Administrator - N.Y.	\$1,256	\$1,152	\$1,152	\$1,152	\$1,152	(8.3%)	(\$104)
Public Administrator - Bronx	\$509	\$420	\$420	\$420	\$420	(17.5%)	(\$89)
Public Administrator - Brooklyn	\$597	\$526	\$526	\$526	\$526	(11.9%)	(\$71)
Public Administrator - Queens	\$467	\$400	\$400	\$400	\$400	(14.3%)	(\$67)
Public Administrator - Richmond	\$366	\$297	\$297	\$297	\$297	(18.9%)	(\$69)
Prior Payable Adjustment	(\$500,000)	\$0	\$0	\$0	\$0	(100.0%)	\$500,000
General Reserve	\$100,000	\$300,000	\$300,000	\$300,000	\$300,000	200.0%	\$200,000
Fleet Reduction	\$0	(\$20,000)	(\$2,000)	(\$2,000)	(\$2,000)	N/A	(\$2,000)
Energy Adjustment	(\$97,483)	(\$54,142)	\$36,081	\$79,194	\$115,192	(218.2%)	\$212,675
Lease Adjustment	\$0	\$28,952	\$59,062	\$128,089	\$160,960	N/A	\$160,960
OTPS Inflation Adjustment	\$0	\$0	\$55,519	\$111,038	\$166,557	N/A	\$166,557
City-Wide Total	\$60,317,703	\$59,049,043	\$65,715,573	\$69,100,555	\$71,635,930	18.8%	\$11,318,227

Glossary of Acronyms

ACS	Administration for Children's Services
AIRA	Actuarial Investment Return Assumption
BARB	Building Aid Revenue Bond
BSA	Budget Stabilization Account
CCA	Correction Captains' Association
COBA	Corrections Officers' Benevolent Association
COPS	Community Oriented Policing Services
CSA	Council of School Supervisors and Administrators
CUNY	City University of New York
CWA	Communications Workers of America
DC37	District Council 37
DEP	Department of Environmental Protection
DHS	Department of Homeless Services
DOC	Department of Correction
DOE	Department of Education
DOP	Department of Probation

DOS	Department of Sanitation
DOT	Department of Transportation
DSS	Department of Social Services
FMAP	Federal Medicaid Assistance Percentage
FTE	Full-Time Equivalent
FY	Fiscal Year
GCP	Gross City Product
GCT	General Corporation Tax
GDP	Gross Domestic Product
GO Debt	General Obligation Debt
HHC	Health and Hospitals Corporation
IMF	International Monetary Fund
J&C	Judgments and Claims
LBA	Lieutenants Benevolent Association
NYC	New York City
NYCTFA	New York City Transitional Finance Authority
NYPD	New York City Police Department

NYWFA	New York City Municipal Water Finance Authority
OMB	Office of Management and Budget
OTPS	Other than Personal Services
PBA	Patrolmen's Benevolent Association
PEG	Program to Eliminate the Gap
PIT	Personal Income Tax
PS	Personal Services
RHBT	Retiree Health Benefit Trust
SBA	Sergeants Benevolent Association
STAR	School Tax Relief Program
TSASC	Tobacco Settlement Asset Securitization Corporation
TARP	Troubled Asset Relief Program
TALF	Term Asset-Backed Securities Loan Facility
UBT	Unincorporated Business Tax
UFA	Uniformed Firefighters' Association
UFOA	Uniformed Fire Officer's Association
UFT	United Federation of Teachers

UPL	Medicaid Upper Payment Limit
U.S.	United States
USA	Uniformed Sanitation Association



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**Testimony of Ronnie Lowenstein
To the New York City Council Finance Committee
On the 2010 Preliminary Budget and Four-Year Financial Plan**

March 9, 2009

Good afternoon Chairman Weprin and members of the committee. I am Ronnie Lowenstein, director of the New York City Independent Budget Office, and am pleased to be here to discuss our most recent revenue and expenditure projections based on the Mayor's Preliminary Budget for fiscal year 2010 and financial plan through fiscal year 2013.

Just six months ago, New York City appeared to have dodged the worst of the economic problems plaguing much of the country. This is no longer the case. The U.S. and global recession has gripped New York City hard, and as our newest economic forecast indicates, we now expect the local downturn to be deep and protracted.

IBO now estimates the city will lose 270,000 jobs from its employment peak in the first quarter of 2008 through the second quarter of 2010. With these larger expected job losses—roughly 30,000 more than we estimated in January—comes a lower forecast of tax revenues. IBO projects that total tax revenues, even after accounting for December's increase of the property and hotel occupancy tax rates, will fall by \$2.6 billion to \$34.7 billion this fiscal year. And even if we include the expected revenue from the Mayor's proposed sales tax increases, we estimate total tax revenues will decline by an additional \$1.3 billion in fiscal year 2010.

These declining tax revenue projections are what's driving IBO's estimate of the city's growing budget shortfalls. Even if we assume the Mayor's proposed gap-closing actions for fiscal year 2010 are achieved, our new lower tax revenue forecast implies there is still an additional problem that remains to be addressed. We now estimate a budget gap of \$1.2 billion in 2010. Our budget gap projection for 2011 is now \$4.8 billion, \$1.6 billion more than the Mayor estimated in January.

While the federal stimulus bill will provide the city with some fiscal relief, it is not yet clear how much. A significant portion of the stimulus comes in the form of funds to foster infrastructure projects and expand programs, assistance that does nothing to close the city's expense budget gaps. The largest share of the stimulus package provides aid to individuals and families, which will help bolster the local economy but will not provide the city with direct fiscal relief. The biggest source of local fiscal relief in the stimulus bill is the increase in the federal matching rate

for Medicaid and the Mayor has already penciled in \$1 billion of budget relief from this change for his 2010 Preliminary Budget.

As foreboding as our forecast already appears, there is ample reason for concern that conditions could worsen. Until there is a turnaround in the national economy—which is dependent upon restoring the health of the financial system and in particular the credit markets—the local economy will continue to founder. It is far from clear that the financial system has begun to stabilize, let alone return to health. But even when the national economy does rebound and the financial market revives, the financial industry is likely to be more highly regulated and employ less leverage, and therefore will almost certainly be less profitable. If these structural changes occur, Wall Street will no longer generate the levels of city tax revenue that it has in the recent past.

I will now continue with some more of the details behind our economic and revenue outlook:

U.S. Economic Outlook. The U.S. economic downturn is now expected to be the worst the since the Depression. Job losses are mounting, vehicle sales are their lowest since the 1980s, housing starts are at their lowest levels since the 1950s, and consumer confidence is as dark as it has ever been.

The nation has lost jobs for 14 consecutive months, including losses of over 650,000 in each of the last three months. With the loss of 651,000 jobs in February, the unemployment rate rose to 8.1 percent, the highest rate since 1982. Since employment peaked in December 2007 the nation has lost a total of 4.4 million jobs (a decline of 3.2 percent on a seasonally adjusted basis) and even with the federal stimulus plan we anticipate job losses to reach 5.7 million (4.1 percent) and the unemployment rate to reach 9.3 percent.

In the fourth quarter of 2008, output in the U.S. economy (real gross domestic product) contracted sharply, falling at an annual rate of 6.2 percent. IBO expects real GDP to continue shrinking through the third quarter of 2009, with output falling 2.2 percent for the year as a whole. Although recovery is expected to begin in late 2009, growth will be weak throughout 2010, increasing by only 1.8 percent on an annual basis.

New York City Outlook. Until September 2008, New York City appeared to escape much of the impact of the U.S. downturn. But when the nationwide housing crisis turned into a financial sector meltdown, New York City—a global center for the financial industry—was hit particularly hard. We now expect the city economy to contract more sharply and recover more slowly than the U.S. as a whole.

Although New York City began losing jobs in the middle of last year, it was not until the last quarter of 2008 that employment began to steeply decline. Overall, the city has lost 59,900 jobs since January 2008, with much deeper declines expected in 2009. The financial industry will be the hardest hit with job losses continuing into 2011 when they will reach nearly 77,300. In the securities industry, which is the highest paying subsector within the financial industry, losses

are expected to total 48,800 by mid-2010, a decline of over 25 percent from the employment peak in 2008. The securities sector is expected to continue to gradually lose jobs through the third quarter of 2012, when they will total 50,900.

The profits of Wall Street firms, which as recently as 2006 were at a near record high of almost \$21 billion, have seen an unprecedented decline in the subsequent 24 months. After continuing to grow in the first half of 2007 they began to collapse in the third quarter as problems emerged in the mortgage security market. For the year as a whole the net loss for the industry was \$11.3 billion. In 2008 the losses were even more staggering; when final data are reported IBO expects that they nearly quadrupled to \$45.1 billion. IBO projects that the industry as a whole will lose another \$8.3 billion in 2009, before returning to relatively modest profitability in 2010 with annual profits averaging roughly \$9 billion through 2013, far below the 2006 level.

Tax Revenues. The outlook for tax revenues has darkened with the economic outlook. There was essentially no growth in tax revenues during fiscal year 2008 and we expect them to decline by \$2.6 billion (7.0 percent) in the current fiscal year and \$1.3 billion (6.0 percent) in 2010, even after accounting for the already enacted property and hotel tax rate increases and the Mayor's proposed sales tax increases. IBO's revenue forecast is significantly below the Mayor's Office of Management and Budget's for 2010 through 2013, with the difference exceeding \$1 billion each year in 2010 through 2012, with much of the difference due to IBO's more pessimistic outlook for tax revenues paid by businesses in the city.

Much of the declines are in the personal and business income taxes which are highly sensitive to the business cycle and in the property transfer taxes which reflect conditions in the real estate markets. From 2003 through 2007, these taxes more than doubled, growing by 118.4 percent, while the rest of the city's tax sources—which are dominated by the property tax—grew by 32.2 percent. With the downturn in financial and real estate sectors, this group of taxes is now shrinking much faster than most of the city's other sources. Indeed, in 2008 through 2010, while they are expected to contract by 64.0 percent, the rest of the city's taxes are actually expected to grow by 9.4 percent.

From 2003 to 2007, when Wall Street profits were expanding along with the financial asset bubble, the city's business income tax receipts grew by 163.4 percent from \$2.3 billion to \$6.0 billion; by far the fastest growth in these taxes' history. But in 2008 that trend reversed with a decline of 10.0 percent in business tax revenues. IBO now projects that in 2009 revenues will decline by another 14.5 percent and then fall further in 2010. Over the three years, business tax collections are projected to fall by a cumulative \$2.4 billion (40.7 percent), which is the fastest decline in the history of these taxes. Slow growth is expected to resume in 2011, but by 2013, business income tax revenue will still be only \$4.4 billion, well below the 2007 peak.

The growth in the property transfer taxes started earlier, but they grew even faster than the business income taxes in the 2003 to 2007 period; revenues more than tripled in those years from \$1.0 billion to \$3.3 billion. Since then the city's real estate market has essentially stalled. The number of residential sales has fallen sharply, accompanied by what has so far been a

relatively modest decline in median home sales prices. Sales of commercial properties and apartment buildings, particularly large transactions, have all but dried up as investors face increasing difficulty in securing financing. Revenues from the transfer taxes have shrunk with the markets, falling by 22.7 percent in 2008. IBO expects them to fall further in 2009 by 40.3 percent, with yet another fall of 22.1 percent expected for 2010, leaving revenues in that year roughly equal to where they were in 2003.

The city's personal income tax revenue also grew robustly during the expansion, with growth continuing into 2008. From 2003 through 2008 the personal income tax nearly doubled, rising from \$4.5 billion to \$8.7 billion (96.2 percent). With local employment shrinking and many of the job losses concentrated in the highest paying sectors, along with an expectation that capital gains realizations will be much lower given the losses in equities and real estate, IBO is projecting major declines in the personal income tax for 2009 and 2010. Revenues are expected to fall by 17.4 percent this year and 21.7 percent next year, before finally starting to recover in 2011 when revenues are forecast to grow by 15.8 percent.

The real property tax, which is the city's largest single revenue source, is the one major tax that is not expected to show a large decline in the next few years. Because of the requirement that changes in market values be phased in over five years when determining assessments for tax purposes, the property tax base (billable assessed value) is expected to continue growing at over 5 percent annually through 2012. Combined with the tax rate increase that was enacted in December 2008, property tax revenues are expected to grow by 10.0 percent from 2009 to 2010 and then by 6.3 percent in 2011. As the pipeline of previous market value increases is gradually used up and the more recent declines in values are incorporated in the assessments, property tax revenue growth is expected slow further in 2012 and 2013 and could even become negative in the following years.

To Conclude, the city has entered what is expected to be severe and protracted period of economic retrenchment which will lead to two consecutive years of tax revenue declines. Even after the local economy begins to recover—and IBO expects the city's recovery to lag the nation's—tax revenue growth is expected to be much slower than we enjoyed in the years of expansion from 2003 through 2007. With lower tax revenue, a prior year surplus that will be largely expended this year, and continued spending growth in large parts of the budget that are not immediately controllable by the Mayor, IBO expects the city to face an ongoing challenge to meet its legal requirement to produce annual budgets that are balanced. With New York State facing even greater fiscal challenges, it is unlikely that the state will be a significant source of budget relief, and indeed state leaders may add to the city's burden as they look to solve their own problems. Relieving this fiscal stress will likely require some combination of significant budgetary reductions and/or revenue increases.

Thank you and I would be happy to answer any of your questions.

Total Revenue and Expenditure Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Total Revenues	\$60,415	\$58,344	\$61,459	\$64,220	\$67,548	2.8%
Total Taxes	34,956	33,665	36,061	38,437	41,228	4.2%
Total Expenditures	60,415	59,510	66,227	69,615	72,150	4.5%
IBO Surplus / (Gap) Projections	-	\$(1,166)	\$(4,767)	\$(5,395)	\$(4,603)	
<i>Adjusted for Prepayments and Discretionary Transfers:</i>						
Total Expenditures	\$64,059	\$63,487	\$66,577	\$69,615	\$72,150	3.0%
City Funded Expenditures	\$45,999	\$46,152	\$48,726	\$51,489	\$53,581	3.9%

SOURCE: IBO.

NOTES: IBO projects a surplus of \$1.632 billion for 2009, \$79 million above the Bloomberg Administration's forecast. The surplus is used to prepay some 2010 expenditures, leaving 2009 with a balanced budget. Estimates exclude intra-city revenues and expenditures. Figures may not add due to rounding.

Pricing Differences Between IBO and the Bloomberg Administration

Items that Affect the Gap

Dollars in millions

	2009	2010	2011	2012	2013
Gaps as Estimated by the Mayor	-	-	\$(3,211)	\$(4,039)	\$(4,167)
IBO Pricing Differences					
Revenues					
Taxes					
Property	11	(438)	(400)	(176)	17
Personal Income	61	(43)	(187)	(276)	517
General Sales	18	12	30	104	171
General Corporation	(88)	(361)	(623)	(719)	(710)
Unincorporated Business	89	(33)	(105)	(132)	(120)
Banking Corporation	9	(274)	(216)	(212)	(293)
Real Property Transfer	20	(9)	13	94	67
Mortgage Recording	(8)	34	28	40	2
Utility	(7)	(24)	(22)	(17)	(15)
Hotel Occupancy	(1)	-	1	6	5
Commercial Rent	(5)	(27)	(10)	(3)	(12)
Cigarette	4	3	3	3	3
	101	(1,160)	(1,488)	(1,288)	(367)
Sales Tax Program	-	1	2	7	11
STaR Reimbursement	2	6	3	-	(4)
Total Revenues	\$104	\$(1,153)	\$(1,483)	\$(1,281)	\$(360)
Expenditures					
Public Assistance	-	(4)	(16)	(17)	(17)
Homeless Services	-	(25)	(25)	(25)	(25)
Police Overtime	(25)	(25)	(25)	(25)	(25)
Correction Overtime	-	(10)	(5)	(5)	(5)
Campaign Finance	-	(25)	-	-	-
Buildings	-	(3)	(3)	(3)	(3)
Total Expenditures	\$(25)	\$(92)	\$(74)	\$(75)	\$(75)
Total IBO Pricing Differences	\$79	\$(1,245)	\$(1,557)	\$(1,356)	\$(435)
IBO Prepayment Adjustment 2009 / 2010	(79)	79	-	-	-
IBO Surplus / (Gap) Projections	-	\$(1,166)	\$(4,767)	\$(5,395)	\$(4,603)

SOURCE: IBO.

NOTES: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps. Figures may not add due to rounding.

IBO Revenue Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Tax Revenue						
Property	\$14,368	\$15,808	\$16,778	\$17,591	\$18,172	6.0%
Personal Income	7,230	5,664	6,562	7,076	8,368	3.7%
General Sales	4,573	4,151	4,371	4,741	5,150	3.0%
General Corporation	2,345	1,831	1,835	2,080	2,311	-0.4%
Unincorporated Business	1,828	1,437	1,407	1,543	1,667	-2.3%
Banking Corporation	456	296	446	495	448	-0.4%
Real Property Transfer	848	644	716	839	920	2.1%
Mortgage Recording	671	540	571	615	662	-0.3%
Utility	390	367	398	417	424	2.1%
Hotel Occupancy	388	418	437	433	432	2.7%
Commercial Rent	551	516	521	530	546	-0.3%
Cigarette	106	102	100	97	95	-2.5%
Other Taxes, Audits, and PEG's	1,127	996	997	1,000	999	-3.0%
Total Taxes	\$34,879	\$32,770	\$35,139	\$37,458	\$40,193	3.6%
Tax Program Proposals						
Sales Tax Program	77	895	922	979	1,034	91.4%
Total Taxes Including Tax Program	\$34,956	\$33,665	\$36,061	\$38,437	\$41,228	4.2%
Other Revenue						
StaR Reimbursement	\$1,264	\$1,294	\$1,366	\$1,408	\$1,487	4.2%
Miscellaneous Revenues	4,314	4,276	4,445	4,513	4,530	1.2%
Unrestricted Intergovernmental Aid	254	254	254	254	254	0.0%
Other Categorical Aid	1,105	1,089	1,059	1,063	1,061	-1.0%
Inter-fund revenues	476	445	437	434	434	-2.3%
Anticipated State / Federal Aid	-	-	-	-	-	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total Other Revenue	\$7,399	\$7,344	\$7,548	\$7,657	\$7,751	1.2%
Total City Funded Revenue	\$42,355	\$41,009	\$43,609	\$46,094	\$48,979	3.7%
State Categorical Grants	11,995	11,650	12,163	12,427	12,870	1.8%
Federal Categorical Grants	6,065	5,685	5,687	5,699	5,698	-1.5%
Total Revenues	\$60,415	\$58,344	\$61,459	\$64,220	\$67,548	2.8%

SOURCE: IBO.

NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax revenue. Figures may not add due to rounding.

IBO Expenditure Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Health & Social Services						
Social Services						
Medicaid	\$5,796	\$4,905	\$5,065	\$6,238	\$6,419	2.6%
All Other Social Services	2,896	2,831	2,855	2,857	2,857	-0.3%
HHC	112	98	96	96	96	-3.6%
Health	1,719	1,591	1,605	1,616	1,616	-1.5%
Children Services	2,735	2,615	2,620	2,619	2,619	-1.1%
Homeless	741	667	669	669	669	-2.5%
Other Related Services	656	529	514	514	514	-5.9%
Subtotal	\$14,655	\$13,236	\$13,423	\$14,610	\$14,791	0.2%
Education						
DOE (excluding labor reserve)	\$17,549	\$16,980	\$17,823	\$17,994	\$18,498	1.3%
CUNY	635	595	587	589	589	-1.9%
Subtotal	\$18,184	\$17,575	\$18,411	\$18,583	\$19,087	1.2%
Uniformed Services						
Police	\$4,333	\$4,288	\$4,387	\$4,465	\$4,452	0.7%
Fire	1,641	1,608	1,619	1,618	1,615	-0.4%
Correction	1,022	993	1,026	1,042	1,039	0.4%
Sanitation	1,293	1,317	1,423	1,448	1,446	2.8%
Subtotal	\$8,288	\$8,205	\$8,455	\$8,574	\$8,552	0.8%
All Other Agencies	\$6,522	\$6,517	\$6,504	\$6,584	\$6,639	0.4%
Other Expenditures						
Fringe Benefits (excluding DOE)	\$3,352	\$3,390	\$3,360	\$3,374	\$4,348	6.7%
Debt Service	1,733	1,519	5,548	6,369	6,657	n/a
Pensions	6,259	6,378	6,907	7,156	7,429	4.4%
Judgments and Claims	638	675	732	793	856	7.6%
Grant to TFA	546	-	-	-	-	n/a
State Education Building Aid (TFA)	181	347	376	436	501	n/a
General Reserve	100	300	300	300	300	n/a
Labor Reserve						
Education	45	327	598	658	658	n/a
All Other Agencies	509	1,086	1,465	1,860	1,888	n/a
Expenditure Adjustments	(597)	(45)	149	316	441	n/a
Total Expenditures	\$60,415	\$59,510	\$66,227	\$69,615	\$72,150	4.5%

SOURCE: IBO.

NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 7.6 percent from 2009 - 2013. Similarly, fringe benefits would grow at an annual average rate of 5.9 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, fleet reduction, prior year payable adjustments and non-labor inflation estimates. Estimates exclude intra-city expenses. Figures may not add due to rounding.

**Testimony of Lillian Roberts
Executive Director, District Council 37
Before the Finance Committee
New York City Council, N. Y.
March 9, 2009
(As read by Henry A. Garrido)**

Good Afternoon, I am Lillian Roberts, Executive Director of District Council 37 representing 125,000 members and 50,000 retirees. I want to thank Chairman Weprin and the members of the Budget Committee for inviting me over to speak on the Fiscal Year 2010 budget for the City.

In these tough fiscal times government is challenged to find ways to pay for needed services for all of its citizens. In New York City we pride ourselves in not only trying to provide these services efficiently, but also as effectively as possible. Our union has always promoted the ideals of having experienced, dedicated, hard working civil servants serve the needs of all New Yorkers. With unemployment on the rise and the collapse of both the housing and stock markets those needs have only increased and the resources to provide those services have been compromised by greed and mismanagement of Wall Street money managers and unscrupulous mortgage companies.

But the fact remains that DC 37 has seen hard times hit the City before and has always been on the forefront with solutions that save money without reducing services to the people, especially the poor and working classes who are hurting the most under this fiscal crisis. Over the past eight years our union has put out numerous White Papers outlining waste, efficiency, and methods of better spending and collecting funds for our City. Our latest White paper deals with the wasteful practice of contracting out services that could be done with in house staff with less cost to the City.

Mayor Bloomberg has used a phrase of doing more with less. He prides himself on applying a business like approach to solve the problems of local government. But what we have found through our research is that through the contracting out process the city is squandering hundreds of millions of dollars for services that can be performed better and more effectively for the City at less cost. We found out that the City has hired thousands of overpriced consultants and contractors to perform functions that qualified civil servants could do better and more efficiently. Our latest White Paper: **Massive Waste at a Time of Need** outlined just 10 examples out of the hundreds that exist in City government today. The recommendations outlined in the White Paper could save the city about \$130 million.

I will just highlight two of the examples of the finding in our research to illustrate our point. The first one is the outsourcing of school nurses to private

contractors. In New York City schools the law requires a nurse to be on hand in every school. Our nursing receives with benefits a total of \$39.61 per hour. The private companies that the City contracts with receive \$48 to \$100 per hour to provide the same service. And the City nurses are fingerprinted with background checks paid for by the employee. The contract nurse has those fees paid for by the City.

The second example, which is more glaring and has higher implication to the City, is the contracting out of over \$79 million in custodial and cleaning services. The City has over the past decade trained thousands of Job Training Participants under the Transitional Jobs Program in the effort to move people off of welfare and into the workforce. Custodial titles covered by DC 37 get paid approximately \$21 per hour with benefits. Contract employees are getting paid between \$24 and \$37 per hour. It doesn't make any business sense to spend more money hiring private contractors to perform work normally done by civil servants. It even makes less sense when the City can take the opportunity to place JTPs and still save the City money. Our union is about putting responsible policies forward that save money, help people move into steady jobs and provide services to all New Yorkers.

In all of our White Papers we always try to point out to the City that there are ways to save money without losing services by reducing contracting-out. We believe there is tremendous waste in the over \$9 billion spent on contracts in the City. Our proposals create a win, win, win, situation for the Citizens of New York by saving money, keeping services provided and by giving working men and women decent jobs that gives dignity to their lives. It makes no sense to waste money on contractors who then pocket profits, provide services with no accountability to elected officials and provide too little stability for its workers.

We ask that the City Council look closely at the contracts that drain the needed resources of the City. The days of spending more and getting less through private contractors have to stop now.

City Council Testimony
City Council Finance Committee
March 9, 2009
From Ralph Palladino
2nd Vice President of DC 37 Local 1549

Local 1549 represents 18,000 clerical employees working for the City of New York. Our members work as 911 Operators and other clerical titles in the Police Department, Human Resources Administration, public hospitals, 311 Call Center and nearly every other city agency. We are critical to the city in maintaining records, generating revenues and in serving the public.

Government services are needed now more than ever. It is wrong to cut funding for public services and reduce already badly needed staff. Who will service the public if city employees are laid off or if positions face attrition?

In the face of drastically rising unemployment, the government should be employing more people, not add to the unemployment problem.

I met an automobile sales owner in Queens who said his business is doing fine. He said that this was so because so many of his customers are public employees. Keeping public employees working, earning and paying taxes helps the economy and government run.

The same could be said for using Stimulus funding to expand eligibility for Food Stamps. The denial by the city of utilizing this free gift is mind-boggling. Expanding Food Stamps means more people will be able spend money in local businesses and help revive the economy.

It is not in the public's interest to cut vital programs such as childcare, and other children's services such as Children's Dental Clinics. The cutting of childcare services means that single parents may have to become unemployed in order to be able to stay home with their children. Quite frankly, this is heartless.

How can an agency like **DCAS reduce their workforce when more civil service tests will have to be given in the future?** This is because of the Provisional Rights legislation passed last year in Albany.

These cuts in jobs and services are wrong especially since there is money available to save and enhance all the services that would be cut if the current Executive Budget were passed.

City workers should not be made to pay for the crisis that they did not cause. Our members average about \$30,000 a year in salary. This is below poverty wage, \$12,000 below the average New York City income and \$70,000 less than a recent study showed was needed for a family to lead a "middle class" income. Our pensions average only \$11,000 to \$16,000 a year.

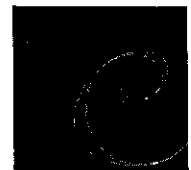
Telling us that we must pay \$1200 to \$14000 a year out of our pockets to pay for the healthcare benefits we gave up past wage increases in order to receive or face layoffs is highway robbery, pure and simple. Why does the city administration demand a low benefit Tier 5 Pension since it is mortgaging our unborn members' futures and will make public service less attractive?

Local 1549 proposes that the City Council:

1. **Support Speaker Quinn's Proposal for Fair Taxation.** The Personal Income Tax rate for the wealthiest 5% of the population has been cut throughout the years. Yet these are the only people who gained from eight years of the Bush Presidency. It's only fair that they now pay their fair share of taxes. The Speaker correctly pointed out that there is no evidence that rich people would leave the city if their taxes go up. She cited the Princeton survey that proved that point when such an increase was imposed in New Jersey a few years ago.
2. **Civilianize the Uniformed Work Forces.** It is a waste of money to have higher-paid uniformed employees do clerical work. Yet the Executive Budget proposes reductions in clerical positions. This means replacing clerks who average around \$28,000 a year with uniformed service employees who make at least twice the salary. The worse agencies are Corrections and the NYPD. Former City Controller Hevesi's office estimated that the city could *save \$36.2 million* and we estimate savings of *\$127 million* a year if the NYPD civilianized, which also would place more uniforms in the street helping the public, where they belong. Controller Thompson's office estimates that *\$5.8 million could be saved* in the Sanitation Department and *\$4.7 million saved* in Corrections if they civilianized.
4. **End Wasteful Contracting Out.** The city administration and our tax dollars are supporting sweatshop, and new wage slave jobs. DC 37 documents that there are roughly 1200 clerical temps hired by private companies working throughout city government. It would cost the city \$2.5 million less for the city to hire full time employees instead. It would also guarantee better quality control. These workers deserve a living wage so they can contribute more to the local economy. The costs to the city for this privatization are higher since these rip-off private contractors are making high profits. The current 311 Call Center Contract wastes \$5 million annually.
4. **End Corporate Welfare.** The minimum corporate income tax rate has not risen in New York since 1966. In addition, Daily News and other periodicals have documented that giving corporate tax breaks in order to save jobs has not worked. Corporate taxes are currently lower in New York than New Jersey.
5. **Make sure that New York City gets its fair share of the State budget.** Mayor Bloomberg is correct to demand that the state restore funding that is proposed to be cut from the Governor's budget.
6. **Make sure that all of the Stimulus package funding designated by the Federal Government reaches the city.** The city should not be short changed in Medicaid funding that is due it especially with proposed cuts in HHC and DOH/MH. The recent closings of two Queens hospitals and the subsequent burden to patients and HHC facilities underscores this need.

It is important that the city follows the example of President Obama and seeks ways to stimulate growth, not cut it. On November 4 of last year the American people spoke loud and clear on this issue of fairness in the tax code and for the need to raise revenues and spend tax dollars on growth and services. Hopefully New York City's political leadership will grasp the fact that the Reagan – Bush policies failed and are useless. It is a new day, so let's get busy!

**Testimony of
Richard T. Anderson, President
New York Building Congress
Before the
New York City Council
Finance Committee**



NEW YORK
BUILDING
CONGRESS

**Public Hearing
March 9, 2009**

The New York Building Congress appreciates this opportunity to comment on the Capital Budget component of the Fiscal Year 2010 Preliminary Budget. Members of the Building Congress, who are leaders of the City's design, construction, and real estate industry, are knowledgeable about New York's infrastructure needs and frequently involved with many aspects of capital programs and budgeting. In our collective judgment, New York City needs to sustain and strategically increase its capital investment during the coming years to keep pace with overall maintenance needs and meet the City's requirements for future growth.

Without question, New York City and New York State face substantial budget challenges in the coming year and beyond. Both levels of government have been considering difficult choices to address operating deficits in the coming fiscal year -- \$ 13.7 billion for the State and \$2.3 billion for the City -- and funding gaps for capital budgets that place repair, maintenance and expansion of critical infrastructure at risk. Concern about the City's financial outlook, for example, led to Mayor Bloomberg's decision last year to stretch four years of City-funded capital program commitments into five years, effectively reducing the City-funded portion of the capital commitment program by 20 percent annually in FY 2009-

2012, and more recently, to a proposed additional reduction of the capital budget by 30 percent.

These kinds of budget reduction measures are problematic for several reasons. **First**, the capital commitments for infrastructure projects that are delayed or subjected to extended timelines as a result of such measures will be further diminished, because construction cost escalation in the City, though it has abated somewhat in recent months, remains above the normal rate of inflation and will lessen the value of future spending. **Second**, infrastructure investment is the lifeline of the economy. It creates and attracts jobs, stimulates private investment in neighborhoods and businesses, generates tax revenue and forges lasting quality-of-life improvements that will secure New York's competitive position in the global marketplace. Now, more than ever, every effort should be made to insulate the capital plan from the pressures to balance the City's current-year and future budgets. **Third**, stretching or cutting the capital budget fails to deal with the underlying issues concerning how the capital budget is funded, largely through the City's heavy reliance on debt.

The Building Congress believes New York City can and should do more in planning for its future. Now is the time to explore and implement new dedicated and recurring sources of infrastructure financing, such as those successfully employed by the New York City Municipal Water Finance Authority. Furthermore, to help identify potential funding sources, the City should undertake an examination of its assets and recommend standards

and legislation to maximize the value and use of them, like the initiative currently underway by the New York State Commission on State Asset Maximization with regard to State assets. The City's analysis should include:

- a comprehensive citywide inventory of revenue-generating assets and how those assets are priced today, along with recommendations on adjusting fees and prices for assets that are underpriced; and
- a comprehensive citywide inventory of non-revenue-generating assets not required for essential public services, with proposals on ways to generate revenue on any number of those assets, particularly land resources not used productively today.

This kind of analysis, given its importance and the sheer volume of work involved, should not be a one-time effort, but an ongoing function of government. The Building Congress, therefore, recommends that the City create a mechanism for continued analysis and assessment of previous measures taken to maximize its assets, such as a City Council committee with involvement from the Office of Management and Budget that is charged with that responsibility.

Finally, the Building Congress urges the City Council, working with the Mayor, to establish a more thorough and effective evaluation procedure for capital needs assessment. The current Ten-Year Capital Strategy, Four-Year Capital Plan and Annual Executive Budget process should move beyond an extrapolation of agency capital requests to dynamic planning and priority setting. The City Council should have a committee directly

responsible for working on this process with the Office of Management and Budget and the Department of City Planning.

While no one measure will solve all of the City's budget issues, much can be done to enhance capital planning and secure more reliable funding for the City's capital program from year to year. Cutting the capital budget, however, is not the answer. During New York's last fiscal crisis in the 1970's, all capital spending was virtually eliminated for a period of time and the City paid a high price for it. We must not let that happen again. The answer is greater understanding of the City's real capital needs coupled with innovative strategies to fund them. With that approach, the City of New York will be able to invest for today and generations to come.



Testimony of

Stephanie Gendell
Associate Executive Director
Policy and Public Affairs
Citizens' Committee for Children of New York, Inc.

Before the
New York City Council
Finance Committee

Regarding the New York City
Preliminary Plan Budget Proposals for FY10

March 9, 2009

My name is Stephanie Gendell and I am the Associate Executive Director for Policy and Public Affairs at Citizens' Committee for Children of New York (CCC). CCC is a 65- year old privately supported, independent, multi-issue child advocacy organization. CCC does not accept or receive public resources nor do we provide direct service or represent a sector or workforce; rather for 65 years we have undertaken public policy research, community education and advocacy activities to draw attention to what is or is not for working for children in New York and to advance budget, legislative, and policy priorities—all with the goal of ensuring that children are healthy, housed, educated and safe. I would like to thank Chairman Weprin and the members of the Council Finance Committee for this opportunity to testify on the Mayor's Preliminary Plan for City Fiscal Year 2010.

While we appreciate the severity of the budget crisis, Mayor Bloomberg's Preliminary Plan for CFY10 does not go far enough to protect New York City's children from shouldering a disproportionate burden of the economic downturn. During economic downturns, like the unprecedented one we are in the midst of, it is more important than ever that the core services for children and families be protected and supported. Yet the Mayor's Preliminary Budget proposes \$231 million in reductions to services for children and families on top of \$12.4 million in reductions approved in the November Plan, which go into effect in FY10. Such reductions are in addition to the loss of \$72 million in city funds at budget adoption in June 2008 and the loss of \$4.9 million in city funds in November 2008 for children and family services in the current year that are not restored for next year.

We are especially concerned about the impact the Preliminary Plan would have on the Administration for Children's Services (ACS). ACS is the emergency responder for children in this city, and for many families in need ACS is a place to turn when other city services are no longer available. As such, we believe that ACS should have been held to the same standard as the Police Department and Fire Department (as well as the Corrections and Sanitation Departments which also received lower PEG targets.) While the proposed budget protects core child protective and child abuse prevention services, ACS received troubling reductions that may well impede the agency's ability to ensure that children are safe either in their homes or in foster care. These proposed reductions include 608 staff layoffs (with a staffing reduction of almost 1000 with attrition), the reorganization of the Family Preservation Program, a 5% reduction in administrative payments to foster care agencies and a 10% reduction to foster parent supports.

In addition, it is more important than ever that the agencies that protect the health and well-being of struggling New Yorkers have the resources to help and support families. Proposed budget cuts reduced needed services-- after school programs, children's dental clinics, school based health services and summer youth employment programs. Furthermore, the severe budget shortfall in ACS's child care program must be addressed so that low income parents can remain in the workforce. We ask that the Council negotiate a budget with the Mayor that protects services for children and families that are cost-effective, preventing more costly interventions in the long-term.

A balanced approach to weathering this economic storm is essential - as it would be impossible to cut our way out of the city's budget deficit. We believe that progressive tax increases must be implemented, as they were after the September 11th attacks. As such, we support Council Speaker Quinn's proposal to increase income taxes for the city's highest earners making over \$250,000 and we oppose the Mayor's proposal to implement a city sales tax on shoes and clothes under \$110. We think the Speaker's proposal could go further by using a portion of the revenue raised to protect essential services for children and families. In December 2008, CCC

commissioned a poll that found that 73% of New York voters supported raising income taxes for those earning over \$250,000 over reductions in government services.

In addition to measures the City can take to raise revenue to protect core children's services in the short and long term, we are thankful for the Federal Stimulus Package and the work of the Mayor's office (and other city elected and appointed officials) to secure this temporary funding for the City. We urge the City Council to work with the Mayor's office to ensure this funding is used to not only close budget gaps, but to restore the highest priority proposed PEGS and expand programs that help the children and families suffering due to the troubled economy. CCC is committed to advocating that the City receives a fair share of federal stimulus money from the state, particularly for education, child care, Head Start, foster care and youth service programming.

We understand that budget reductions will be made so as you work with the Mayor and fellow Council members on budget reductions, we urge you to be strategic and deliberate, and to avoid across the board reductions. Funding for cost-effective programs and services that prevent child abuse, keep children safe, ensure children are housed, fed and clothed, and funding that goes directly to classrooms must be preserved.

With regard to the specific proposals outlined in the Mayor's January Financial Plan for FY10, CCC asks that the following reductions be restored, either with federal stimulus money or through the budget negotiation process.

Child Welfare

- **\$4.2 million for Preventive Service Caseload Reduction** to maintain preventive caseloads of 12 to 1 and not return to 15 to 1
- **A significant portion of the ACS Staff Reduction of 969 Staff** (608 layoffs; 127 vacancies from November Plan; 234 through attrition) (total is \$26.8 million)
- **\$5.7 million to restore funds for the proposed 5% reduction to foster care agencies' administrative rate and \$909,000 for foster parent support**, which we are hopeful can be restored using funds from the increased Title IV-E reimbursement rate in the federal stimulus package.

Youth

- **\$8.8 million for Out-of- School Time (OST) youth programs** including a reduction in OST summer programs and the elimination of OST Option II, which serves 10,750 youth.
- **\$3.8 million to restore Summer Youth Employment (SYEP) work hours and 1,450 slots**, which we are hopeful can be restored through the \$39 million in federal stimulus money for WIA.
- **Full restoration of City Council funded youth programs** including but not limited to Cultural After School Adventure (\$5.5 million), Shelter Beds for At-Risk Runaway and Homeless LGBT Youth (\$1.7 million), and Street Outreach/Neighborhood Youth Alliance (\$1 million).

Education

- **Restoration of funds needed to prevent the loss of 14,000 teachers**

Health

- **\$2.5 million for the Oral Health Program for 35,000 dental visits for children annually** (November 2008 Plan to be implemented FY10.)
- **\$960,000 for Child Health Clinics**
- **Full restoration for Council Initiatives including \$3.5 million for the infant mortality initiative, \$3.0 million for obesity prevention initiatives and \$545,000 for asthma control.**

Mental Health

- **\$1.6 million for mental health treatment for children under age five**

Homeless Services

- **\$5.1 million for the HomeBase Homeless Prevention Program and \$1.5 million for Council Initiatives designed to prevent homelessness** including the Citywide Homeless Prevention Fund, City Task Force on Housing Court and community based consultants. Hopefully the approximately \$75 million in homeless prevention stimulus funding for NYC can address these needs.

Social Services

- **\$2.1 million for Emergency food programs**

Child Care

- Notably while there are limited budget cuts to the ACS child program, the agency has a \$62 million budget deficit and needs an approximately \$52 million on top of that to implement the 2007 Market Rate increases to the rate it pays its providers. While the federal stimulus package should provide the City with \$100 million over two years for child care, this will not be sufficient to address these shortfalls. During this time when it is critical for parents to be able to participate in the workforce, we urge the Council and the Mayor to negotiate a budget that does not decrease the child care system's capacity.

Finally, CCC supports the Mayor's continued commitment to the CEO (Center for Economic Opportunity), which is funding and evaluating innovative programs to fight poverty. We particularly support the \$206,000 for Individual Development Accounts for foster youth, the \$26 million for youth programs and the \$182,000 to improve access to healthy and affordable food.

In conclusion, we understand that these very difficult times require difficult decisions on both sides of the budget ledger – revenue and expense. New York City's budget deficit demands a thoughtful response that includes progressive tax increases and government spending reductions that do not impact core services for children and families. It is critical that the actions the City Council takes with the Mayor protect the city's ability to ensure that our children remain healthy, housed, educated and safe.

Thank you for this opportunity to testify.



Fiscal Year 2010 Preliminary Budget for New York City
Proposes \$231 Million in Reductions to Services for Children and Families

CHILD WELFARE

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Elimination of 293 administrative and child care staff		\$7.6 million	
Elimination of 315 child welfare personnel		\$8.2 million	
Reorganization of Family Preservation Program/saving 234 staff		\$7.3 million	
5% Reduction to Foster Boarding Home Administrative Rate for Foster Care Providers		\$5.7 million	
Community Partnership Initiative not to be expanded (remain at 11 instead of 15)		\$930,000	
Reduce Agency Support contracts (suspend MSW program, eliminate media campaigns, etc.)		\$1.8 million	
Foster Parent Support-10% reduction to providers that have not met performance goals		\$909,000	
Eliminate Facility Maintenance Expense (turn over facility to private provider)		\$218,000	
CEO: Individual Development Accounts for Foster Youth	\$206,000		
Child Safety Initiative: Preventive Services Caseload Reduction			\$3.7 million
Child Advocacy Centers			\$500,000
Family Justice Centers			\$200,000
CONNECT Domestic Violence program			\$600,000
Sub-Total	\$206,000	\$32.7 million	\$5.0 million

EARLY CARE/CHILD CARE

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Priority 7 child care slots		\$7.1 million	
Provider's Choice-Family Child Care Supplies			\$1.2 million
Working Parents for a Working New York			\$300,000
CEO: Early Childhood Policy and Planning		\$58,000	
Sub-Total		\$7.2 million	\$1.5 million

EDUCATION

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Reduce 1,440 Pedagogical Employees in Schools		\$91.2 million	
Estimated Headcount Reduction from State Cut - 13,930 positions		<i>Only if state cut is implemented</i>	
CEO: Early Childhood Policy and Planning		\$72,000	
Universal Pre-kindergarten (full day in ACS programs)			\$2.6 million
Teacher's Choice			\$13 million
Dropout Prevention and Intervention			\$2 million
Urban Advantage			\$500,000
Sub-Total		\$91.3 million	\$18.1 million

HEALTH SERVICES

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
CEO: Expand Access to Healthy Foods	\$182,000		
CEO: School Based Health and Reproductive Health Centers	\$1.4 million		
Child Health Clinics		\$960,000	
Diagnostic & Treatment Center Funding		\$473,000	
Primary Care Capacity Initiative		\$2.7 million	
Supplemental School Health Services		\$754,000	
Infant Mortality Initiative			\$3.5 million
Obesity Prevention Initiatives			\$3.0 million
Podiatric Screening			\$500,000
Asthma Control Initiative			\$545,000
Sub-Total	\$1.6 million	\$4.9 million	\$7.5 million

HOMELESS SERVICES

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
HomeBase Homelessness Prevention Program		\$5.1 million	
Eliminate Recreation Staff from Shelter Contracts		\$2.4 million	
Elimination of direct social service staff in commercial hotels housing homeless families		\$1.1 million	
Rate reduction to Family Hotels		\$575,000	
Eliminate Homecare Kits for Families		\$354,000	
Eliminate Clothing Bank Contract		\$221,000	
Citywide Homeless Prevention Fund			\$250,000
Sub-Total		\$9.7 million	\$250,000

HOUSING

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
City-Task Force on Housing Court			\$500,000
Community Based Consultants			\$830,000
CEO: Family Self-Sufficiency Program		\$2.1 million	
Sub-Total		\$2.1 million	\$1.3 million

JUVENILE JUSTICE

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Discharge Planning/In-Detention Services			\$640,000
Sub-Total			\$640,000

LEGAL SERVICES

PROGRAM	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Citywide City Legal Services			\$1.5 million
Legal Information for Families Today (LIFT)			\$500,000
Legal Services for Working Poor			\$1.0 million
Legal Services NYC- Keeping Families Together			\$300,000
MFY Legal Services			\$100,000
SSI-UI Advocacy Program			\$1.3 million
Anti-Eviction Legal Services			\$2.3 million
Sub-Total			\$7.0 million

MENTAL HEALTH SERVICES

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Mental Hygiene – Community Based and other Non-HHC providers		\$1.1 million	
HHC Mental Hygiene Services		\$869,000	
Mental Health Treatment for Children Under Five			\$1.6 million
Autism Awareness Initiative			\$1.6 million
Sub-Total		\$2.0 million	\$3.2 million

SOCIAL SERVICES

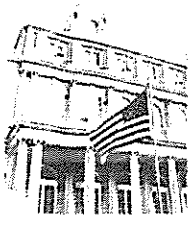
Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Nutrition for Adults and Families Living with HIV/AIDS		\$491,000	
Food Stamps at Farmer's Markets			\$270,000
Emergency Food Programs			\$2.1 million
CEO: Employment Services for Non- Custodial Parents		\$380,000	
CEO: Enhanced Employment Services		\$111,000	
Sub-Total		\$980,000	\$2.3 million

YOUTH AND COMMUNITY DEVELOPMENT

Program	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
Reduction in SYEP summer jobs slots		\$2.0 million	
Consolidate OST Middle Schools into Beacons Program		\$149,000	
Elimination of OST Option II		\$6.0 million	
Reduction in OST Summer Program		\$2.86 million	
Increase in OST Low Performance Penalty		\$570,000	
CEO: Youth Programs	\$14.3 million		
Beacon Opening Fees			\$3 million
Transfer of Social Services Funding from NYCHA	\$12.3 million		
Cultural After School Adventure (CASA)			\$5.5 million
Institute for Student Achievement			\$1.35 million
Helping Involve Parents in Schools Project (HIP)			\$4.3 million
Shelter Beds for At-Risk Runaway and Homeless LBGT Youth			\$1.7 million
Street Outreach/Neighborhood Youth Alliance			\$1 million
The After-Three Program			\$3.8 million
Sports and Arts in School Foundation			\$1.2 million
YMCA Virtual Y Program			\$500,000
Sub-Total	\$26.6 million	\$11.3 million	\$22.3 million

TOTAL

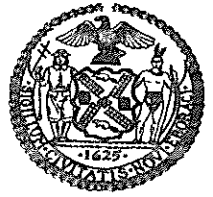
PROGRAM	Proposed Expenditure Increase FY'10	Proposed Expenditure Decrease FY'10	Failure to Fund Council Initiatives
ALL SERVICES FOR CHILDREN	\$28.4 million	\$162.2 million	\$69.1 million



FROM NEW YORK CITY COUNCIL MEMBER

DAVID I. WEPRIN

CHAIRMAN, FINANCE COMMITTEE



For Immediate Release

March 9, 2009

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Preliminary Budget Hearing Testimony March 9, 2009

Good morning and welcome to the opening day of the City Council's hearings on the Mayor's Preliminary Budget for Fiscal Year 2010. These hearings mark the beginning of the Council's role in the annual budget adoption process. Of course, this year it feels as if the budget process never ended.

At the time of adoption of last year's budget, the size of the gap for Fiscal 2010 was projected to be almost \$2.34 billion. In September, New York City felt the harsh reality of the national recession, with the nearly total freezing of credit markets, and plummeting wages in the financial sector, which dragged down all areas of consumption, including housing, retail and leisure, the Director of the Mayor's Office of Management and Budget, Mark Page, who is here today, asked agency heads to submit Programs to Eliminate the Gap, also known as PEGS, equal to 5%. PEGS are Financial Plan actions that reduce the City's budget gap by either reducing an agency's City Tax-Levy Expense Budget or increasing City revenues.

With the fall of major financial institutions, the subprime crisis, record high foreclosures, and increasing unemployment, the November Plan included PEGs totaling \$461.6 million (2.2 percent) in Fiscal 2009 and \$1.08 billion (5.2 percent) in Fiscal 2010 of city tax-levy funding.

-MORE-

A month later in December, with plummeting revenues, agency heads were asked yet again to submit PEG proposals, this time totaling 7% in Fiscal 2010 and the out years.

Last month, we received the Mayor's January Financial Plan. This plan totals \$58.8 billion and attempts to close a \$5.773 billion gap, more than doubled the amount predicted at the time of Adoption in June. To close this gap, the Mayor has proposed the following measures:

1. Sales tax increases, including the repeal of the clothing exemption, totaling \$894 million;
2. A citywide PEG package of \$917.8 million for Fiscal 2010, with individual agency PEG packages totaling 7% for many agencies and smaller amounts for others, including the Department of Education and the four uniformed agencies;
3. Use of reserves, particularly the Retiree Health Trust Fund, totaling \$82 million;
4. Restoration of AIM funding to FY 2008 levels, which will give us \$242 million;
5. Rescinding of the property rebate and mid-year property tax increase, totaling \$256 million; and
6. Of course, rolling over the surplus, totaling \$741 million.

So, in all, the January Plan gap closing program, totals \$5.03 billion.

Generally, two factors weigh heavily on how the Fiscal 2010 budget will ultimately look: the State budget, and funds from the federal stimulus package.

-MORE-

On February 17, 2009, President Obama signed Home Rule #1, the American Recovery and Reinvestment Act of 2009, aka ARRA, into law. The passage of ARRA was vital. The Preliminary Budget assumed that the City would receive \$1 billion a year in FY10 and FY 11 due to an increase in the FMAP, a program that provides an increased share of federal aid for Medicaid expenditures. However, as we learned just days ago, Albany would only be providing the City with \$1.9 billion for Medicaid for 27th months—which would mean at least \$200 million less than Congress intended.

Generally, ARRA provides significant aid that can be used to maintain services and close the budgetary gaps at both the City and State levels. But for the City there are at least three different kinds of funding:

- 1) Funding that will come directly or indirectly to New York City on known formulas;
- 2) Funding that will come to New York State that could be passed on to the City subject to decisions of the Governor and the Legislature; and
- 3) Funding that will come through competitive grants.

As a result of these factors, the EXACT amount of aid the City will receive is uncertain.

What is clear, however, is that while the stimulus will reduce the pain, it will be insufficient by itself to close Fiscal 2010 or 2011 gaps. A preliminary analysis suggests that the City could receive from other sources an additional \$2.5 billion to \$3.1 billion through Fiscal 2011. About \$1 billion of this will be the City's share of stimulus' State Fiscal Stabilization grants and another \$820 million will be education funding. However, as mentioned, these numbers are fluid and will undoubtedly change.

On the State level, the Governor's Executive Budget for 2009-2010 contained actions that would have cut State funds to the City by \$1.8 billion in Fiscal 2010. The cuts could be partially offset by revenue actions, including the sales tax base broadening mentioned above, and authorization for unlimited additional red light cameras, among others.

The biggest State cut would fall on the Department of Education. The Governor's plan would maintain Foundation Aid – the principal source of State funding for K-12 education under the Campaign for Fiscal Equity lawsuit – flat, stretching out the planned increase in State aid to education from 4 years to 8 years. In addition, the State would impose a Deficit Reduction Assessment on the DOE for 2010 of \$362 million.

As you can see, a lot needs to be done to ensure that New York City will continue to provide core services. An essential function of these hearings will be to understand and get greater clarity of the Stimulus package on New York City, and how each agency has been affected by recent cuts. We must ensure that agencies will be able to continue to fulfill their core mandates.

These hearings will culminate in the Council's Response to the Mayor's Preliminary Budget, which is due in early April. We hope that our response will significantly influence the Executive Budget, due by the beginning of April.

As in the past, we kick off these preliminary budget hearings with OMB, the City's Budget Office responsible for producing the Preliminary Budget. We will then hear from the Department of Finance, our City's chief revenue collection agency. DOF will be followed by the Department of Design and Construction, created by this Committee in 1997 to more efficiently carry out capital projects. We will then hear from our Comptroller and finally from the Independent Budget Office.

We will now hear from the Director of the Mayor's Office of Management and Budget, Mark Page.

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FISCAL 2010 PRELIMINARY BUDGET HEARING
Committee on Finance
March 9, 2009

Questions for the Comptroller

Capital Program and Debt Service Questions

Battery Park City Authority

In his Executive Budget Governor Patterson proposes to transfer \$270 million in excess revenue from the Battery Park City Authority to New York State's general fund. This money is the main source of funding for the City's Affordable Housing Trust Fund. Your consent is necessary for this transfer to take place.

Do you support the transfer of the Battery Park City Authority Surplus to New York State?

Debt Service: Affordability.

Your most recent report on Capital and Debt Obligations begins: "New York City has a large and growing debt burden that is threatening to become unaffordable as the City's economy suffers the impacts of a severe global economic downturn. "

What do you believe is the appropriate response to this problem?

Debt Service: Greater Issue Frequency

Access to the credit markets has been limited since the bankruptcy of Lehman Brothers in September 2008. Large issues are now more difficult to realize. Therefore, the City now issues debt more frequently in lower quantities in order to raise sufficient funds.

Does issuing debt more frequently increase transaction costs? If so, by how much?

Do you anticipate that City debt issuance will be more difficult and costly in the near future or do you see improvements in the municipal bond market?

Is the City relying more on the retail market than in the past, rather than the private placement market? What is the significance of this? Will the City rely less on the retail markets once the credit markets improve?

Bonds: Replacing Credit and Liquidity Providers

Investors are wary of credit and liquidity providers' exposure to domestic subprime mortgages. Credit providers provide letters of credit, bond purchase agreements, guaranties or other credit facilities to establish the creditworthiness of the City, helping it secure lower interest rates on its debt. To address such concerns, the City and its financing entities have replaced credit and liquidity providers with more desirable ones.

How is this replacement being done? How is progressing? Has it added to the City's borrowing costs?

Capital Scoping: \$4.3 billion in Excess Authorized Capital Commitments

The Modified Capital Commitment Plan for Fiscal Years 2009-2013 has a commitment of \$11.3 billion for Fiscal 2009, but the sum of agency-by-agency authorized commitments is \$15.6 billion, which is an excess of \$4.3 billion. The excess is necessary to meet spending targets given factors such as scope changes and delays.

What do the Department of Design and Construction and OMB's Value Engineering Unit do to minimize this excess, and what additional value engineering is possible to minimize it further?

FISCAL 2010 PRELIMINARY BUDGET HEARING
Committee on Finance
March 9, 2009

Department of Finance Questions

Class One Assessments on the Fiscal 2010 Tentative Assessment Roll

On your recently released Fiscal 2010 tentative assessment roll, the market value for class one homes decreased for the second year in a row. Yet assessments are still increasing by more than four percent. I understand that even though market values are declining, assessments can increase until the target assessment ratio of 6 percent is reached. I believe the average ratio is now nearly 4 percent.

Sales prices and market values of class one homes are anticipated to continue to decline. Have you made projections about when we can expect to see a decrease in class one assessments as well?

Making Class Two Residential Assessments More Equitable

Background: State law requires that the market value of co-ops and condos be based on the market value of comparable rental properties. This often means that new luxury condos built in neighborhoods with predominately market rate rentals are valued much more highly than older luxury co-ops or condos located in neighborhoods with a high proportion of rental stabilized apartments.

- In the past, your Department has proposed changing the State law that mandates you value co-ops and condos based on comparable rentals, to permit you to use either market rate or rent stabilized rentals as comparables where appropriate. This may reduce some of the inequities in assessments between more recently built condos in neighborhoods with market rate rentals and co-ops and condos located in neighborhoods with rent stabilized buildings. Do you plan to seek out this legislation in the current session?
- Newly constructed co-ops, condos and rental buildings are often highly valued because of the high costs of construction. I understand you have been meeting with a variety of interested groups to deal with this issue. Have you been able to agree on ways to reduce the valuations? Won't the downturn in the economy also help reduce construction costs and reduce valuation?

Foreclosures, Tax Lien Sales and DOF Outreach Efforts:

Many of the City's neighborhoods have been especially hard hit with the increase in residential foreclosure rates. Foreclosures from the tax lien sales are also increasing. Department of Finance staff has conducted very valuable outreach efforts on tax lien

sales and foreclosure prevention that have been of great help to Council Members' constituents.

- Have you seen an increase in property tax delinquencies, especially among homeowners?
- Are you stepping up your outreach efforts in foreclosure prevention and predatory lending?
- Are you offering more liberal payment plans and other deferrals for owners with back taxes who may be eligible for lien sales?
- When your staff locates owners who are eligible for the senior citizen homeowner or disabled homeowner exemption, or the State's personal income tax circuit breaker, do you exempt them from the tax lien sales even if they're not enrolled in the programs, which would automatically make them exempt?

Valuation of Class Two Residential Properties Using Gross Income Multipliers

Background: This is the second year in a row the Department of Finance (DOF) used the Gross Income Multiplier (GIM) methodology to determine the full or market value of all class two properties. In the past, DOF used the net income capitalization method, which takes a property's income minus expenses and applies an appropriate capitalization rate to get market value. The GIM excludes using a property's expenses, but relies on the property's income flow and an appropriate multiplier or capitalization rate based on property type to determine market value. A schedule of 10 different GIMs was developed that applies to both rentals and co-op and condo units. State law requires using comparable rentals to determine the market value of co-op and condos. DOF justified using the GIM approach because expenses tended to be too volatile, with wide variations among buildings. GIMs would be more accurate and easier to apply and understand.

- Last year the Department of Finance used for the first time the Gross Income Multiplier method, which excludes expenses, to determine the market value of class two rentals and co-ops and condos. I understand that there have been some concerns that this method overvalues buildings with high expenses but relatively low rents or regulated rent rolls. This may hurt older buildings, or buildings located in low or moderate-income neighborhoods. Were you able to address some of these concerns on the fiscal year 2010 tentative assessment roll?

Valuation of Vacant Land

The market value of both class one residential vacant land and class four commercial vacant land has increased substantially on the Fiscal 2010 tentative assessment roll; 28 percent for class one and more than 120 percent for class four. On past assessment rolls there have been large increases in the market value of vacant land. How do you account for the large increases in value?

Background: Last summer, the State passed legislation that required certain class one vacant properties located in upper Manhattan to be reclassified as class four, unless the

owners entered into an agreement to construct affordable housing. By increasing the tax burden on owners, the intent of the legislation was to ‘incentivize’ owners to convert their vacant property into housing, preferably housing affordable to the residents of low and moderate-income neighborhoods of upper Manhattan. About 400 lots were affected.

- Have you been able to do an evaluation of how the hike in taxes affected owners’ use or disposal of the property?
- Is the City attempting to work with owners to help them enter into agreements to build affordable housing, assuming this is possible given lot sizes and the current economic climate?

Tax Enforcement/Tax & Fee Amnesty

In 2004 your Department conducted a very successful tax amnesty program for several businesses taxes. The amnesty raised more than \$84 million in tax revenue. In the current economic climate, a tax amnesty may help businesses settle their debts and provide additional revenue for the City. Would you consider offering another tax amnesty for businesses?

Are there other programs your Department is considering that might help streamline fees for businesses or provide fine reductions or fine amnesty to help businesses?

Red Light Cameras

The Preliminary Budget assumes revenue to increase from the expansion of red light cameras and an increase in red light camera fees from State legislation. What is the status of this legislation and how many new cameras do you project to install and where will they be located?

PEGs and Other Administrative Issues

The Preliminary Budget calls for the elimination of contractors who maintain the NYCServ and ACRIS’ systems and instead hires new employees into the agency to perform this work. How will this transition affect services for City residents and how much in savings will the agency realize?

There is an across the board personal services reduction that will include the elimination of 18 positions. Where will these positions be within the agency and how will it affect City services?

The Preliminary Budget allocates funds for the Data & Integrity Mining Group initiative. Can you please explain in detail the purpose of this initiative and how it is expected to raise additional revenue for the City?

Finance Committee Hearing on FY'10 Preliminary Budget
March 9, 2009

Questions for Office of Management and Budget

Impact of American Recovery and Reinvestment Act of 2009
(ARRA) on the City

• ***General Funding***

1. Have you determined how much federal stimulus funding will be available for the DOE expense budget in 2010?

• ***Federal Medical Assistance Percentages (FMAP)***

2. What is being done at the executive level to ensure the restoration of FMAP funding to the expected \$2.1 billion level, as opposed to the Governor's recently announced \$1.9 billion? Please discuss the 3 percent Medicaid spending cap, and how the Governor's proposed NYC FMAP share is affected by it?

• ***Department of Education Funding***

3. The federal stimulus package includes several funding streams that could be used to support our public schools. These include Title 1 funding; IDEA funding; competitive grants for innovative education programs; and State Fiscal Stabilization grants. For each of these four discrete revenue sources what are your best and worst current estimates of how much the DOE will receive during each of the next two years?
4. Describe the Administration's recommendations to Albany on how the federal aid should be used to support pre-K through 12 education.
5. Has the Administration asked Albany to alter in any way the Contract for Excellence regulations?
6. In order to disperse the new Title 1 funding among more public schools, could the DOE alter its claiming practices to capture a greater number of Title 1 eligible students? Rephrased, can the DOE claim Title 1 support for free and reduced price lunch students, instead of just free lunch students and thereby increase the number of schools that receive Title 1 funding next year?
7. To what extent will the use of the new Title 1 funding that goes to schools next year be restricted?
8. What is your estimate of how much of the federal stimulus funding can be used for hole-filling or supplanting city and state funds?
9. How will the City's share of ARRA funding need to be the subject of a budget modification?

- ***Capital: Shovel Ready Projects.***

10. What progress has been made in putting together a list of “shovel ready” projects for the State and the Federal government, despite the lack of clarity on funding guidelines and appropriation levels? What mechanism is in place to receive input from the Council and other players with regard to selecting these Capital projects?

- ***Effect of ARRA on NYC Tax Revenue***

11. The Federal stimulus contains several changes to the personal and business taxes that are likely to reduce City tax revenue. These include: a partial exclusion of unemployment benefits from the income tax; an increase in the earned income tax credit; deferrals of income from cancellation of debts; and for small business an additional carry back period for net operating losses. Has OMB estimated the impact of these changes on City tax revenue?

- ***Community Oriented Policing Services Program (COPS) Funding***

12. Could you explain how the proposed funding structure for this version of the COPS program will differ, if at all, from that of the previous program? For example, will the City be required to adhere to a “maintenance of effort” stipulation to maintain its funding or, will all officers hired with COPS funding be fully funded by the program. Will the city be required to “kick-in” some share of their base salaries?
13. It is our understanding that the current package for the COPS initiative will include approximately \$70 million to fund 266 police officers fully over the next three fiscal years if we receive funding equal in proportion to what we received under the previous COPS funding scheme. Is that your understanding as well?
14. There have been reports recently in the media and other quarters suggesting that New York City’s COPS funding could actually be large enough to fund approximately 3,500 officers. Do you have any sense what the source of these stories may have been and why they differ so markedly from our current understanding of the extent of COPS funding in the ARRA?
15. Has the Administration applied for any competitive grants such as the COPS hiring fund yet? If not, when is it planning to begin the application process, and what other competitive grants are being targeted at the moment?
16. Does the competitive nature of the application process for COPS funding increase or decrease our chances of maximizing the funds we could look forward to receiving under the ARRA? In other words, do you think this process is optimal for our purposes?
17. Do you think it would benefit the city to suggest changes to the current application process for COPS funding?

18. Might an alternative scheme such as one based on population or risk assessments of various kinds be more beneficial to the city's chances to maximize the city's share of grant funding? How practical might this alternative be at this point?

Financial Plan and Budget

New York City Police Department

- ***School Safety***

19. Why has the school safety program remained exempt from the PEG program?
20. Is the service level provided by the police department to the schools optimally priced?
21. Where are we, at this point, in determining whether disciplinary procedures for School Safety Agents will be placed under the jurisdiction of the Civilian Complaint Review Board (CCRB)?

- ***NYPD and NYCHA***

22. NYCHA pays the Police Department approximately \$73 million a year for "special policing services" at NYCHA developments. Given NYCHA's structural budget deficit, would the administration reconsider its agreement with NYCHA and relieve them of having to pay this money, given that no other landlord in the City pays for "special policing services?"

Fire Department City of New York

- ***Fire Company Elimination and Negotiation with the Uniform Firefighters Association***

23. The Mayor has offered an alternative to the January Plan proposal to eliminate 12 Fire companies. This alternative involves negotiating with the Uniform Firefighters Association (UFA) to reduce the number of firefighters per shift, from five to four in 64 engine companies. Has the Administration entered into negotiations with the UFA regarding this option? If so, is the UFA willing to make concessions?

Education

- ***ACS and DOE Kindergarten***

24. On Thursday, March 5 the Education and General Welfare Committees of the Council held a joint oversight hearing to review ACS's plan to end its longstanding practice of paying for full-time daycare for low income five year old children. ACS has told parents of 4-year-olds enrolled at ACS contracted daycare centers that these children will not be eligible for full time daycare next year and that parents should apply for public school Kindergarten placement instead. This plan could boost public school kindergarten enrollment by 3,000 or more students next year. ACS and DOE testified at the hearing, but neither agency would discuss the budgetary impact of this plan.

What are the budgetary impacts of the plan to shutter ACS kindergarten daycare programs on ACS, DOE and DYCD? Please itemize the new costs and savings on each agency.

25. Explain why this policy shift was not reflected in the January Financial Plan.

- ***Catholic Schools and Charter Schools***

26. The Mayor has announced that the City is collaborating with the Archdiocese of Brooklyn to explore turning some Catholic Schools into Charter schools that guarantee admission to current Catholic schools students.

Please explain why the Administration wants to create Catholic Charter Schools as opposed to attempting to lease space from the church for public school use.

27. What is your estimate of the budgetary impact of the closing Catholic schools on the DOE?

28. Have you, or will you, attempt to project and quantify the budgetary impact of Catholic school closures on the particular public schools that will be most affected?

- ***School Bus Vouchers***

29. The January Plan includes a PEG associated with a plan to give some children enrolled in special education pre-kindergarten programs vouchers for transportation.

Please describe this pilot voucher program and explain why it is limited to children in special education pre-kindergarten programs.

30. How did you calculate the savings estimate associated with this program?

Capital Project Funding

- ***Cuts to Capital Funding***

31. A number of very large capital projects have contributed to the growth of the capital budget in recent years. When OMB and the agencies prepare their 30% cut proposals for the Executive plan, will completing these projects result in disproportionate cuts to smaller projects?

- ***Modified Capital Commitment Plan, FY 2009 through FY 2013***

32. The Modified Capital Commitment Plan for Fiscal Years 2009-2013 has a commitment of \$11.3 billion for Fiscal 2009, but the sum of agency-by-agency authorized commitments is \$15.6 billion, which is an excess of \$4.3 billion. The excess is necessary to meet spending targets given factors such as scope changes and delays.

What will the Department of Design and Construction and OMB's Value Engineering Unit do to minimize this excess, and what additional value engineering is possible to minimize it further?

Department of Buildings

- ***Fiscal 2009 Projected Gaps to be Offset by Revenue***

33. The Department of Building's Fiscal 2010 Preliminary Budget includes an additional \$4.4 million in Fiscal 2009 to fund projected gaps which are to be offset by additional revenues collected by the Department. Please explain what the Department's projected gaps are and where the revenues would come from to offset these gaps.
34. Why is the Department of Buildings allowed to have a dedicated revenue stream to cover projected gaps in their FY09 budget?

Emergency Medical Service (EMS)

- ***Effect of Medicaid Rebasing Formula***

35. The proposed Medicaid rebasing formula included in the Governor's Executive Budget eliminates approximately \$60 million in reimbursements to New York City's Emergency Medical Service (EMS). This would be, in effect, a \$60-million cut to the City of New York.

If this proposal is enacted, how does the City plan to compensate for this reduction?

36. Would the City be able to replace these Medicaid funds with City tax-levy funds to maintain the January Plan's proposed level of service, which already includes significant reductions in the number of EMS tours?

Department of Correction (DOC)

- ***Average Daily Population Reform Proposals***

37. The January Plan contains five reform proposals that together would lower the average daily population (ADP) in City jails by more than 1,700 inmates, enabling the DOC to reduce its uniform workforce by more than 600 and its budget by approximately \$28 million.

How confident are you that these reform proposals will generate the level of PEG savings forecast in the January Plan?

Metropolitan Transit Authority

- ***Number 7 Line Extension***

38. Recently, the MTA, in order to enable its operating agencies to continue to progress their capital work programs issued an amended 2005-2009 Capital Program that

brought estimates up to date to reflect current market conditions and provided for long-term inflationary uncertainties for most of its expansion projects.

Has OMB done the same analysis for the #7 line extension, and if not, why?

39. What is the added cost, if any, and how will it be financed?

Energy Usage Reduction

40. Beyond what's already set forth in the January Plan, what additional steps can the City take to reduce its energy costs? What type of savings might emanate from these efforts?

Judgment and Claims

- ***Increased costs of Judgments and Claims***

41. The projected costs to the City relating to judgment and claims are growing exponentially. Whereas in Fiscal 2006 total payouts for judgment and claims totaled \$477 million, the January Plan projects that payouts will increase to \$817 million by Fiscal 2013.

What are the causes of this steep rise in judgment and claims projections, and what practical steps is the Administration taking to lower these costs?

42. Have the costs associated with the settlement agreement in *L.V. et al. v. New York City Department of Education et al.* (a 2003 class action suit that alleged that SE students were denied educational services) been reflected in the Financial Plan?

43. What is your estimate of the costs associated with the compensation for students and programmatic changes that should be implemented pursuant to the settlement?

Retiree Health Trust Fund

44. The Retiree Health Trust Fund is one of several pseudo- rainy day funds in the City Budget. The financial plan proposes to reduce deposits into the Retiree Health Benefit Trust Fund by amounts equal to anticipated increases in City pension fund contributions. In practice this means that the City will be drawing down the Trust Fund by \$82 million in 2010, \$395 million in 2011, \$395 million in 2011 and \$672 million in 2012 and using it to replace pension fund's losses in the financial markets.

Even with this commitment, there is still around \$1.5 billion available in the fund. Are there plans for its use?

General Economic Forecast, Revenue, Tax Policy, and Debt Service

Economic Forecast

- ***The City's Economy, an Overall View***

45. In the January Plan, OMB estimates that the City will lose around 175,000 jobs in 2009 and another 100,000 jobs in 2010. Since the January Plan there's been some good but mostly bad news. The American Recovery and Reinvestment Act of 2009 or stimulus plan will provide some needed aid in maintaining City services and reducing looming budget gaps. On the other hand, real GDP is worse than previously estimated, falling 6.2 percent in the 4th quarter 2008. The national unemployment rate has risen to 7.6 percent and around 3.6 million U.S jobs have already been lost through January.
46. Do you anticipate further downward revisions in your economic and tax revenue forecasts for the City?

- ***Bonus Season***

47. The January Plan estimates that for calendar year 2008, New York Stock Exchange (NYSE) member firms will suffer losses of around \$47 billion. The lion's share of bonus income comes from the financial sector. A bad bonus season in the City has negative impacts on all areas of consumption, including real estate, retail, arts and leisure.

Personal income tax withholdings for December through February show a 14.7 percent drop from the same period the previous year. With this trend in the bonus payout season, how much of a drop in City bonus revenues do you estimate for Fiscal 2009?

48. What are the implications of these reduced bonuses on total income tax collections and the City's economy in general?

Tax Policy

- ***Sales Tax: Exemption for Clothing and Footwear and 1/4 Percent Increase***

49. The Mayor's sales tax initiatives in the January 2009 Financial Plan are to eliminate the existing sales tax exemption for apparel and footwear and to increase the City sales tax rate from 4 percent to 4.25 percent. OMB forecasts additional sales tax revenue in Fiscal 2010 of about \$400 million for the former measure and \$300 million for the latter.

Will these sales tax measures expire (sunset) at some date, if the economy improves sufficiently, or would they have to be reversed or altered by legislation?

- ***Sales Tax: Extension of Sales Tax to Entertainment-Related Spending***

50. The Preliminary Budget anticipates certain changes to the State sales tax that will pass through to the City sales tax. One of the revenue actions in the State's 2009-2010 Executive Budget would expand those admissions charges and dues that are subject to sales tax. Taxable admissions charges include certain sporting events and exhibitions. Movie tickets, race track admission, and live dramatic or musical arts performances are among those events or performances that are not taxable now, but which would become taxable under the action.

What impact would this have on the cultural life in the City, especially the Broadway theater industry?

- ***Sales Tax: Narrowing the Definition of Capital Improvement***

51. The Preliminary Budget anticipates certain changes to the State sales tax that will pass through to the City sales tax. The State's 2009-2010 Executive Budget includes a proposed revenue action to narrow the definition of capital improvement to real property. This would make the services of contractors in building improvements, such as adding new doors or windows subject to the sales tax. Even gut renovations and demolition necessary for capital improvements would be subject to the tax.

This action would extend the sales tax to a greater portion of the labor that goes into maintaining the City's building stock, effectively raising the cost of building improvements and therefore possibly inhibiting development.

Would narrowing the definition of capital improvement reduce economic activity in the City?

52. Would narrowing the definition of capital improvement unduly burden property owners?
53. Would narrowing the definition of capital improvement inhibit renovations that generate low-income housing?
54. Would narrowing the definition of capital improvement discourage "green" real property improvements?

Revenue

- ***Plastic Bag Fee***

55. The original estimate of the fiscal impact of the plastic bag fee that was in the November Plan stated this new fee would raise \$16 million a year for the City. Now, just two months later, the estimate is \$100 million per year, a jump of over \$84 million. Why did this number change so drastically?

56. The original charge for the plastic bag fee was 6 cents, with 1 cent going to the store owner. It appears that the extra 1 cent has been scrapped, and now the fee will be a straight 5 cents. That extra cent had been explained as a way to ensure enforcement, since the owner would get a small cut. Why was the owner "cut" eliminated, and how does the administration plan to enforce this policy?

57. The plastic bag fee is being touted as both an income generator and a way to help green the City by cutting down on the usage of plastic bags. We can see that something similar worked in Ireland, where a 33 cent charge was imposed per plastic bag. The fee resulted in a 94 percent reduction in plastic bag usage. The Administration is proposing a 5 cent fee. How much will this fee reduce plastic bag usage, so that it is not perceived as an attempt to nickel and dime New Yorkers?

- ***Traffic Enforcement Revenue***

58. The Preliminary Budget shows increased revenues from an expansion of the red light camera program. How many new cameras do you plan to install, and where?

59. The Preliminary Budget reflects increased revenue from the expansion of enforcement of the "Block the Box" program. Where exactly do you plan to step up enforcement?

60. The Preliminary Budget mentions a pilot program of cameras that catch speeding motorists, though there does not appear to be a fiscal impact in the budget. How much do you believe this program could net the City, and where will the cameras be located?

Debt Service

- ***Frequency of Debt Issuance***

61. Access to the credit markets has been limited since the bankruptcy of Lehman Brothers in September 2008. Large issues are now more difficult to realize. Therefore, the City now issues debt more frequently in lower quantities in order to raise sufficient funds.

Does frequent debt issuing increase transaction costs? If so, by how much?

62. Do you anticipate City debt issuance being more difficult and costly in the near future, or do you see improvements in the municipal bond market?

63. Is the City relying more on the retail market, as opposed to the private placement market, than it has in the past?

64. What is the significance of this?

65. Will the City rely less on the retail markets once the credit markets improve?

- ***The Constitutional Debt Limit***

66. The State Constitution limits the amount of General Obligation debt the City is permitted to issue to 10 percent of the of the five-year average of the market value of

taxable real estate. Now that we seem to be coming to the end of a period of strong market value growth, the market value average may be substantially reduced in the future. OMB does a long-term projection of the five-year average of real property market value.

Based on that projection, does the Administration expect the City to reach the Constitutional debt limit in the near future?

67. If so, is the proposed 30 percent reduction in the capital commitment plan intended to deal with this, or does the Administration foresee the need for additional reductions in the capital program?

- ***Federal and State Debt Amortization Requirements***

68. According to OMB, federal tax law and State finance law require the City to amortize debt, on average, five years sooner than the life of financed assets. This may reduce the cost of financing, and it does repay debt before an asset requires capital finance again, but it does not spread the cost of the asset equitably across time. The burden of debt sits more heavily on the earlier beneficiaries of the assets.

What can the City do to spread the debt burden more equitably, given federal and State restraints?

- ***Bonds: Replacing Credit and Liquidity Providers***

69. Investors are wary of credit and liquidity providers' exposure to domestic subprime mortgages. Credit providers provide letters of credit, bond purchase agreements, guaranties or other credit facilities to establish the creditworthiness of the City, helping it secure lower interest rates on its debt. To address such concerns, the City and its financing entities have replaced credit and liquidity providers with more desirable ones. How is this replacement being done?

70. How is it progressing?

71. Has it increased the City's borrowing costs?

- ***Bonds: Transitional Finance Authority Debt versus General Obligation Debt***

72. TFA reached its state-authorized bonding capacity of \$13.5 billion for general capital purposes in FY 2007, which leaves more costly GO debt as the main means of financing the capital program. Except for Water Authority debt, and state-funded TFA building aid revenue bonds (BARBs), the City's financing program is nearly all GO issuance – roughly \$5 billion a year from FY 2009 through FY 2013 for a total of about \$27 billion. TFA debt has been cost effective. If it could, the City would issue half of planned GO debt as TFA debt instead, in order to reduce financing costs?

73. If TFA bonding capacity is increased by \$14 billion in order to issue half of planned GO debt issuance for Fiscal 2009 through 2013 as TFA debt instead, what savings would the City realize over this period?

- ***Bonds: Variable Rate Debt***

74. Recently, variable or floating rate debt has traded as much as 5 percentage points lower than fixed rate debt recently. The City realized an annual savings of over \$300 million dollars by electing to issue some of its tax exempt debt at floating, rather than fixed rates. Although floating rate debt has reduced financing costs lately, these costs could increase due to rising interest rates, changes in the tax code, or deterioration in City credit. Floating rate debt exposes the City to possibly higher financing costs. Depending on how one does the calculations, the City has a floating rate exposure of between 11 percent and 17 percent.

Is the City's floating rate exposure at a manageable level? If not, what exposure level is preferable and how can the City realize it?

Questions for the Department of Finance

- ***Class One Assessments on the Fiscal 2010 Tentative Assessment Roll***

75. On your recently released Fiscal 2010 tentative assessment roll, the market value for class one homes decreased for the second year in a row. Yet assessments are still increasing by more than four percent. I understand that even though market values are declining, assessments can increase until the target assessment ratio of 6 percent is reached. I believe the average ratio is now nearly 4 percent.

Sales prices and market values of class one homes are anticipated to continue to decline. Have you made projections about when we can expect to see a decrease in class one assessments as well?

- ***Making Class Two Residential Assessments More Equitable***

Background: State law requires that the market value of co-ops and condos be based on the market value of comparable rental properties. This often means that new luxury condos built in neighborhoods with predominately market rate rentals are valued much more highly than older luxury co-ops or condos located in neighborhoods with a high proportion of rental stabilized apartments.

76. In the past, your Department has proposed changing the State law that mandates you value co-ops and condos based on comparable rentals, to permit you to use either market rate or rent stabilized rentals as comparables where appropriate. This may reduce some of the inequities in assessments between more recently built condos in neighborhoods with market rate rentals and co-ops and condos located in neighborhoods with rent stabilized buildings. Do you plan to seek out this legislation in the current session?
77. Newly constructed co-ops, condos and rental buildings are often highly valued because of the high costs of construction. I understand you have been meeting with a

variety of interested groups to deal with this issue. Have you been able to agree on ways to reduce the valuations?

78. Won't the downturn in the economy also help reduce construction costs and reduce valuation?

• ***Foreclosures, Tax Lien Sales and DOF Outreach Efforts:***

79. Many of the City's neighborhoods have been especially hard hit with the increase in residential foreclosure rates. Foreclosures from the tax lien sales are also increasing. Department of Finance staff has conducted very valuable outreach efforts on tax lien sales and foreclosure prevention that have been of great help to Council Members' constituents.

80. Have you seen an increase in property tax delinquencies, especially among homeowners?

81. Are you stepping up your outreach efforts in foreclosure prevention and predatory lending?

82. Are you offering more liberal payment plans and other deferrals for owners with back taxes who may be eligible for lien sales?

83. When your staff locates owners who are eligible for the senior citizen homeowner or disabled homeowner exemption, or the State's personal income tax circuit breaker, do you exempt them from the tax lien sales even if they're not enrolled in the programs, which would automatically make them exempt?

84. Valuation of Class Two Residential Properties Using Gross Income Multipliers

Background: This is the second year in a row the Department of Finance (DOF) used the Gross Income Multiplier (GIM) methodology to determine the full or market value of all class two properties. In the past, DOF used the net income capitalization method, which takes a property's income minus expenses and applies an appropriate capitalization rate to get market value. The GIM excludes using a property's expenses, but relies on the property's income flow and an appropriate multiplier or capitalization rate based on property type to determine market value. A schedule of 10 different GIMs was developed that applies to both rentals and co-op and condo units. State law requires using comparable rentals to determine the market value of co-op and condos. DOF justified using the GIM approach because expenses tended to be too volatile, with wide variations among buildings. GIMs would be more accurate and easier to apply and understand.

Last year the Department of Finance used for the first time the Gross Income Multiplier method, which excludes expenses, to determine the market value of class two rentals and co-ops and condos. I understand that there have been some concerns that this method overvalues buildings with high expenses but relatively low rents or regulated rent rolls.

This may hurt older buildings, or buildings located in low or moderate-income neighborhoods. Were you able to address some of these concerns on the fiscal year 2010 tentative assessment roll?

- ***Valuation of Vacant Land***

85. The market value of both class one residential vacant land and class four commercial vacant land has increased substantially on the Fiscal 2010 tentative assessment roll; 28 percent for class one and more than 120 percent for class four. On past assessment rolls there have been large increases in the market value of vacant land. How do you account for the large increases in value?
86. **Background:** Last summer, the State passed legislation that required certain class one vacant properties located in upper Manhattan to be reclassified as class four, unless the owners entered into an agreement to construct affordable housing. By increasing the tax burden on owners, the intent of the legislation was to ‘incentivize’ owners to convert their vacant property into housing, preferably housing affordable to the residents of low and moderate-income neighborhoods of upper Manhattan. About 400 lots were affected.

Have you been able to do an evaluation of how the hike in taxes affected owners’ use or disposal of the property?

87. Is the City attempting to work with owners to help them enter into agreements to build affordable housing, assuming this is possible given lot sizes and the current economic climate?

- ***Tax Enforcement/Tax & Fee Amnesty***

88. In 2004 your Department conducted a very successful tax amnesty program for several businesses taxes. The amnesty raised more than \$84 million in tax revenue. In the current economic climate, a tax amnesty may help businesses settle their debts and provide additional revenue for the City. Would you consider offering another tax amnesty for businesses?
89. Are there other programs your Department is considering that might help streamline fees for businesses or provide fine reductions or fine amnesty to help businesses?

- ***Red Light Cameras***

90. The Preliminary Budget assumes revenue to increase from the expansion of red light cameras and an increase in red light camera fees from State legislation. What is the status of this legislation and how many new cameras do you project to install and where will they be located?

- ***PEGs and Other Administrative Issues***

91. The Preliminary Budget calls for the elimination of contractors who maintain the NYCServ and ACRIS’ systems and instead hires new employees into the agency to

perform this work. How will this transition affect services for City residents, and how much in savings will the agency realize?

92. There is an across the board personal services reduction that will include the elimination of 18 positions. Where will these positions be within the agency and how will the elimination of these positions affect City services?
93. The Preliminary Budget allocates funds for the Data & Integrity Mining Group initiative. Can you please explain in detail the purpose of this initiative and how it is expected to raise additional revenue for the City?

- ***Battery Park City Authority***

94. In his Executive Budget Governor Patterson proposes to transfer \$270 million in excess revenue from the Battery Park City Authority to New York State's general fund. This money is the main source of funding for the City's Affordable Housing Trust Fund. Your consent is necessary for this transfer to take place. Do you support the transfer of the Battery Park City Authority Surplus to New York State?

Debt Service: Affordability

95. Your most recent report on Capital and Debt Obligations begins: "New York City has a large and growing debt burden that is threatening to become unaffordable as the City's economy suffers the impacts of a severe global economic downturn."

What do you believe is the appropriate response to this problem?

- ***Debt Service: Greater Issue Frequency***

96. Access to the credit markets has been limited since the bankruptcy of Lehman Brothers in September 2008. Large issues are now more difficult to realize. Therefore, the City now issues debt more frequently in lower quantities in order to raise sufficient funds.

Does issuing debt more frequently increase transaction costs? If so, by how much?

97. Do you anticipate that City debt issuance will be more difficult and costly in the near future or do you see improvements in the municipal bond market?
98. Is the City relying more on the retail market than in the past, rather than the private placement market? What is the significance of this? Will the City rely less on the retail markets once the credit markets improve?

- ***Bonds: Replacing Credit and Liquidity Providers***

99. Investors are wary of credit and liquidity providers' exposure to domestic subprime mortgages. Credit providers provide letters of credit, bond purchase agreements, guaranties or other credit facilities to establish the creditworthiness of the City, helping it secure lower interest rates on its debt. To address such concerns, the City and its financing entities have replaced credit and liquidity providers with more desirable ones. How is this replacement being done?

100. How is it progressing?
101. Has it added to the City's borrowing costs?

- ***Capital Scoping: \$4.3 billion in Excess Authorized Capital Commitments***

102. The Modified Capital Commitment Plan for Fiscal Years 2009-2013 has a commitment of \$11.3 billion for Fiscal 2009, but the sum of agency-by-agency authorized commitments is \$15.6 billion, which is an excess of \$4.3 billion. The excess is necessary to meet spending targets given factors such as scope changes and delays.

What will the Department of Design and Construction and OMB's Value Engineering Unit do to minimize this excess, and what additional value engineering is possible to minimize it further?

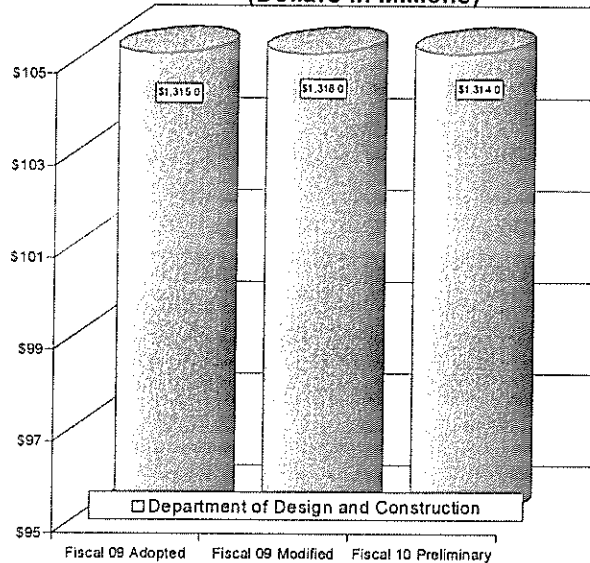
Fiscal 2010 Preliminary Capital Plan

Department of Design and Construction (850)

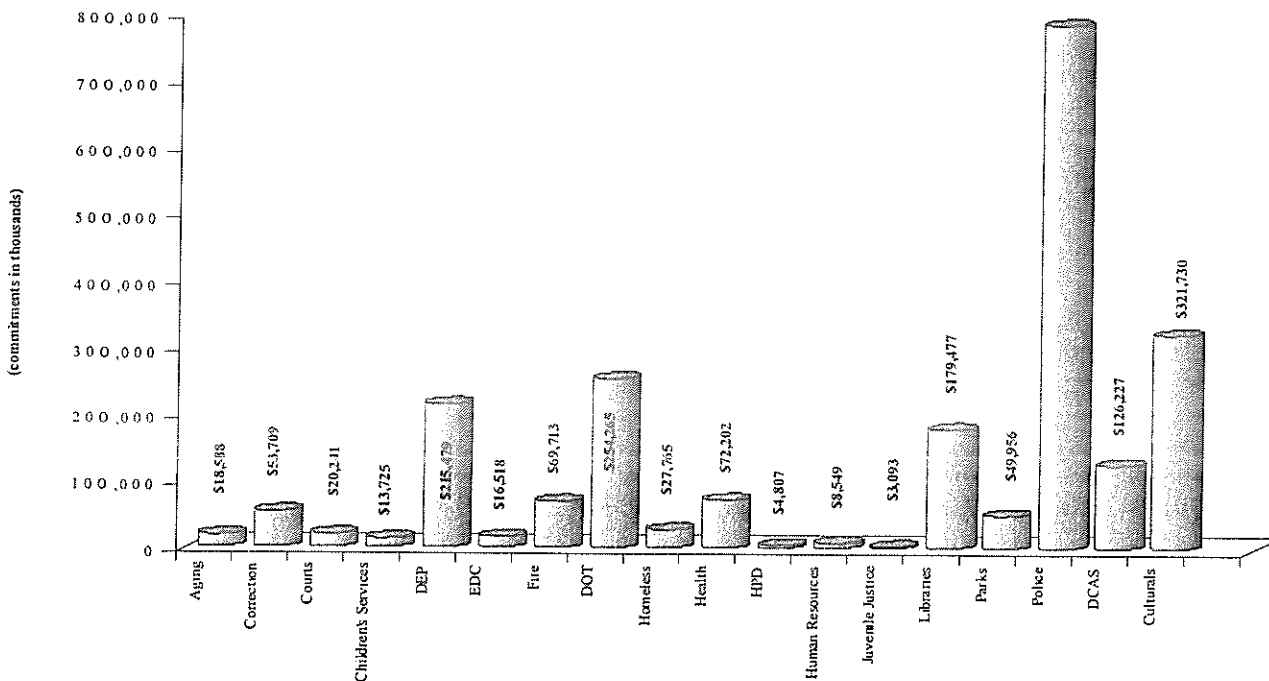
Mission Statement

The Department of Design and Construction's ("DDC") mission is to deliver the City's Capital Construction projects in a safe, cost-effective manner, while maintaining the highest degree of architectural, engineering and construction quality. The DDC performs design and construction functions related to streets and highways; sewers, water mains, correctional and court facilities, cultural buildings, libraries, schools and other public buildings, facilities and structures. Currently the DDC manages all or a portion of 21 client agencies capital budgets, the table below summarizes DDC's FY09 Commitment Plan by client agency:

Expense Budget Funding Changes Since Adoption
(Dollars in Millions)



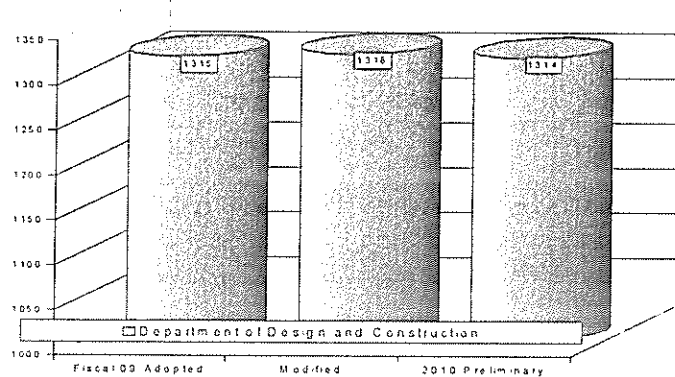
**Department of Design and Construction's
FY 09 Commitment Plan By Agency**
(all funds)



Budgetary Highlights / Issues and Concerns

As the City's capital construction agency, DDC is given much latitude in determining the method by which capital contracts are let. DDC utilizes a few different special contracting procedures for awarding capital work including requirements contracts, pass-thru contracts, negotiated acquisitions and sole-source contracts. These methods allow DDC to award contracts in instances when competitive sealed bidding is not practicable or advantageous. The Adopted Fiscal 2009 budget included funding for 1,315 employees. The agency's Fiscal 2009 budget is based upon a headcount of 1,318.

Headcount Changes Since Adoption



Financial Overview Since Adoption

	Fiscal 2009 Adopted Budget	Fiscal 2009 Modified as of 1/30/2009	Fiscal 2010 Preliminary Budget
Expense Budget			
City	\$7,521,927	\$7,521,927	\$6,661,873
Other Categorical	\$0	\$0	\$0
Capital IFA	\$95,565,454	\$95,565,454	\$99,386,266
State	\$0	\$0	\$0
Community Development	\$0	\$0	\$0
Federal-Other	\$0	\$235,739	\$0
Intra-City	\$0	\$115,500	\$0
Total	\$103,087,381	\$103,438,620	\$106,048,139

FY10 Preliminary Budget Hearings
March 9, 2009
Department of Design and Construction

Federal Stimulus

As the City's capital construction agency, how involved has DDC been in the development of lists of shovel ready projects for inclusion in the City and State's application for federal stimulus dollars?

Do you have any list of projects which DDC manages that you feel are shovel-ready?

Capital Cut

While the Fiscal 2010 Preliminary Capital Plan does not include any major capital budget reductions, the Mayor made it clear that the Executive Plan will include a 30 percent cut to the City's capital plan. In November the Mayor released a capital plan which stretched the four-year plan into a five-year plan. At the time it appeared that most of the decisions at the project level were being made by the funded agency with little regard for input from the managing agencies.

How involved is DDC in the planning process for this cut?

Who will be making the final decision on projects to be cut, the managing agency or the client agency?

What criteria are you using in order to determine which projects will be cut from the plan to meet the Mayor's decree?

DDC's Capital Commitment Plan

In the January Plan DDC is managing approximately \$2.2 billion of capital projects for city agencies for Fiscal 2009.

To date, how much of the capital budget managed by DDC has been committed for the current fiscal year?

What is your agency's average for total commitments registered and the agency's average percent of planned commitments met over the last four fiscal years?

Do you have a sense of what portion of the Fiscal 2009 capital plan you will roll into the next fiscal year? How much do you estimate that will be

Recession/Construction Industry Downturn

Since the mid-2008 the construction industry, as well as the entire US economy, has been in a downward spiral. Many privately financed construction projects planned for the near future have been put on hold indefinitely. The once booming New York City construction has seen a remarkable slow down.

In past years you have testified to the fact that as a result of the building boom and increases in associated costs (such as steel and fuel) DDC was seeing construction costs increase nearly one percent each month. Project delays often were costly not only in time lost but in cost increases. Since the nationwide economic downturn have you noticed capital construction costs decreasing?

What has DDC's experience been recently in regard to availability of quality contractors with reasonable bids? Are more contractors bidding on City projects as the number of privately financed projects dry up?

New Police Academy

By far the largest single project that DDC is currently managing is the construction of the new Police Academy in College Point with \$811.8 million planned in the current fiscal year and over \$1.06 billion in the five-year plan. I understand in May 2008 a design contract was awarded.

How much was the award for the design of the Police Academy?

What is the current schedule of the Police Academy project? When do you estimate the construction contracts will be bid out and do we still expect the total cost to be around \$1 billion?



FINANCE
NEW • YORK
MARTHA E. STARK
COMMISSIONER

**TESTIMONY OF COMMISSIONER MARTHA E. STARK
NEW YORK CITY DEPARTMENT OF FINANCE
BEFORE THE CITY COUNCIL FINANCE COMMITTEE
ON THE MAYOR'S FY10 PRELIMINARY BUDGET
MARCH 9, 2009**

Department of Finance FY10 Preliminary Budget Testimony

Good afternoon, Chairman Weprin and members of the Finance Committee. I am Finance Commissioner Martha E. Stark, and I am pleased to be here for this hearing on the Mayor's preliminary budget for fiscal year 2010. This is my eighth appearance at a preliminary budget hearing, and I am once again extremely grateful for the opportunity.

Today, before taking your questions, I thought I would do four things. First, I will outline several measures that Finance will do to help close the City's growing budget gap. Second, I will describe this year's assessment roll, which showed a decline in overall market value. Third, I will update you on the lien sale. Last, I will provide a quick overview and urge your support of two pieces of legislation that will soon come before you. Finally, I will be happy to take your questions.

PEGs and other Agency Responses to the Fiscal Downturn

Let me describe what Finance has done to meet the Mayor's call for 5% in cuts to close the City's budget gap. I will highlight three PEGs that Finance will implement.

Audit-related changes that we will make will lead to an increase in revenue of \$5 million annually. Most notably, our new Office of Tax Audit, Enforcement and Policy, headed up by Deputy Commissioner Michael Hyman, will institute an electronic data-matching program for cigarette wholesalers to foster more tax compliance at both the wholesale and retail level.

Another PEG that we will implement is an innovative idea that Robert Lee, Finance's Deputy Commissioner for Treasury, identified. Finance is responsible for finding secure, safe investments that yield the best return for the City's money. In one case, Bobby discovered that some of the \$355 million in Court and Trust funds that we are responsible for safeguarding were invested in low interest-bearing accounts. We were able to reinvest the money, keeping it secure and available when needed and generating an additional \$300,000 each year.

Finally, on the expense side, we are hiring qualified technicians as City employees rather than relying on outside consultants. We will save \$2.3 million by replacing consultants who have maintained our Automated City Register Information System and NYC Serv, our computer application that makes it possible for customers to pay their charges on-line. In addition to saving money, bringing these jobs in-house will help us build our capacity to improve these technology projects in the future.

We are fortunate that under the leadership of Jane Landon, our Chief Information Officer, we are now well positioned to bring this expertise inside the agency and use these resources efficiently.

Also, we plan on meeting the current headcount reduction requirements without layoffs by not backfilling all vacancies. In the next year, we expect 17 positions will go unfilled, saving \$1.2 million in fiscal year 2010.

FY10 Tentative Assessment Roll

As you know, Finance is responsible for valuing a million properties every year. On January 15th, Finance released its annual tentative assessment roll for fiscal year 2010. For the first time since the mid-90's, overall market values declined from the previous year, though this was not unexpected given the current economic crisis. In fact, despite a severe downturn in the economy, it was a decidedly mixed year for New York City's real estate market. The overall market value declined, from \$811 billion to \$801 billion. Home values dropped, but the value of commercial properties grew. We hope that the real estate market will weather this storm as a result of the City's competitive advantages as a cultural, financial, and intellectual hub.

It is also important to note that while the market value of small homes has declined, the assessed value, which is what taxes are based on, increased. As you will recall, the city's assessments provide a built-in lag. For small homes since market value can only grow 6 percent per year and 20 percent over 5 years; when market values were growing 10-20 percent per year, Finance's assessments only grew 6 percent.

As we do each year, we conducted joint outreach sessions with the Tax Commission in all five boroughs to help homeowners understand their values, learn about exemption programs, and challenge their assessments where appropriate.

Here are some other quick numbers from the assessment roll:

- Values for small homes fell almost five percent;
- Values for apartment buildings, cooperatives, and condominiums fell more than 1%;
- Values for utility property were up 1.4%; and
- Values for commercial property were up 7.12% -- though commercial property values typically show more of a time lag - in part because the income and expense data we use to value most commercial property is from 2007.

Lien Sale Update

I want to quickly update you on the lien sale. I know that many of you had staff attend the official briefing we held for Council Members a month ago, and I wanted to give you a quick update on the numbers.

As of March 4, Finance had collected just over \$17 million in pre-sale payments on more than 1,600 properties that had been listed as at-risk for having a lien sold due to unpaid property taxes. Last week, we sent a second 60-day notice to owners of at-risk properties. We have also scheduled more than 20 outreach events with elected officials and community boards in an effort to help property owners resolve their debt before the May 1 deadline.

Again, we thank members who have worked so hard to help us get the word out within their communities. As we have told you in the past, most people resolve their debt during the 90-day period that we are now in. Last year, for example, we collected \$93.6

million during the noticing period and \$57.2 million by actually selling liens. We would love to resolve all of the debt before May 1. So we really do appreciate all the help that the Council can give us to encourage owners of at-risk properties to contact us.

Council Legislation Coming Up

Finally, I want to end by discussing two important bills that will be before your Committee in the weeks ahead.

The first is Intro 852A, which will be heard by the Finance Committee this Wednesday. First of all, let me thank you, Mr. Chairman and Council Member Fidler for your sponsorship. Intro 852A is a bill that the Department of Housing Preservation and Development (HPD) and Finance have crafted together. I am gratified to hear that Acting HPD Commissioner Marc Jahr will also be urging your passage of this bill before a separate budget committee at the Council today.

The bill would do two very good things. First of all, the legislation codifies Finance's Statement of Account. The Statement of Account, which some people know as their property tax bill, is actually Finance's way of keeping property owners informed of all city-imposed charges on their property, including those for sidewalk repairs or signage. Under Mayor Bloomberg's leadership, we have worked very hard to bring agency charges onto this one simple consolidated statement, which property owners receive on a quarterly basis.

However, one agency charge is still billed separately by Finance - and does not appear on our statement: HPD's emergency repair program, or ERP, charges. The second part of Intro 852A fixes that by making these charges among the agency charges included on the Statement of Account. We believe the bill will resolve longstanding administrative headaches at both HPD and Finance. And as an added bonus, the bill will eliminate about \$25,000 in annual postage costs.

The next bill that should be before you in the weeks ahead is one I have discussed here before: our "clean-up" of the Administrative Code to reflect the changes that have occurred in Finance's mission and operations since the laws were first written. If you believe that the law is a living document, as I do, then you probably also think it should reflect current practice. For example, laws referring to "owner's registration cards" or "assessed valuation books" should not govern an agency that has computerized most of its information systems. So our lawyers have combed through the Administrative Code and found outdated references and updated them. We look forward to your consideration of the bill.

With that, I thank you and I will be happy to take your questions.

**TESTIMONY OF MARK PAGE
DIRECTOR OF MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK
NEW YORK CITY COUNCIL FINANCE COMMITTEE HEARING
MONDAY MARCH 9, 2009**

Thank you Chairman Weprin and good morning.

At the end of January the Mayor published the Preliminary Budget and Financial Plan which proposed a balanced plan for the period through FY '10, or the period through June 30, 2010. To achieve balance the Plan addressed a forecast gap of \$4 billion in that period, detailing approximately \$1 billion in additional agency PEGs, \$1 billion in additional taxes, \$1 billion in support from the federal government, and \$1 billion combining restored State revenue sharing and savings from the City's workforce. The plan presents a difficult balance of measures which together could enable us to maintain statutorily balanced operations through next year.

It is important to note that this is far from the first time we have acted to support balance in FY '10. With this Plan our cumulative efforts in repeated spending cuts, revenue increases and retention of resources for the future, despite immediate calls for spending, have accumulated to a value of \$14.4 billion in 2010.

Almost \$8 billion of the \$14 billion is money we did not spend during the boom which is built into the plan for '09 and '10. Approximately \$2 billion is the value of the end of the property tax cut as of January 1 of this year. The rest is the value of PEGs we have put in place since the January Plan a year ago, in 2008. Even with the benefit of these actions we are not out of the woods. In January, assuming our Plan as proposed was fully carried out and our economic forecast accurate, we had balance through FY '10 and deficits of \$3 and \$4 billion in FY'11 and '12.

Since we announced our plan a little over a month ago, the economic outlook nationally and locally has continued to deteriorate. The US economy shrank by its largest rate in decades, with GDP decreasing by 6.2% in the fourth quarter of 2008. The US unemployment rate has continued to rise and locally the unemployment rate has increased to 6.9%. Stock markets around the world and in the US have declined to levels not seen since 1997. The economic forecast we used for the January Plan expected a maximum national job loss of about 5 million. Recent job loss experience indicates the loss is likely to be worse. It seems almost certain that the next time we re-forecast the city economy and tax revenues, for the Executive Budget, we will be facing a further decline in tax revenues.

The specific elements of our \$4 billion January balance plan also remain to be accomplished.

The January Agency PEGs are the element most nearly under our control. Along with the PEGs already taken in November they are vital to the credibility of our Plan and fiscal management. With them our Plan already requires significant local revenue increases as well as these cuts: the end of the 7% property tax reduction and about \$1 billion in additional revenues. Our Plan has in it the benefit of the federal stimulus, an extraordinary one-time resource, and still, with these cuts, we are just balanced for next year.

TESTIMONY OF MARK PAGE
DIRECTOR OF MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK
NEW YORK CITY COUNCIL FINANCE COMMITTEE HEARING
MONDAY MARCH 9, 2009

Our proposed \$1 billion tax increase included a possible broadening and increase in rate for the sales tax, which requires authorization by the State legislature. This is always an uncertain process.

Our assumed \$2 billion benefit from additional federal support for the City's Medicaid expense, \$1 billion in FY '10 and \$1 billion in FY'11, also remains problematic. We were fortunate in the inclusion in the federal stimulus package of a substantial increase in federal support of Medicaid costs incurred in the City over the next two years. However, the allocation of that benefit between us and the State is very uncertain.

Medicaid costs in New York State are very high under a payment system which is managed by the State. New York State is one of only 11 States which require local counties, including New York City, to share in Medicaid costs, thereby enabling the State to shift much of the burden of its Medicaid system to local governments. The proportion of these costs paid by local government is the highest in the country. Recognizing the difficulty of paying this local burden off local taxes, since 2005 the State has limited the growth in much of the local Medicaid payment to no more than 3% of the 2005 amount per year. This cap has had a major and increasing impact on the Medicaid funding burden borne by local governments compared to the State. Even with this change, the local share of Medicaid costs in New York remains higher than any other State.

When the federal government enacted the Medicaid portion of stimulus, known as "FMAP", they included language which we believe was intended to preserve the benefit of New York State's existing Medicaid cap in how the benefit of additional federal Medicaid support would be allocated between the State and the City and other counties. Under the pressure of its own budget difficulties, a current State proposal for Medicaid funding would effectively nullify the effect of the cap during the period of additional federal support, potentially costing the City and other counties hundreds of millions of dollars over the next two years. We do not believe this proposal is consistent with the important State Medicaid policy initiative of the last five years which has shifted Medicaid burden toward the State and its broad tax base and away from the City and counties. We also do not believe it is consistent with the language of the federal enactment of FMAP. The outcome of this issue in Albany could put half a billion dollars of the City's FMAP benefit, as included in the January Plan, at risk. We believe we are entitled to the same proportion of FMAP savings as the proportion of our spending under the State cap without FMAP.

The fourth \$1 billion of our January Plan consisting of restored revenue sharing and City workforce contribution also remains to be achieved.

Revenue sharing, known as "AIM", is a particularly vital source of State aid to the City and other local governments around the State. It is direct budget balancing aid and important for the City given the very large proportion of the State's tax revenues that comes from our local economy. We are hopeful that revenue sharing for the City will be supported by the Senate and Assembly, especially given that the City was uniquely singled out, among local governments, in

TESTIMONY OF MARK PAGE
DIRECTOR OF MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK
NEW YORK CITY COUNCIL FINANCE COMMITTEE HEARING
MONDAY MARCH 9, 2009

the State's Executive budget to have this aid cut to zero. The outcome of this issue remains a part of the State's budget adoption process.

The City workforce contribution which we are counting on also remains very much at risk. With increases in benefits over time and the decline in value of funds held by the City's pension systems, we are moving further into a period when the City and its taxpayers will be paying more for employee benefits than for direct employee salaries. This reflects benefits which are increasingly much higher than private sector practice and inevitably is going to affect the City's ability to maintain an adequately sized workforce with fair and competitive current wages.

A new "Tier Five" for pension benefits would recognize the greater longevity of particularly the City's uniformed workforce as compared to the 20-year working lifetime defined in the distant past. Although it would take a number of years for a significant part of the City's workforce to be in this new tier, savings in the City's annual pension contribution could be realized immediately because of a longer assumed working lifetime in the annual actuarial calculation which sets the City's annual pension contribution.

A ten percent contribution by each covered City employee and retiree to the cost of his or her health coverage would also bring the City more nearly in line with current employee practice in the private sector. The private sector is, after all, where most of the City's taxpayers are employed, usually contributing to their own health costs while paying taxes to cover these costs for City employees who themselves do not contribute.

The January Plan asks for approximately \$500 million of contribution from the City's workforce in the context of all of the measures we have taken and propose to take toward FY 10 balance which exceed \$15 billion. Five hundred million dollars is equivalent to the cost of approximately 10,000 newly-hired City workers for a year. It is also the value of approximately 10,000 lay-offs of current City workers.

The federal Medicaid support through FMAP and our pension and health-benefit cost containment proposals address two of the three major elements of our growing fixed costs which hinder our ability to maintain balanced operations now and for the foreseeable future. The January Plan also addresses the third major element: debt service. We are committed to delivering a Ten-Year Capital Plan this spring which will contain the annual average increase in the City's debt service costs at the level of the annual average increase in our tax revenues over the ten-year Capital Plan period.

Since publication of the January Plan we have seen the enactment of the federal stimulus package. Our highest hope is that it will actually succeed in its essential purpose of turning the economy back upward. Some beneficial effect of federal stimulus was already contained in the economic assumptions underlying our January Plan tax revenue forecast. We also included the specific benefit of FMAP in our budget balancing plan and strongly hoped that federal support for education would be able to compensate for the loss of funding for education in the City, heavily reflecting a substantial cut in State support. We have been fortunate in receiving, at least

**TESTIMONY OF MARK PAGE
DIRECTOR OF MANAGEMENT AND BUDGET OF THE CITY OF NEW YORK
NEW YORK CITY COUNCIL FINANCE COMMITTEE HEARING
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at the State level, amounts that can potentially meet these needs in our plan. However, of the \$4.5 billion in stimulus money that we believe will benefit the City, all but \$500 million was already included in our January Plan over the next two years. With minor exceptions, the remaining \$500 million, although helpful to us for various capital and off-budget purposes, will have little further benefit in our ongoing effort to deliver balanced operations.

In addition to the deteriorating economy, we are also facing other proposals potentially reducing State funding for New York City.

Total funding for education in the City remains an open issue for FY '10. In the January Plan, although the City's payment for education remained constant from '09 to '10, total funds dropped by \$290 million, or 1.6%, primarily because of reduced state aid. With \$470 million of stimulus funding we receive directly from the federal government through Title 1 and IDEA, the year-to-year increase becomes \$180 million, not enough to cover base-line cost increases. Approximately \$2.6 billion in federal stimulus money will go to the state designated for education, with an additional amount the state could choose to spend for this purpose. How much of this money is distributed to New York City is of crucial importance to us as is the flexibility allowed to us to use the dollars where they are most needed.

The New York State Executive Budget takes away \$60 million in EMS funding from New York City, which would result in the elimination of over 100 ambulance tours and an increase in ambulance response times.

HHC, which is already beleaguered with significant revenue problems, would also suffer disproportionately from a technical change proposed in the State Executive Budget. The proposed State formula for calculating Medicaid reimbursement has assumed that labor costs at HHC facilities are at or below the Statewide Medicaid average. It seems clear that costs in a large urban environment like New York City are greater than in upstate counties. HHC needs adequate funding to ensure that a large safety net hospital system that serves thousands of people with little access to health care will be able to continue its mission.

Other social services which are provided in New York City would also be hurt by the State Executive Budget. The cost to the City of providing child care services would increase under the State Executive Budget in part due to State-mandated increases without ongoing additional State funding. The City will bear the cost of these increases alone. Also, the State is planning to eliminate all State general fund reimbursement for administration and shift the cost to localities, resulting in a cost of over \$40 million to the City annually, and that figure will grow over time. The State is also eliminating funding for public health services, which will reduce funding to the City's Office of the Chief Medical Examiner by \$18.5 million annually. And our costs for special education for pre-K students would increase by almost \$200 million under the proposed State Executive Budget.

Also, the State Executive Budget proposed a \$112 million Statewide cut to the Consolidated Local Street and Highway Improvement Program (CHIPS) with \$15.7 million of the reduction

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coming out of the City's CHIPS allocation. On the very day the Federal stimulus legislation was signed into law, providing the State with \$1.1 billion in additional highway funding, the Governor announced that the cuts to localities in CHIPS funding would all be restored except for the cut to the City of New York. If the budget passes as proposed, the City will incur an almost 21% loss in CHIPS while all other regions will be level funded.

I would like to end by focusing your attention on the out year gaps we are facing. The budget gaps in FY2011 and FY2012 are estimated now at \$3.2 billion and \$4.0 billion respectively. Our current forecast assumes that the economy begins to recover in the second half of 2010. If the recovery were delayed, then these gaps would likely widen. While the Federal stimulus is extremely welcome and we will maximize the available funds to provide services that New Yorkers demand and deserve, this funding ends, in some cases as soon as next year.

We must seize the opportunity created by our cautious fiscal management and the unexpected short-term funding provided by the Federal stimulus to work together to maintain core City services while also maintaining budget balance in these difficult times,

I would be happy to answer your questions.

FOR THE RECORD

Testimony before
The Council of the City of New York
Finance Committee

Pei Desrosiers

On behalf of

HIV Law Project, Center for Women & HIV Advocacy

Housing Works

National Women and AIDS Collective at the Ms. Foundation

Women's HIV Collaborative of New York

Women's Institute at GMHC

March 9, 2009

Chairman Weprin and Members of the Finance Committee:

On behalf of the undersigned nonprofit advocacy agencies that are participating in the New York Women & HIV Policy Roundtable, I appreciate the invitation to testify before you today about the housing issues which we see facing HIV positive women in New York City. The New York Women & HIV Policy Roundtable, an informal coalition of HIV advocacy organizations concerned with women's issues, was formed this year to ensure that the voices of women infected and affected by HIV are represented in current policy debates. Today we are here to share the importance of housing, and supportive housing services to women living with HIV.

While women accounted for 27 percent of new HIV diagnoses in New York City in 2007,¹ they represented over 35 percent of people receiving public benefits from the HIV/AIDS Services Administration, or HASA.² In other words, women living with HIV/AIDS in New York City are more likely to be poor than men living with HIV/AIDS. And HIV does not impact all women equally. The disease burden is borne disproportionately by women of color, with black and Latina women comprising 92 percent of the HIV diagnoses among adult and adolescent females.³ Supportive services, including housing and case management, are often critical to ensuring that women living with HIV remain healthy, and that they are able to properly care for themselves, their children, and other household dependants.

Mayor Bloomberg has proposed two budget cuts that eviscerate the supportive elements of supportive housing for people living with HIV in New York: first, the elimination of case management in HASA-contracted supportive housing (Congregate care and Scatter Site I), and second, the elimination of the Scatter Site II transitional supportive housing program by transferring these clients to HASA case management.

Mayor Bloomberg's proposal inaccurately assumes that HASA case managers can provide the same services, at the same level of intensiveness, as case managers in supportive housing situations. This is just not the case. Case managers who work with the non-profit organizations that manage supportive housing are a unique and essential lifeline for people, especially women, living with HIV in New York City.

Women living with HIV are often heads of household, or have family members or other dependants who rely on them. Attending to their own health needs can all too easily become a secondary concern when stacked up beside the competing demands of child care and school schedules, children's medical care, provision of food for the household, frequent HASA appointments, SSI appointments, court dates, and teacher conferences. A case manager helps a woman to ensure receipt and coordination of the services she needs,

1 New York City Department of Health and Mental Hygiene, "New York City HIV/AIDS Annual Surveillance Statistics 2007". Available at

http://www.nyc.gov/html/doh/downloads/pdf/ah/surveillance2007_tables_all.pdf

2 City of New York Human Resources Administration "HASA Facts", December 2008. Available at http://www.nyc.gov/html/hra/downloads/pdf/HASA_factsheet.pdf

3 NYC HIV/AIDS Surveillance Statistics 2007.

and helps to safeguard the uninterrupted receipt of public benefits so that rental payments are regular, and an accumulation of arrears owed never becomes a threat to the stability of one's housing. In many senses, case management services are the guarantor of the underlying housing services. And we know that loss of housing is a devastating rupture in the life of a woman living with HIV.

In a six-month study of adherence to HAART (Highly Active Antiretroviral Treatment) regimens in New York City, residents in long-term housing were sixteen times more likely to report good adherence to their treatment regimens than were unstably housed participants.⁴ Meanwhile, homeless or marginally housed women are more likely to delay treatment, are less likely to have regular access to care, are less likely to receive optimal drug therapy, and less likely to adhere to their medication than are stably housed individuals -- all characteristics which increase an individual's viral load and decrease health outcomes.⁵

Providing public funds for supportive housing assistance has the potential to significantly impact the quality of life for HIV-positive women and their families. While such assistance may require larger investment up front, it has been demonstrated to be cost effective by "substantially reduc(ing) the utilization of costly emergency and inpatient health care services."⁶ This has been demonstrated by two large-scale intervention studies, the Chicago Housing for Health Partnership and the HUD/CDC Housing and Health study, both of which showed that supportive housing for persons with HIV/AIDS not only improves health outcomes, but also reduces the use of expensive emergency and inpatient health care services. Such savings in costly health care services greatly exceeded the cost of housing assistance, thereby making housing assistance programs an intervention that is both effective and cost-efficient.⁷ Research has also shown the costs of supportive housing to be offset by decreased use of expensive public services such as emergency housing, jails, and prisons.⁸

The National Housing and HIV/AIDS Research Summit of 2005 enumerated four imperatives based on their research. The first of these was to "make subsidized, affordable housing (**including supportive housing for those who need it**) available to all low-income people living with HIV/AIDS".⁹ The city must heed that call, and maintain the critical services provided by the scatter-site case managers.

I thank you very much for your attention to our concerns.

4 Leaver, Chad A et al. "The Effects of Housing Status on Health-Related Outcomes in People Living with HIV: A Systematic Review of the Literature." *AIDS and Behavior* 11.Supplement 2 (2007): 85-100.

5 Wolitski, Richard J et al. "HIV, Homelessness, and Public Health: Critical Issues and a Call for Increased Action." *AIDS and Behavior* 11: Supplement 2 (2007): S167-171.

6 Shubert, Virginia and Nancy Bernstine. "Moving from Fact to Policy: Housing is HIV Prevention and Health Care." *AIDS and Behavior* 11.Supplement 2 (2007): 172-81.

7 The National AIDS Housing Coalition. *Examining the Evidence: The Impact of Housing on HIV Prevention and Care*. Policy Paper from the Third Housing and HIV/AIDS Research Summit, 2008.

8 The National AIDS Housing Coalition. *Housing is the Foundation of HIV Prevention and Treatment: Results of the National Housing and HIV/AIDS Research Summit*. 2005.

9 *Id.* at 2, emphasis added.

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FOR THE RECORD

Housing Works
FY10 Budget Testimony – Finance Committee
March 9, 2009

Thank you for the opportunity to testify today on behalf of the staff, clients and volunteers of Housing Works. Housing Works is the largest AIDS advocacy organization in the country, and we have been providing services to people living with AIDS and HIV in New York City since 1990. Housing Works is here today to discuss proposed cuts to the Department of Social Services and the Department of Health and Mental Hygiene that would affect people in the city living with AIDS and HIV and also those who may be at risk.

Department of Social Services – Cuts to AIDS Housing Programs

Two of the PEGs that have been proposed in the Mayor's Preliminary Budget for HRA affect housing for people with HIV and AIDS in New York City. The first is a proposal to drastically reduce community-based case management services in all types of supportive housing programs. The second is a proposal to eliminate the Scattered Site II program completely once the contracts to community-based organizations expire.

In all types of supportive housing for people with AIDS, clients currently receive access to their benefits through a case worker at the HIV/AIDS Services Administration (HASA), and also receive case management through a community-based organization that works in tandem to provide access to their housing. In an attempt to save money in the HRA budget, it has been proposed that the community-based case management be reduced or eliminated, making HASA the primary provider of services to clients.

Housing Works believes that these cuts operate under a false assumption that HASA case workers and community-based case managers are performing the same functions. In fact, these two types of "case management" are very different, and clients residing in supportive housing programs need both. Neither can replace the other in service provision, and they are not interchangeable.

HASA case workers provide access to HASA services and benefits. It is through HASA case workers that clients receive and maintain their rental assistance, enhanced food and nutritional allowances, and additional provisions such as pregnancy allowances or assistance in transferring to different apartments. Clients need consistent access to and communication with their HASA workers, because that is the only way that they can get the benefits for which they are eligible.

Case managers that are providing services through community-based housing providers and AIDS service organizations are providing a completely different and essential service to HASA clients. They are providing psycho-social case management, checking to make sure that clients are adherent to their HIV medications, and referring them to mental health services or substance abuse treatment services if needed. Community case managers are also helping clients with their everyday living skills, acting as liaisons between them and their landlords, and helping them if there is an interruption in their food stamps or rental allowances.

Proposed restorations – Using FMAP for community-based health care and services

Housing Works believes that to remove or reduce community-based case management services in supportive housing will result in less intensive available services for clients, and ultimately may result in dangerous disruptions in housing and life-saving medical care. Many clients in community-based housing programs remain stably housed because of the intensive case management services that exist within their housing programs. Research has shown that people with AIDS or HIV that are stably housed are more likely to attend doctor visits and maintain

complex medical regimens, keeping them healthy and increasing their quality of life. In addition, stably housed people with HIV are also less likely to have to resort to behaviors that we associate with HIV transmission, such as trading sex for shelter or money, or increasing their substance use. Stable housing saves lives.

New York City stands to save approximately \$2 billion due to the increase in the Federal Medical Assistance Percentage (FMAP). We believe that because the city is saving money on health care, we believe that this savings should be used in part to ensure the health of people in New York. For people living with AIDS and HIV, supportive housing IS health care, and the case management services within their housing programs are a key component to the continuum of care that we advocate that clients receive.

The PEG to reduce case management in supportive housing is only \$1.9 million in savings for the city, and could easily be restored using FMAP money. This restoration will actually save the city millions in the future. Clients without these case management services will need increased services and care in other areas such as emergency room services, homeless shelter services, emergency housing, or substance abuse treatment. Maintaining the stability of their housing now will prevent them from accessing these services at high rates and would be worth the City's investment.

Housing Works also believes that if the City plans to end its Scattered Site II program, intentional steps must be taken to ensure that these clients have access to the services that they need to maintain stable housing, including proper mental health assessments, intentional referrals to other supportive services, including COBRA case management, and eviction protection and prevention. HASA's current transitioning proposal includes some of these steps, but we encourage them to work with housing providers to ensure a good transition for these clients.

Department of Health and Mental Hygiene – Cuts to HIV Prevention Contracts

The Mayor's Preliminary Budget also includes several cuts to the Department of Health and Mental Hygiene, including a \$600,000 cut to HIV Prevention and Control contracts to community-based organizations beginning in FY11. This decision to propose cuts in HIV prevention comes a year after we heard from the Centers for Disease Control and Prevention (CDC) that HIV incidence in NYC and across the country has gone up, and after devastating city cuts to prevention and services for FY09. We cannot take more cuts to HIV prevention, and it is unconscionable that the city would propose these cuts now. Since new HIV infections in the city are increasing at three times the national rate, we think this is the time to invest in more funding for HIV prevention, not cut it from the community-based organizations on the ground.

In addition to the HIV prevention cuts, other cuts to DOHMH include child health clinics, dental care for children, and programs to increase primary care in neighborhoods in need. Housing Works believes that FMAP money should also be used to restore DOHMH-funded programs, as many of them focus on health care access and preventative services. The total amount to restore these much-needed programs is a tiny fraction of the total incoming federal stimulus package, yet they are vitally important to the health of New Yorkers, especially in times of fiscal crisis.

Thank you.

For more information, please contact:

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Housing Works, Inc.
347-473-7450
k.goodwin@housingworks.org

**THE COUNCIL
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I represent: Assistant Associate Director, DC37

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THE CITY OF NEW YORK**

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**THE COUNCIL
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I represent: Department of Design & Construction

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