



**TESTIMONY OF ACTING COMMISSIONER MICHAEL HYMAN**

**NEW YORK CITY DEPARTMENT OF FINANCE**

**BEFORE THE CITY COUNCIL**

**COMMITTEE ON FINANCE**

**HEARING ON THE FY2010 EXECUTIVE BUDGET**

**JUNE 1, 2009**

Good morning Chairman Weprin and members of the Committee on Finance. I am Acting Finance Commissioner Michael Hyman. Thank you very much for inviting me to testify today on the fiscal year 2009 Executive Budget.

Since this is my first appearance before you in this new role, I just wanted to give you some quick background on myself by way of introduction. While I am obviously new to this position, I have deep experience with the Department of Finance. By training, I am an historian. I earned my PhD in History at the City University of New York Graduate Center. I first joined Finance as a policy analyst in 1988. During my 21 years at Finance, I have served the agency in a number of roles -- most recently as the Deputy Commissioner in charge of Tax Audit, Policy and Enforcement. As the agency's senior voice on tax-policy matters, I have helped to answer many of the questions posed to the agency over the years by members of this Committee as well as by your excellent staff. So it is my great pleasure to be able to testify before you today - and to be able to answer some of those questions directly.

Before I begin, I also want to recognize the people you see here behind me, the senior staff and management at the Department of Finance. I know how highly so many at the City Council regard the responsive and responsible staff Finance has assembled over the years, and with good reason. The agency's many past successes - from easy-to-understand property tax bills to much-appreciated

\$400 rebate checks to shorter wait times for parking hearings, to name just a few -- have been built on the hard work of these very people. For my part, I want to second your appreciation of that work and personally thank each of them for helping me through my first month as Acting Commissioner.

I will do a couple of things in my brief testimony before you this morning. First, I will summarize the assessment roll changes since the tentative roll was released in January. Secondly, I will update you about some legislation we are supporting in Albany as the session ends later this month. Next, I will give an update on our expanded efforts to get the Earned Income Tax Credit to New Yorkers -- an effort that I am happy to report is being emulated in other parts of the country. Finally, I will be very happy to take your questions.

### **Final Assessment Roll**

I want to first turn to the final assessment roll for fiscal year 2010. The market value of all City property is now \$795.6 billion, which is 1.9 percent lower than last year's final roll market value of \$811.1 billion. However, because of assessment rules mandated by state law, the assessment that taxes are based on actually increased 6.7 percent since last year.

The final market value is 0.7 percent lower than the market value of the tentative assessment roll that we released on January 15. There are four main factors that contribute to a change in the assessment roll. First, Finance responds to information that the public provides after they receive our Notice of Value. Second, we implement new exemptions. Since January, as a result of strong outreach and an online form for homebuyers, we have enrolled more than 36,000 homeowners in the School Tax Relief, or STAR, program -- an increase of nearly 50% over the same period last year. We also helped more than 5,000 seniors, 2,000 veterans and 800 people with disabilities receive tax exemptions. Third, the Tax Commission reviews our assessments and reduces assessed value for some properties.

Finally, we are required to value properties under construction on the tentative assessment roll. However, if the property is not ready for occupancy on April 15th and it's the first year of construction, the value is removed. Most commercial properties and residential properties that have applied for 421-a exemption benefits have three years to complete construction. Finance is required to include the value of these properties on the tentative roll in January but we remove the value in May if the property was not ready for occupancy by April 15th.

## State Legislation

I also want to quickly update you on our state legislative efforts. As you know, the fiscal downturn has created its own set of challenges for legislators in Albany as well as here at City Hall. Finance has been closely monitoring the progress of several important pieces of legislation, and I have planned a trip to Albany next week to further discuss bills of importance to us.

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I will talk about one of those bills today, an important state legislative item that I discussed before Chairman Yassky's Small Business Committee only five weeks ago. That bill has since been introduced as Senate 5519/Assembly 8615, sponsored by State Senator Carl Kruger and Assembly Member Denny Farrell. It would directly address a business-tax issue that has been raised by Speaker Quinn and many other Council Members: namely, the double-taxation of freelancers and sole-proprietors who pay the Unincorporated Business Tax - or UBT.

As I said at that hearing, many small businesses paying the UBT are run by individuals who are also New York City residents, and so they are subject to the New York City Personal Income Tax on the same income. The state legislation we are advancing will provide tax relief to half of the total population of firms paying the UBT by effectively exempting nearly 11,000 of them - those with taxable incomes of \$100,000 or less - from the UBT, while providing partial

tax relief to an additional 6,000 businesses with taxable incomes between \$100,000 and \$150,000. About 80 percent of the 17,000 businesses affected by this legislative proposal are sole-proprietorships.

A final exciting element of the bill is that it will end the requirement that freelancers and sole-proprietors file the UBT form to Finance annually even when they have no liability, which was an added nuisance to some small business-people. If enacted, the reform would take effect during the current tax year - and we hope we can have the Council's active support of the bill in the weeks ahead.

### **Update on EITC Mailing #3**

The final item on which I wanted to update you is the Earned Income Tax Credit (or EITC) Mailing Project.

If you recall, the EITC is a major tax benefit - provided at the Federal, State and City levels -- that goes to the working poor. As part of the efforts of Mayor Bloomberg's Commission on Economic Opportunity, the City decided that we had to do more than just publicize the availability of the EITC - as helpful as those efforts have been. The problem was that unless those who were eligible actually applied for the EITC, they never received the benefit. Finance realized that we had access to all of the basic data necessary to actually identify New Yorkers who were eligible but

had not applied for the EITC, and we could complete tax forms for these New Yorkers to claim their credit: all the taxpayer would have to do was provide a social-security number, date and sign the amended return.

In the two years since we publicly launched the project in January 2007, in two separate annual mailings, we have directly helped low-income New York City residents successfully claim more than 22,000 credits totaling almost \$14 million.

This year, in a new and important development, Finance partnered with our sister agency, the New York State Department of Taxation and Finance, to extend the EITC project statewide. The state's mailing was just completed at the end of last week - and included more than 4,000 NYC residents. Perhaps most gratifying is that with the great publicity we have received - including being a semifinalist for Harvard University's Innovations in Government Award -- other states have reached out to us for details on how they might do this. Just last week, Maryland undertook a similar mailing to directly assist their neediest working taxpayers.

Thank you. I'll stop there and am happy to answer your questions.

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

**EXECUTIVE BUDGET HEARING**

**CITY COUNCIL CHAMBER  
JUNE 1, 2009**

**GOOD MORNING 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 \$95.9 MILLION. OF THAT, \$82.3 MILLION IS FOR PERSONAL SERVICES WITH A BUDGETED HEADCOUNT OF 1,310, AND \$13.6 MILLION IS FOR OTHER THAN PERSONAL SERVICES. THE PROJECTED FISCAL YEAR 2010 OPERATING BUDGET IS \$100.6 MILLION. OF THAT, \$86.7 MILLION IS FOR PERSONAL SERVICES WITH A BUDGETED HEADCOUNT OF 1,312, AND \$13.9 MILLION 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 MOST OF 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.**

**AS YOU KNOW, THE CURRENT FISCAL SITUATION HAS NECESSITATED A REDUCTION IN CAPITAL SPENDING WITH OUR CLIENT AGENCIES. DDC MUST AWAIT THE FINAL FY2010 CAPITAL PLAN FROM THE AGENCIES BUT EARLY INDICATIONS ARE THAT THERE WILL BE A REDUCTION FOR FY2009 OF 30%. IN FY2009 DDC'S COMMITMENT PLAN TOTALED PROJECTS VALUED AT \$1.738 BILLION. IN FY2010, DDC EXPECTS TO COMMIT PROJECTS VALUED AT \$1.0 BILLION. THESE FIGURES DO NOT INCLUDE THE POLICE ACADEMY, FOR WHICH \$677 MILLION HAS BEEN ALLOCATED IN FY2010; AND THE "PSAC II" 911 CALL CENTER FOR WHICH THE CONSTRUCTION FUNDS ARE CURRENTLY HELD IN DOITT'S BUDGET.**

**LAST TIME I SPOKE ABOUT THE ON-GOING REPAIR PROJECTS IN THIS BUILDING [CITY HALL] WHICH DDC WAS ASKED TO ASSIST DCAS IN IMPLEMENTING. THE 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.**

**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.

EMERGENCY REPAIRS WERE RECENTLY COMPLETED TO SECTIONS OF FAILING ROOF STRUCTURE. STEEL TRUSSES HAVE BEEN PUT IN PLACE ABOVE THE BULLPEN. INSTALLATION OF A NEW SPRINKLER SYSTEM IN THE BULLPEN HAS STARTED. TEMPORARY SHORING FOR THE ROOF OVER THE COMMITTEE OF THE WHOLE AND THE EAST WING HAS BEEN COMPLETED AND THE DESIGN FOR PERMANENT REMEDIATION OF THE ROOF STRUCTURE HAS BEEN ISSUED. THE FIRST FLOOR LOUNGE WAS REOPENED FOLLOWING REINFORCEMENT OF THE CEILING THERE. THE ROOF STRUCTURE OF THE COUNCIL CHAMBER WAS FOUND TO BE STABLE.

A PHASING PLAN FOR THE MOST CRITICAL WORK HAS BEEN DEVELOPED AND IS PENDING REVIEW. THE FIRST PHASE OF THE BUILDING RENOVATION WILL CONSIST OF THE CREATION OF A SUB-CELLAR UNDER THE EAST WING TO ACCOMMODATE A MUCH-NEEDED UPGRADE TO THE INCOMING POWER SUPPLY. AS PART OF THAT WORK, THE EXISTING CELLAR LEVEL OFFICES

WILL BE RECONFIGURED, HVAC AND FIRE SAFETY SYTEMS WILL BE INSTALLED AND THE ELEVATOR REPLACED.

THIS PAST APRIL, A NEW CAPITAL PROJECTS LAYER WAS ADDED TO THE CITY'S MAP PORTAL, NYCITYMAP, WHICH INCLUDES ALL PROJECTS MANAGED BY DDC THAT ARE ACTIVE IN DESIGN OR CONSTRUCTION. WHEN THIS LAYER IS SELECTED ON NYCITYMAP, WHICH IS AVAILABLE THROUGH NYC.GOV AND ALSO THE DDC WEB SITE, THE LOCATIONS OF STRUCTURES PROJECTS AND STREET SEGMENTS OF INFRASTRUCTURE PROJECTS ARE HIGHLIGHTED. THE USER CAN THEN CLICK ON ANY LOCATION TO BRING UP BASIC INFORMATION ABOUT THE PROJECT INCLUDING DESCRIPTION AND SCOPE, PHASE, SPONSOR AGENCY, DOLLAR VALUE RANGE AND THE PROJECTED COMPLETION DATE. THEY CAN ALSO CHANGE THE VIEW TO AN AERIAL PHOTO MAP WHICH SHOWS THE ACTUAL SITE AND SURROUNDING AREA. THIS IS A FURTHER STEP IN OUR EFFORTS TO PROVIDE GREATER ACCESS TO PROJECT INFORMATION FOR ELECTED OFFICIALS AND THE PUBLIC.

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. AS OF THE END MAY 2009, 24 PROJECTS HAVE BEEN REGISTERED SINCE THE BEGINNING OF THE

FISCAL YEAR AND ONE ADDITIONAL PROJECT HAS APPROVED CP'S AND IS 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 CONTINUE TO EXTEND OUR OFFER TO MEET WITH RECIPIENT ORGANIZATIONS TO PROVIDE ASSISTANCE AND ANSWER QUESTIONS.

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



New York City Independent Budget Office

# Fiscal Brief

May 2009

## Analysis of the Mayor's Executive Budget for 2010

*Also available...*

Detailed Tables on  
IBO's Revenue and  
Expenditure Estimates

*... at [www.ibo.nyc.ny.us](http://www.ibo.nyc.ny.us)*

THE U.S. ECONOMY REMAINS IN THE MIDST OF A SEVERE RECESSION, but there is evidence that it is contracting more slowly than earlier in the year and financial markets are showing signs of improvement. Despite these hopeful signs, the city continues to face significant budget challenges. Although IBO's estimate of tax revenues for fiscal years 2009 and 2010 are respectively \$390 million and \$641 million below the Bloomberg Administration's, the major fiscal difficulties come in 2011 and beyond.

IBO estimates that under the Mayor's Executive Budget plan a budget gap of \$1.1 billion in 2010 remains to be closed. There are some uncertainties in the Mayor's 2010 plan such as the proposed sales tax increases and the creation of a new pension tier to help reduce labor costs, which if Albany does not approve, could make balancing the upcoming year's budget more difficult. In addition, contracts with the United Federation of Teachers and District Council 37 expire during 2010 and settlements could increase the level of the gap.

But the tougher challenges now appear to be in the subsequent years of the financial plan, when there is no longer a substantial surplus from the flush years of the recent past to help bridge the shortfalls and the temporary flow of federal stimulus dollars begins to dry up. IBO projects a 2011 gap of \$5.6 billion, 12.9 percent of city-funded revenue, and \$1.0 billion more than the Mayor estimated. Our 2012 gap of \$5.8 billion is 12.7 percent of city-funded revenue, and \$666 million higher than the Mayor's estimate. Based on our forecast that recovery from the recession will be slow, IBO does not expect the financial and real estate markets to surge and boost tax revenues enough to grow our way out of these gaps.

### TAXES AND THE ECONOMY

Though the U.S. recession and the city's economic downturn continue—and both are expected to extend into next year—the outlook for the U.S. and local economies is somewhat less grim than it had been last winter. There is some evidence that the national economy is now contracting at a slower rate than at the beginning of this year, and so far, the local employment decline is not as great as predicted only a few months ago. There are encouraging signs that consumer confidence, while still low, has stabilized, as have financial markets, and there is less uncertainty about the government's response to the recession. Still, IBO forecasts a prolonged local downturn, and there is still considerable risk that conditions will be worse than we forecast.

**U.S. Economy.** There has been a loss of 5.7 million jobs nationwide since December 2007—4.2 percent of total employment. Real gross domestic product (GDP) plummeted at an annual rate of over 6 percent in each of the last two quarters, and IBO forecasts another quarter of declining GDP, but at a slower rate (2.4 percent). As federal stimulus spending spreads and

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businesses replenish their depleted inventories, economic growth is expected to resume later this year. Aggressive monetary policy keeping interest rates at near historic lows will also contribute to the eventual recovery. The nation's output is expected to increase slightly in the second half of 2009 and then expand steadily, with real GDP growing at 2.8 percent in 2010 and 5.7 percent in 2011. (In the economic discussion all references are to calendar years.) The depth of the current recession, here and in other countries, is expected to cause the consumer price index to fall this year and rise slightly in 2010 and beyond, when inflation reaches only 2.0 percent.

The downturn in U.S. employment is expected to last longer. IBO forecasts a loss of another 2.9 million jobs through the rest of 2009, followed by little change until employment growth slowly resumes in the second half of 2010 and accelerates in 2011 and 2012. The unemployment rate, which typically lags behind other economic indicators, is expected to peak at 9.8 percent late this year and remain at that level through the first half of 2010, when the economic recovery induces workers to return to what will still be a weak labor market. After 2010, when economic growth strengthens, the unemployment rate is expected to fall steadily.

**Local Economy.** The downturn in New York City's economy started later than the nation's recession, and it will end later. But recent data indicate that the employment decline has not been as steep as predicted by many forecasters, and IBO has trimmed its estimate of the number of jobs the city will lose before economic growth resumes.

The city's economy continued to grow, albeit slowly, for much of the national recession's first year. Revised data indicate that city employment peaked later than previously thought, at 3.8 million jobs in the third quarter of 2008. City employment began to decline in the fourth quarter, and IBO forecasts a total loss of 254,500 jobs by the middle of 2010—6.7 percent of the

employment peak. While some industries will continue to shed jobs into 2012, three-fourths of the job loss is expected to occur by the third quarter of this year. This total loss of jobs is greater than the employment decline during the 2001–2003 recession (228,500 jobs) but less than the decline from 1989 through the end of 1992 (377,500 jobs).

The battered financial activities sector (excluding real estate) accounts for a particularly large share of the employment decline—56,800 jobs (16.2 percent of the sector's recent peak employment) through the first quarter of 2012. Over half of the projected decline consists of high-paying jobs in the securities industry—32,400 jobs, (or 17.2 percent of industry employment at its recent peak). In the last two years, net losses for Wall Street firms as a whole totaled \$53.6 billion. While low borrowing costs are currently boosting the earnings of many firms, many also are continuing to write down the value of troubled assets. On balance, IBO forecasts another \$4.7 billion of industry losses in 2009. In the following years, the securities industry as a whole is expected to become profitable again, with estimated annual earnings in the \$8 billion to \$9 billion range—far less than the profits enjoyed by firms in most of the 11 years before 2007. With the expectation of a smaller, more regulated, less leveraged, and less profitable financial sector, few of the lost jobs are expected to return by 2013.

The professional and business service sector, which derives much of its business from financial firms, is expected to lose even more jobs than finance itself—67,100 jobs or 11.0 percent of its employment at the recent peak. With continued problems in real estate financing and a huge inventory of unsold apartments, employment in construction is also expected to sharply decline, by 28,000 jobs before hitting bottom in the middle of 2012; job growth is slow thereafter. The recession's effect on business travel and tourism factor into employment losses in leisure and hospitality (19,900 jobs), retail (27,500 jobs), and transportation

(10,700 jobs). The health and education sector, which includes social assistance, is the only major industry expected to be larger a year from now than it was in the third quarter of 2008, and it is expected to grow steadily from 2011 through 2013.

The decades-long decline of manufacturing in

## Total Revenue and Expenditure Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
Total Revenues	\$60,972	\$59,327	\$61,981	\$63,768	\$67,432	2.5%
Total Taxes	35,139	33,808	36,229	38,615	41,514	4.3%
Total Expenditures	60,972	60,451	67,586	69,595	72,348	4.4%
<b>IBO Surplus / (Gap) Projections</b>	<b>-</b>	<b>\$(1,124)</b>	<b>\$(5,605)</b>	<b>\$(5,827)</b>	<b>\$(4,916)</b>	
<i>Adjusted for Prepayments and Discretionary Transfers:</i>						
Total Expenditures	\$63,638	\$65,226	\$68,116	\$69,595	\$72,348	3.3%
City Funded Expenditures	45,343	46,897	49,439	51,559	53,661	4.3%

SOURCE: IBO.

NOTES: IBO projects a surplus of \$2.067 billion for 2009, \$429 million below 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.

the city typically accelerates during recessions, but with current manufacturing employment (85,200 jobs) being less than a third of what it was at the start of the 1989-1992 downturn, there are fewer manufacturing jobs for the city to lose. Still, we project a decline of 13,700 manufacturing jobs through mid-2010, followed by more gradual losses through 2013.

Although employment in some nonmanufacturing sectors will continue to decline, total employment is expected to begin growing again in the second half of 2010. IBO forecasts employment growth of 0.9 percent in 2011 (33,000 jobs), 1.9 percent in 2012 (69,300 jobs), and 1.5 percent in 2013 (54,900 jobs). By the fourth quarter of 2013, New York City employment is expected to be 2.0 percent (75,700) below its recent peak in the summer of 2008.

Overall job losses and their concentration in high-paying industries, plus smaller bonuses in the financial services industry, are expected to reduce personal income by 2.9 percent this year. Personal income is expected to grow by 0.9 percent in 2010 as the economy starts to take off and Wall Street profitability returns. As the recovery strengthens in 2011, annual income growth accelerates to 3.9 percent.

**Baseline Tax Revenue Forecast.** With the city's economy forecast to contract further this year and little recovery expected before the second half of next year, IBO projects that the city's tax revenues will fall by \$2.5 billion (6.6 percent) in fiscal year 2009 and by another \$2.2 billion (6.3 percent) in 2010. This back-to-back decline—which follows a year (2008) of essentially no tax revenue growth—would mark the first time in at least three decades that the city experienced consecutive years of falling tax revenues.

The tax sources that account for much of the revenue decline—the business and personal income taxes and the property transfer taxes—are the ones that accounted for much of the tax revenue boom the city enjoyed from 2003 through 2007. During the economic expansion, those taxes—which are closely linked to the financial and real estate markets—more than doubled, growing from \$7.8 billion to \$17.0 billion. They are now expected to contract by 37.4 percent to \$10.6 billion by 2010. Although these taxes will resume growing in 2011, by 2013 they will still be below their 2007 peak. In contrast, the rest of the city's tax sources—including its largest, the property tax—grew more slowly during the boom (32.2 percent) and are expected to show modest growth (8.6 percent) even during the downturn.

Our baseline tax revenue forecast—which includes the additional revenue from increases in property and hotel tax rates that were adopted last December but excludes the Mayor's proposed increases

in the sales tax that have not yet been enacted—is actually slightly less pessimistic than our forecast in March, consistent with revisions to our economic forecast. As a result of these revisions, we have increased our projections for some taxes since our last forecast, most notably for the personal income and general corporation taxes.

IBO's tax revenue projections are nonetheless significantly lower than those of the Mayor's Office of Management and Budget (OMB). For 2009, IBO estimates that tax revenues will be \$390 million lower than OMB expects, with the difference widening to \$641 million in 2010, and then \$960 million in 2011. The difference narrows in 2012 and by 2013 IBO's forecast exceeds OMB's by \$546 million. Just a few taxes are driving most of these differences. Our property tax estimate is \$364 million lower than OMB's in 2010 due to IBO's expectation that market values and, hence, the levy will contract somewhat faster than OMB is forecasting and that adjustments resulting from assessment appeals and delinquencies will be greater.

Some of the other large differences between IBO and OMB tax projections are in the business and personal income taxes. IBO's business tax estimates are \$170 million lower in 2009 and \$207 million in 2010; for the personal income tax (PIT), we are \$260 million lower in 2009 and \$109 million in 2010.

**Business Income Taxes.** After falling by \$600 million (10.0 percent) in 2008, revenues from the business income taxes—the general corporation tax (GCT), the unincorporated business tax (UBT), and the banking corporation tax (BCT)—are projected to decline by another \$570 million (10.5 percent) in 2009 and \$1.1 billion (22.6 percent) in 2010. By 2010, they will be 37.6 percent below their 2007 peak of \$6.0 billion. However, business income tax revenues in 2010 will still be far above the previous trough of \$2.3 billion in 2003.

Most of the decline in 2009 is due to the GCT, which is expected to end up \$627 million (21.4 percent) below the level of 2008. (There will also be a small drop in the UBT, offset by an unexpected—and only temporary—uptick in the BCT.) In 2010 the GCT is expected to fall another \$308 million (13.4 percent), but steeper drops are forecast in the BCT (\$270 million, 38.6 percent) and the UBT (\$514 million, 28.0 percent).

These declines are mainly due to the collapse of profits in the financial sector and its impacts on real estate and business services. While the steepest securities industry losses occurred at the end of calendar year 2008, IBO expects additional losses through the middle of calendar year 2009 and the city economy overall to continue to shrink through the middle of calendar year 2010. Business tax revenue growth is forecast to resume in

2011; but will remain relatively weak through 2013: 7.4 percent in 2011, 10.4 percent in 2012, and 10.9 percent in 2013. This reflects what is expected to be a slow recovery of the city economy from the current recession.

**Personal Income Tax.** IBO has reduced its 2009 personal income tax forecast to \$6.9 billion (including Transitional Finance Authority-dedicated revenue), 20.8 percent lower than 2008. While withholding collections have been surprisingly strong given the job losses in the past half year, and refunds for 2008 have not been as high as feared, taxpayers' first quarterly estimated payments against 2009 liability were weak, and final returns payments for tax year 2008 have been lower than previously expected.

For 2010, IBO forecasts a further 16.5 percent decline in PIT revenue to \$5.8 billion. Continued job losses and a poor outlook for capital gains will weaken withholding and estimated payments further. PIT collections are expected to resume growing in the second half of calendar year 2010, with collections reaching \$6.7 billion, \$7.4 billion, and \$8.4 billion in 2011, 2012, and 2013, respectively. Accelerating job growth in the latter half of the forecast period will result in robust withholding growth, averaging a healthy 9.8 percent in these three years. Capital gains realizations will also improve, especially in calendar year 2010, the last year of preferential federal tax rates, and this will swell estimated payments.

**Transfer Taxes.** The city's real property transfer tax (RPTT) and mortgage recording tax (MRT), collectively known as the transfer taxes, are collected when real property is bought and financed. Collections exploded with the real estate boom from 2003 through 2007 and are now collapsing during the subsequent bust. IBO projects that total collections from the RPTT and MRT will reach \$1.3 billion in 2009, a 59.9 percent drop since the 2007 peak of \$3.3 billion.

Moreover, the extent of the decline continues to grow with our current RPTT forecast 10.1 percent below IBO's March projection, and the current MRT forecast 16.7 percent below our March estimate.

Despite low interest rates and some rebound in refinancing activity, the city's real estate market remains in a slump. The number of transactions has declined much more than prices, an indication that further drops in prices are yet to come. Large commercial transactions, an important source of transfer tax revenue, have declined precipitously. As a result, transfer tax revenues are projected to drop further in 2010. The RPTT is projected to decline to \$605 million, and the MRT to \$506 million. At \$1.1 billion the combined transfer tax revenue would be at the lowest level since 2003.

Revenues from the transfer taxes are expected to begin a slow recovery in 2011. By 2013 RPTT revenues are forecast at \$839 million and MRT revenues at \$717 million, for a total of \$1.6 billion.

**Real Property Tax.** The city's largest tax revenue source is also the one major tax that is expected to continue growing right through the forecast period. The rate of growth will slow from 10.3 percent this year—which was pushed up by the mid-year rate increase—to 4.9 percent in 2013. This pattern is attributable to the structure of the city's property tax which only slowly adjusts billable assessed value—the base for the tax—to changes in market values.

**Sales Tax Policy Changes.** The Mayor has proposed raising the city's sales tax rate by 0.5 percentage points and eliminating the sales tax exemption on clothing. IBO estimates that these two proposals together would yield the city \$960 million in 2010, with the amount of new revenue growing each year so that it reaches \$1.1 billion by 2013. OMB's estimates are slightly lower, with the difference attributable to OMB's somewhat lower forecast for the overall sales tax.

The rate change would increase the city sales tax to 4.5 percent, effective June 1, 2009 and would bring the combined state and city sales tax rate to 8.875 percent. (The state rate is 4.0 percent, and an additional 0.375 percent is levied in all localities in the Metropolitan Commuter Transportation District.) At that level, the city would have the highest sales tax rate in the New York metropolitan area; it is currently lower than the rate in Nassau and Suffolk counties and equal to the rate in much of Westchester.

The Mayor plans to eliminate the sales tax exemption on all clothing and footwear, which has been in effect in the city on and off since 2000. (There would be two sales tax-free weeks each year for clothing and footwear purchases costing under \$500.) This change would result in New York City retailers charging sales tax on all clothing items, putting them at a competitive disadvantage with merchants in New Jersey, which has no sales tax on clothing.

New York, like other jurisdictions, often looks to sales tax increases when revenues are falling because they can be implemented quickly and usually generate less outrage from taxpayers because they pay in small amounts with each purchase rather than a lump sum such as with property taxes. However, sales taxes, especially on clothing, tend to be regressive as they take up a larger share of income of less affluent households because spending on basic needs does not increase proportionately with income.



## EXPENDITURES

Based on the Mayor's plan, IBO estimates that total spending will grow from \$61.0 billion in 2009 to \$72.3 billion in 2013. Although the Mayor's budget plan shows a decline in spending between 2009 and 2010, the actual level of funds used to provide services in 2010 is higher than presented. When adjusted for the use of prior-year surpluses to prepay 2010 expenditures, city-funded spending to meet 2010 needs is \$46.9 billion, \$1.6 billion above this year.

***Spending and Workforce Reductions.*** The Executive Budget includes \$324 million in new spending reductions and revenue increases by city agencies for 2010 under the rubric of Programs to Eliminate the Gap. This follows much larger agency actions of \$1.1 billion in November 2008 and \$918 million in January 2009, for a total of \$2.3 billion in 2010 reductions over the past seven months.

More than a third of the agency spending cuts in the most recent round would come through reducing the municipal workforce. City-funded employment now totals about 370,000 including part-time positions and staff who are largely funded with city support at the libraries, cultural institutions, public housing authority, public hospitals, and other organizations that are not city agencies.

Under the Mayor's plans since last November, 13,540 positions would be eliminated in 2010, nearly 3,760 through layoffs. The largest reductions would come at the police department, where nearly 2,070 uniformed officers would be lost through attrition and 990 civilian jobs would be cut, 395 through layoffs. The Department of Education would shed just over 1,900 jobs, including 1,440 pedagogical positions through attrition and 475 other positions, including more than 340 through layoffs. The Administration for Children's Services would lose nearly 1,000 positions, more than 600 through layoffs. Although not typically counted towards city job cuts, about half the total layoffs accounted for in the Mayor's plan would come at organizations other than city agencies, including more than 900 in the library systems and 400 at cultural institutions.

The cumulative rounds of proposed spending reductions also appear to increasingly affect the availability of some city services. Of the city's roughly 100,000 subsidized child care slots, nearly 2,000 slots would be eliminated for "low-priority" children, including those in working families and those whose parents are seeking work but not on welfare. The city's three library systems say the reduction in their city subsidy will have multiple effects: for example, the Brooklyn system says spending on books, periodicals and other materials will be cut by 30 percent and weekday hours at most branches will be reduced to five hours a day. In addition, a number of agencies still have substantial

unspecified cuts. The education department, for example, has not said how \$376 million in cuts will be applied in schools.

Conversely, some portions of the budget continue to grow substantially. Debt service, including Transitional Finance Authority debt and adjustments for prepayments, will grow from \$4.7 billion in 2009 to \$6.5 billion in 2013, an annual average increase of 8.4 percent. Similarly, the cost of fringe and pension benefits for city workers, excluding the Mayor's proposed pension and health care savings, will grow steadily. City pension contributions will rise from \$6.3 billion in 2009 to \$7.7 billion in 2013, a 5.3 percent annual average increase. These estimates presume a 20 percent loss on pension fund investments in 2009; if losses are greater the city's contribution will be higher beginning in 2011. Fringe benefit costs (excluding the education department) grow from \$3.8 billion in 2009 to \$5.0 billion in 2013, a 7.1 percent annual average rise.

***Federal Stimulus Funding.*** If not for the temporary infusion of federal dollars from the stimulus act, proposed headcount reductions and service cuts would have likely been deeper in the 2010 Executive Budget. Under the stimulus act the city benefits from \$1.6 billion in direct fiscal relief over three years (\$447 million in 2009, \$850 million in 2010 and \$295 million in 2011) through the federal government assuming a larger share of Medicaid costs. While substantial, the level of Medicaid fiscal relief flowing through Albany is actually \$400 million less than anticipated in the Mayor's January 2009 Financial Plan.

In addition to the Medicaid funding, the city has budgeted just over \$1 billion in 2010 in other stimulus act funds and \$981 million in 2011. Almost all of these funds are for education: \$952 million in 2010 and \$961 million in 2011. Nearly half of the education funds are passed down from Albany to restore proposed state cuts; some other stimulus dollars are used to soften the effect of proposed city cutbacks for programs such as summer jobs for youth and homelessness prevention.

While stimulus act funds lessen the need for cash-strapped cities and states to make deeper near-term cuts that would further weaken the economy, absent a major economic resurgence New York and other governments may face tough budgetary decisions in a year or so as the federal funds run out. For example, in response to a proposed reduction in state education funding the Bloomberg Administration projected last January that 14,000 teacher positions would have to be eliminated in 2010. Under the Mayor's most recent financial plan, that same reduction in teachers has been pushed out until 2013, when stimulus dollars are no longer available and neither state aid nor city tax revenues are expected to be sufficient to fill the funding shortfall.

**Capital Spending.** The five-year capital plan through 2013 released in conjunction with the Executive Budget also includes significant reductions. The plan reduces city-funded commitments by nearly \$4 billion to \$37.1 billion. The largest single programmatic cut is \$888 million to bridge and highway projects, a 21.6 percent reduction. Capital commitments for housing are reduced by \$486 million, a 24.9 percent cut. Funding for parks projects is reduced by \$338 million, a 14.0 percent cut. School construction spending, on the other hand, rises slightly.

**Uncertainties.** Whether the economy will recover as expected may pose the biggest uncertainty for the Mayor's budget plan. But a number of proposals in the Mayor's 2010 budget may not be achieved and, along with other factors such as the expiration of two major union contracts, could put additional strain on next year's budget balance.

**Economic Forecast Risks.** While IBO's local economic outlook is less gloomy than a few months ago, significant risks remain. The Obama Administration's efforts to confront the recession in a number of ways—including fiscal stimulus spending, tax cuts, and support for troubled financial firms—have restored a measure of confidence in the economy. But the effectiveness of these actions on the U.S. and local economies remains to be seen.

With actions to stabilize the financial system now in place, the federal government has turned its attention to regulatory changes in an effort to limit risks that can threaten the overall financial system. A question for New York City is the extent to which such changes would also constrain financial firms' profits and professional compensation, which together account for a large share of the city's tax revenue base.

**Pensions and Unspecified Health Savings.** The Mayor's budget plan for 2010 assumes \$200 million in savings from the creation of a new pension tier with reduced benefits and ongoing contributions from employees and \$200 million in unspecified health benefit savings. The new Tier V pension plan would only apply to newly hired city workers.

Even if approved by Albany, the Bloomberg Administration's savings assumption in 2010 appears questionable. Increases or decreases in the city's contributions to the pension funds are calculated using a one-year lag methodology. Under this approach, changes to the city's pension liabilities resulting from hiring or other factors during 2010 do not effect pension contributions until 2012. The city's actuary stated in a "Fiscal Note" discussing the Tier V proposal that there are other valid methodologies for determining the city's contributions, and his office plans to review changes in 2010 or 2011.

The proposal for unspecified health benefit savings to be negotiated with the municipal labor unions first appeared in the budget for 2008. The proposal has been repeatedly postponed since then without the Bloomberg Administration and the unions coming to terms. A separate proposal that municipal workers pay 10 percent of their health care premiums to save \$357 million has been delayed to 2011.

**Sales Tax Increases.** While the state Legislature has typically approved measures allowing the city to raise local taxes, it is less certain that Albany would do so if the measures do not have the support of both the Mayor and the City Council. The Council Speaker and a number of members have voiced concerns over the Mayor's plan to raise the sales tax by half a percentage point and to repeal the exemption of sales tax on clothing, arguing that it places an unfair burden on lower income residents and that it will cost the city jobs. The 2010 plan counts on \$960 million in revenue from these tax increases.

**Plastic Bag Fee.** The proposal to charge a five cent fee on plastic bags also requires Albany approval, where support for the measure appears mixed. The 2010 plan projects \$100 million in revenue from this new fee.

**Union Contracts.** Two major union contracts expire in 2010. The United Federation of Teachers contract ends in October and most District Council 37 member contracts expire next March. Together these unions represent about two-thirds of city employees. Each 1 percent wage increase for all municipal employees costs roughly \$290 million in city funds.

## DECISIONS AHEAD

While there are a number of uncertainties in the budget plan, one thing is certain: significant actions will need to be taken to bring 2011 and later years into balance. We cannot expect much additional fiscal help from Washington. Nor should we expect the kind of resurgence on Wall Street or in the real estate markets that sends tax revenues soaring beyond projections. Given that this is a municipal election year, the difficult decisions about spending cuts and tax increases that lie ahead are unlikely to be addressed until November.

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## IBO Revenue Projections

Dollars in millions

	2009	2010	2011	2012	2013	Average Change
<b>Tax Revenue</b>						
Property	\$14,410	\$15,763	\$16,627	\$17,436	\$18,209	6.0%
Personal Income	6,926	5,783	6,731	7,370	8,380	4.9%
General Sales	4,641	4,123	4,269	4,557	4,900	1.4%
General Corporation	2,305	1,997	2,270	2,475	2,713	4.2%
Unincorporated Business	1,837	1,323	1,309	1,450	1,624	-3.0%
Banking Corporation	700	430	445	516	591	-4.2%
Real Property Transfer	762	605	656	737	839	2.4%
Mortgage Recording	559	506	557	615	717	6.4%
Utility	438	370	411	438	451	0.7%
Hotel Occupancy	361	331	336	321	302	-4.4%
Commercial Rent	560	518	524	536	553	-0.3%
Cigarette	104	101	100	97	95	-2.2%
Other Taxes, Audits, and PEG's	1,447	997	998	1,001	1,000	-8.8%
<b>Total Taxes</b>	<b>\$35,051</b>	<b>\$32,848</b>	<b>\$35,233</b>	<b>\$37,550</b>	<b>\$40,373</b>	<b>3.6%</b>
<b>Tax Program Proposals:</b>						
Sales Tax Program	89	960	996	1,065	1,141	n/a
<b>Total Taxes Including Tax Program</b>	<b>\$35,139</b>	<b>\$33,808</b>	<b>\$36,229</b>	<b>\$38,615</b>	<b>\$41,514</b>	<b>4.3%</b>
<b>Other Revenue</b>						
STAR Reimbursement	\$1,185	\$899	\$911	\$949	\$1,026	-3.5%
Miscellaneous Revenues	4,442	4,373	4,289	4,302	4,339	-0.6%
Unrestricted Intergovernmental Aid	340	368	376	372	374	2.4%
Other Categorical Aid	1,113	1,089	1,066	1,069	1,068	-1.0%
Inter-fund revenues	472	475	449	439	439	-1.8%
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
<b>Total Other Revenue</b>	<b>\$7,537</b>	<b>\$7,190</b>	<b>\$7,075</b>	<b>\$7,117</b>	<b>\$7,231</b>	<b>-1.0%</b>
<b>Total City-Funded Revenue</b>	<b>\$42,677</b>	<b>\$40,998</b>	<b>\$43,304</b>	<b>\$45,732</b>	<b>\$48,745</b>	<b>3.4%</b>
State Categorical Grants	12,100	11,685	12,102	12,446	13,098	2.0%
Federal Categorical Grants	6,195	6,644	6,575	5,590	5,589	-2.5%
<b>TOTAL REVENUES</b>	<b>\$60,972</b>	<b>\$59,327</b>	<b>\$61,981</b>	<b>\$63,768</b>	<b>\$67,432</b>	<b>2.5%</b>
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
<b>Health &amp; Social Services</b>						
Social Services						
Medicaid	\$5,350	\$5,057	\$5,771	\$6,240	\$6,421	4.7%
All Other Social Services	2,913	2,849	2,873	2,876	2,876	-0.3%
HHC	197	10	94	95	95	-16.8%
Health	1,738	1,595	1,613	1,621	1,621	-1.7%
Children Services	2,783	2,630	2,627	2,629	2,629	-1.4%
Homeless	752	709	713	692	692	-2.0%
Other Related Services	652	523	503	503	503	-6.3%
<b>Subtotal</b>	<b>\$14,384</b>	<b>\$13,373</b>	<b>\$14,195</b>	<b>\$14,656</b>	<b>\$14,836</b>	<b>0.8%</b>
<b>Education</b>						
DOE (excluding labor reserve)	\$17,657	\$17,980	\$18,734	\$18,027	\$18,741	1.5%
CUNY	636	597	588	589	589	-1.9%
<b>Subtotal</b>	<b>\$18,294</b>	<b>\$18,577</b>	<b>\$19,321</b>	<b>\$18,616</b>	<b>\$19,331</b>	<b>1.4%</b>
<b>Uniformed Services</b>						
Police	\$4,370	\$4,267	\$4,372	\$4,451	\$4,438	0.4%
Fire	1,656	1,615	1,621	1,620	1,617	-0.6%
Correction	1,025	1,003	1,032	1,043	1,040	0.4%
Sanitation	1,279	1,298	1,402	1,431	1,429	2.8%
<b>Subtotal</b>	<b>\$8,331</b>	<b>\$8,182</b>	<b>\$8,427</b>	<b>\$8,546</b>	<b>\$8,525</b>	<b>0.6%</b>
<b>All Other Agencies</b>	<b>\$7,017</b>	<b>\$6,217</b>	<b>\$6,487</b>	<b>\$6,548</b>	<b>\$6,611</b>	<b>-1.5%</b>
<b>Other Expenditures</b>						
Fringe Benefits (excluding DOE)	\$3,373	\$3,810	\$3,426	\$3,443	\$4,420	7.0%
Impact of MTA Payroll Tax	14	71	80	79	81	n/a
Debt Service	1,380	1,143	5,255	6,252	6,530	n/a
Pensions	6,268	6,375	6,910	7,233	7,507	4.6%
Judgments and Claims	638	663	720	781	844	7.3%
Grant to TFA	1,076	-	-	-	-	n/a
State Education Building Aid (TFA)	181	447	376	436	501	n/a
General Reserve	40	300	300	300	300	n/a
Labor Reserve:						
Education	44	324	596	656	656	n/a
All Other Agencies	433	969	1,335	1,727	1,755	n/a
Expenditure Adjustments	(500)	-	158	324	453	n/a
<b>TOTAL EXPENDITURES</b>	<b>\$60,972</b>	<b>\$60,451</b>	<b>\$67,586</b>	<b>\$69,595</b>	<b>\$72,348</b>	<b>4.4%</b>

SOURCE: IBO.

NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 8.4 percent from 2009-2013. Similarly, fringe and pension benefits, which are also adjusted for anticipated labor actions, would grow at an annual average rate of 7.1 percent and 5.3 percent, respectively. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, prior year payable adjustments and non-labor inflation estimates. Estimates exclude intra-city expenses. 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
<b>Gaps as Estimated by the Mayor</b>	-	-	\$(4,578)	\$(5,162)	\$(5,417)
<b>Revenues</b>					
<b>Taxes</b>					
Property	2	(364)	(546)	(327)	59
Personal Income	(260)	(109)	(62)	139	695
General Sales	48	54	64	88	138
General Corporation	(69)	(27)	(68)	(230)	(234)
Unincorporated Business	33	(132)	(152)	(146)	(65)
Banking Corporation	(134)	(48)	(204)	(195)	(154)
Real Property Transfer	(17)	(8)	7	29	45
Mortgage Recording	(8)	31	6	13	23
Utility	21	(21)	(9)	4	12
Hotel Occupancy	-	2	5	7	7
Commercial Rent	(9)	(25)	(7)	8	16
Cigarette	3	5	6	5	5
	(390)	(641)	(960)	(604)	546
Sales Tax Program	1	14	15	18	33
Unrestricted State Aid	-	28	36	33	35
STaR Reimbursement	(3)	22	23	24	26
<b>Total Revenues</b>	<b>(392)</b>	<b>(578)</b>	<b>(886)</b>	<b>(529)</b>	<b>640</b>
<b>Expenditures</b>					
Impact of MTA Payroll Tax	(14)	(71)	(80)	(79)	(81)
Public Assistance	1	(5)	(17)	(19)	(19)
Homeless Services	-	(6)	(6)	(6)	(6)
Police Overtime	(25)	(25)	(25)	(25)	(25)
Correction Overtime	-	(10)	(10)	(5)	(5)
Buildings	-	-	(3)	(3)	(3)
<b>Total Expenditures</b>	<b>(38)</b>	<b>(117)</b>	<b>(141)</b>	<b>(137)</b>	<b>(139)</b>
<b>Total IBO Pricing Differences</b>	<b>(429)</b>	<b>(695)</b>	<b>(1,027)</b>	<b>(666)</b>	<b>501</b>
IBO Prepayment Adjustment 2009 / 2010	429	(429)	-	-	-
<b>IBO Surplus / (Gap) Projections</b>	<b>-</b>	<b>\$(1,124)</b>	<b>\$(5,605)</b>	<b>\$(5,827)</b>	<b>\$(4,916)</b>

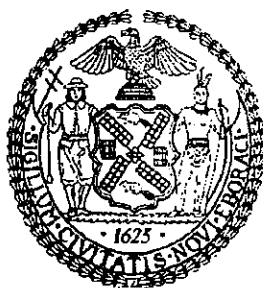
SOURCE: IBO.

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



IBO versus OMB Economic Forecasts						
	2008	2009	2010	2011	2012	2013
<b>National Economy</b>						
Real GDP Growth						
IBO	-0.8	-1.9	2.8	5.7	5.5	3.0
OMB	1.1	-3.6	-0.8	3.5	4.0	3.3
Non-farm Employment Growth						
IBO	-0.4	-3.8	-0.4	2.7	3.6	3.0
OMB	-0.4	-3.6	-0.8	1.5	2.4	2.2
Inflation Rate (CPI-U)						
IBO	3.8	-1.0	1.7	2.0	2.0	2.0
OMB	3.8	-1.1	1.6	2.1	2.2	2.3
Personal Income Growth						
IBO	3.8	0.1	2.5	4.8	5.8	5.6
OMB	3.8	0.1	1.8	3.9	5.2	5.5
Unemployment Rate						
IBO	5.8	9.1	9.6	8.2	6.2	5.1
OMB	5.8	9.1	10.2	9.6	8.5	7.7
10-Year Treasury Bond Rate						
IBO	3.7	2.9	4.4	5.2	4.9	4.8
OMB	3.7	2.8	2.9	3.8	4.5	4.8
Federal Funds Rate						
IBO	1.9	0.2	0.5	2.3	4.1	4.5
OMB	1.9	0.1	0.2	1.7	3.3	3.6
<b>NYC Economy</b>						
Non-farm New Jobs (thousands)						
IBO	47.7	-141.6	-84.2	33.0	69.3	54.9
OMB	47.0	-172.0	-129.0	9.0	39.0	42.0
Employment Growth						
IBO	1.3	-3.7	-2.3	0.9	1.9	1.5
OMB	1.2	-4.5	-3.6	0.3	1.1	1.2
Inflation Rate (CPI-U-NY)						
IBO	3.9	-0.5	1.9	2.6	2.7	2.6
OMB	3.9	-0.3	1.6	2.2	2.4	2.4
Personal Income (\$ billions)						
IBO	432.5	420.1	424.1	440.8	465.9	500.6
OMB	420.8	406.1	406.1	419.4	437.1	456.6
Personal Income Growth						
IBO	4.7	-2.9	0.9	3.9	5.7	7.4
OMB	3.5	-3.5	0.0	3.3	4.2	4.4
Manhattan Office Rents (\$/sq.ft)						
IBO	84.16	69.59	59.01	56.11	56.53	59.39
OMB	82.78	70.61	63.00	62.72	62.07	61.87
SOURCE: IBO, Mayor's Office of Management and Budget.						
NOTE: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York / Northern New Jersey region. Personal income is nominal.						

# **The Comptroller's Comments on the Fiscal Year 2010 Executive Budget**



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

**June 2009**



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# **I. Executive Summary**

The worst economic downturn since the end of World War II is taking a heavy toll on the city's economy. Although the city's labor and housing markets have been less severely affected by the recession than those in many other areas of the country, the Comptroller's Office does expect a decrease of 250,000 jobs from the cyclical peak in August 2008 through the expected trough in late 2010. The deteriorating labor market will push the number of unemployed residents to nearly 400,000 by mid-2010. Furthermore, the city's economy is projected to under-perform the nation's until 2013, primarily because of the challenges facing the financial sector. While the finance and insurance sector and the professional and business services industries accounted for 25 percent of the city's employment in August 2008, they have absorbed 48 percent of the job reductions since.

Because the City is highly reliant on income-sensitive taxes, the recession's impacts on revenues have been amplified, resulting in FY 2010 Executive Budget projections of a total tax revenue decline of 11.3 percent, or \$4.4 billion from FY 2008 to FY 2010. Non-property tax revenues are not expected to recover their pre-recession levels during the Plan period.

As a result, the City's fiscal outlook is extraordinarily sobering. The FY 2010 Executive Budget and Four-Year Financial Plan depicts a risk-laden gap-closing program to balance the FY 2010 Budget, followed by projected budget gaps of \$4.578 billion in FY 2011, \$5.162 billion in FY 2012 and \$5.417 billion in FY 2013. However, this review by the Comptroller's Office reveals net risks to the budget that would push gaps to \$734 million in FY 2010, \$6.654 billion in FY 2011, \$7.542 billion in FY 2012 and \$8.298 billion in FY 2013. Such large projected gaps are unprecedented, and given that the City has been striving to contain expenditures and raise revenues since mid-FY 2008, after it became clear that the economy was faltering, additional gap-closing actions will become increasingly difficult to achieve.

The Comptroller's assessment of risk to tax revenues includes a projected shortfall in FY 2009 collections of \$280 million due to current collection trends and the failure, thus far, of the City's sales tax increase initiatives to gain passage by the State Legislature. Because of differences in economic outlook and the uncertainty surrounding State legislative approval of the City's sales tax proposals, the Comptroller's Office identifies tax revenue risks of \$60 million in FY 2010, \$575 million in FY 2011, \$928 million in FY 2012 and \$1.41 billion in FY 2013. Additionally, lack of action in Albany on the Mayor's proposal to impose a fee on plastic bags creates a risk of \$100 million in FY 2010, which grows to \$160 million in FY 2011.

The majority of the \$574 million expenditure risk identified by the Comptroller's Office for FY 2010 stems from projected savings associated with changes to employee benefits. The Mayor is proposing to "restructure" employee health insurance benefits, which would require approval by municipal unions, and to create a new, less costly pension tier, requiring approval of the unions and the legislature. These initiatives are projected to yield \$200 million apiece in annual savings. The other elements of spending risk for FY 2010

include \$70 million in payroll taxes enacted by the State Legislature to support the Metropolitan Transportation Authority (MTA), and \$137 million in overtime.

These risks persist in the outyears of the Plan and are augmented by others. Savings from a component of the Mayor's health insurance cost containment initiative requiring employees to contribute 10 percent towards health insurance premiums are planned to commence in FY 2011. With no agreement with the unions in place, this must be considered at risk. In addition, in 2008 the Financial Control Board (FCB) granted the City a temporary waiver from a new requirement that certain expenses previously financed in the capital budget be funded through the operating budget. That waiver expires in FY 2011, but the Financial Plan includes no funding for this category of spending, which the City has estimated will cost \$500 million per year. The net risks to the outyears of the Plan include an offset that the Comptroller's Office believes will accrue from lower judgments and claims expenses.

In the period between the release of the Preliminary Budget in January and the Executive Budget on May 1, the American Recovery and Reinvestment Act (ARRA) was passed, providing significant sums to state and local governments to stimulate the economy. While the Mayor's Preliminary Budget anticipated some of the impacts of ARRA, the package will provide education funding that will offset cuts made in the State Enacted Budget and stave off the need to lay off some 14,000 teachers. Therefore, the headcount projections in the Executive Budget do not reflect as draconian a reduction for FY 2010 as anticipated previously. However, full-time City-funded headcount is expected to contract by about 8,000 in FY 2010, to be achieved through a mix of attrition and layoffs. Since most municipal employee unions have contracts in place through FY 2011, there is little opportunity other than lay-offs to save on direct labor costs.

An intention to implement a 30 percent reduction to major components of the capital commitment plan was announced at the time of the January Plan. The purpose of the reduction was to bring growth in debt service costs in line with the average growth in tax revenues by reducing the size of the capital commitment program. The FY 2010 Executive Capital Commitment Plan would achieve a 17 percent reduction in the City-funded portion of the Plan, after the reserve for unattained commitments. Because the impacts of incremental changes to the size of the capital commitment plan are felt over a long period, debt service is expected to continue to grow 8.0 percent per year through FY 2013, slowing to a 2.3 percent pace thereafter. However, historically there is a tendency for the commitment plan to understate out-year commitments compared to actual results. On average from FY 2002 to FY 2008, the third and fourth years of the Plan were underestimated by 35 percent and 51 percent, respectively.

While uncertainty always haunts projections in the Four-Year Financial Plans, the current economic circumstances bring uncertainties into greater relief. For FY 2009 the Financial Plan assumes investment losses on pension investments of 20 percent. Assets of the Retiree Health Benefits Trust Fund (RHBT) will be tapped to offset these additional costs. If the financial markets perform even worse than projected, the City will be obligated to continue to finance any shortfall in investment returns. Every percentage point in pension investment return on June 30, 2009 above or below the current projections will result in



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

Moreover, the State budget is much more cyclically sensitive than the City's. Since the State Enacted Budget was approved by the Legislature, the Governor has warned that, based on current tax collections, the State could be facing a gap of at least \$3 billion in the current fiscal year. Since about 70 percent of the State budget consists of aid to localities, additional gap-closing actions in Albany are certain to result in more stress on the City budget.

The hurdles the City is facing during this Financial Plan period are daunting. The recession in all likelihood will be followed by several years of lackluster growth. As a result, even if the City achieves its ambitious gap-closing plan, and despite the presence of substantial federal stimulus dollars, out-year gaps loom. Additional gap-closing initiatives will be necessary, and they will likely require sacrifice and patience on the part of New York City residents.

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**Table 1. FY 2010 – FY 2013 Financial Plan**

(\$ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2009 – 2013	
					Dollar	Percent
<b>Revenues</b>						
Taxes:						
General Property Tax	\$16,281	\$17,327	\$17,916	\$18,304	\$2,023	12.4%
Other Taxes	\$18,436	\$20,139	\$21,615	\$23,037	\$4,601	25.0%
Tax Audit Revenues	\$596	\$596	\$595	\$594	(\$2)	(0.3%)
Miscellaneous Revenues	\$5,974	\$5,813	\$5,825	\$5,863	(\$111)	(1.9%)
Unrestricted Intergovernmental Aid	\$340	\$340	\$340	\$340	\$0	0.0%
Less: Intra-City Revenues	(\$1,601)	(\$1,525)	(\$1,524)	(\$1,524)	\$77	(4.8%)
Disallowances Against Categorical Grants	(\$15)	(\$15)	(\$15)	(\$15)	\$0	0.0%
Subtotal: City Funds	\$40,011	\$42,675	\$44,752	\$46,599	\$6,588	16.5%
Other Categorical Grants	\$1,028	\$1,029	\$1,033	\$1,031	\$3	0.3%
Inter-Fund Revenues	\$475	\$449	\$439	\$439	(\$36)	(7.6%)
Total City & Inter-Fund Revenues	\$41,514	\$44,153	\$46,224	\$48,069	\$6,555	15.8%
Federal Categorical Grants	\$6,422	\$6,327	\$5,360	\$5,349	(\$1,073)	(16.7%)
State Categorical Grants	\$11,617	\$12,015	\$12,359	\$13,010	\$1,393	12.0%
<b>Total Revenues</b>	<b>\$59,553</b>	<b>\$62,495</b>	<b>\$63,943</b>	<b>\$66,428</b>	<b>\$6,875</b>	<b>11.5%</b>
<b>Expenditures</b>						
Personal Service						
Salaries and Wages	\$22,590	\$23,563	\$23,109	\$23,677	\$1,087	4.8%
Pensions	\$6,500	\$7,034	\$7,358	\$7,631	\$1,131	17.4%
Fringe Benefits	\$7,001	\$6,813	\$6,864	\$7,814	\$813	1.6%
Subtotal-PS	\$36,091	\$37,410	\$37,331	\$39,122	\$3,031	8.4%
Other Than Personal Service						
Medical Assistance	\$4,907	\$5,621	\$6,090	\$6,271	\$1,364	27.8%
Public Assistance	\$1,299	\$1,299	\$1,299	\$1,299	\$0	0.0%
All Other	\$18,397	\$18,713	\$19,357	\$19,846	\$1,449	7.9%
Subtotal-OTPS	\$24,603	\$25,633	\$26,746	\$27,416	\$2,813	11.4%
Debt Service						
Principal	\$1,649	\$2,021	\$2,080	\$2,057	\$408	24.7%
Interest & Offsets	\$2,695	\$2,646	\$3,015	\$3,316	\$621	23.1%
Subtotal Debt Service	\$4,344	\$4,667	\$5,095	\$5,373	\$1,029	23.7%
FY 2007 BSA	(\$31)	\$0	\$0	\$0	\$31	(100.0%)
FY 2009 BSA	(\$1,950)	\$0	\$0	\$0	(\$1,950)	(100.0%)
Prepayments	(\$2,036)	\$0	\$0	\$0	\$0	(100.0%)
Debt Retirement						
Call 2009/2010 GO Debt	(\$277)	\$0	\$0	\$0	\$277	(100.0%)
Defease NYCTFA Debt	(\$382)	\$0	\$0	\$0	\$382	(100.0%)
Subtotal Debt Retirement	(\$659)	\$0	\$0	\$0	\$659	(100.0%)
Transfer for NYCTFA Debt Service	(\$546)	\$0	\$0	\$0	\$546	(100.0%)
Building Aid Revenue Support for NYCTFA						
Debt Service	(\$100)	\$0	\$0	\$0	\$100	(100.0%)
Defeasance of certain NYCTFA Debt	\$0	(\$530)	\$0	\$0	\$0	0.0%
FY 2008 Redemption of certain NYCTFA Debt	\$0	(\$35)	\$0	\$0	\$0	0.0%
NYCTFA						
Principal	\$497	\$575	\$634	\$634	\$137	27.5%
Interest & Offsets	\$641	\$578	\$523	\$524	(\$117)	(18.2%)
Subtotal NYCTFA	\$1,138	\$1,153	\$1,157	\$1,158	\$20	1.8%
General Reserve	\$300	\$300	\$300	\$300	\$0	0.0%
Less: Intra-City Expenses	(\$1,601)	(\$1,525)	(\$1,524)	(\$1,524)	\$77	(4.8%)
<b>Total Expenditures</b>	<b>\$59,553</b>	<b>\$67,073</b>	<b>\$69,105</b>	<b>\$71,845</b>	<b>\$12,292</b>	<b>20.6%</b>
<b>Gap To Be Closed</b>	<b>\$0</b>	<b>(\$4,578)</b>	<b>(\$5,162)</b>	<b>(\$5,417)</b>	<b>(\$5,417)</b>	<b>N/A</b>

NOTE: Revenues include PIT revenues retained for NYCTFA debt service. Expenditures include NYCTFA debt service.

**Table 2. Plan-to-Plan Changes  
May 2009 Plan vs. June 2008 Plan**

(\$ in millions)

	FY 2010	FY 2011	FY 2012
<b>Revenues</b>			
<b>Taxes:</b>			
General Property Tax	\$187	\$220	\$2
Other Taxes	(\$3,111)	(\$2,790)	(\$2,797)
Tax Audit Revenues	\$17	\$17	\$16
Miscellaneous Revenues	\$671	\$448	\$442
Unrestricted Intergovernmental Aid	\$0	\$0	\$0
Less: Intra-City Revenues	(\$148)	(\$73)	(\$72)
Disallowances Against Categorical Grants	\$0	\$0	\$0
Subtotal: City Funds	(\$2,384)	(\$2,178)	(\$2,410)
Other Categorical Grants	\$23	\$23	\$23
Inter-Fund Revenues	\$50	\$30	\$20
Total City & Inter-Fund Revenues	(\$2,311)	(\$2,125)	(\$2,367)
Federal Categorical Grants	\$1,139	\$1,054	\$78
State Categorical Grants	(\$322)	(\$788)	(\$744)
<b>Total Revenues</b>	<b>(\$1,494)</b>	<b>(\$1,859)</b>	<b>(\$3,033)</b>
<b>Expenditures</b>			
<b>Personal Service</b>			
Salaries and Wages	(\$384)	(\$861)	(\$1,585)
Pensions	(\$322)	\$144	\$364
Fringe Benefits	(\$7)	(\$794)	(\$1,345)
Subtotal-PS	(\$713)	(\$1,511)	(\$2,566)
<b>Other Than Personal Service</b>			
Medical Assistance	(\$849)	(\$295)	\$1
Public Assistance	\$123	\$123	\$123
All Other	(\$64)	(\$377)	(\$232)
Subtotal-OTPS	(\$790)	(\$549)	(\$108)
<b>Debt Service</b>			
Principal	\$7	\$157	\$110
Interest & Offsets	(\$54)	(\$287)	(\$342)
Subtotal Debt Service	(\$47)	(\$130)	(\$232)
FY 2007 BSA	\$0	\$0	\$0
FY 2009 BSA	(\$1,138)	\$0	\$0
FY 2010 BSA	(\$350)	\$350	\$0
Prepayments	\$0	\$0	\$0
<b>Debt Retirement</b>			
Call 2009/2010 GO Debt	\$0	\$0	\$0
Defease NYCTFA Debt	\$0	\$0	\$0
Subtotal Debt Retirement	\$0	\$0	\$0
Transfer for NYCTFA Debt Service	(\$546)	\$0	\$0
<b>Building Aid Revenue Support for NYCTFA Debt Service</b>			
Defeasance of certain NYCTFA Debt	\$0	(\$530)	\$0
FY 2008 Redemption of certain NYCTFA Debt	\$0	(\$35)	\$0
<b>NYCTFA</b>			
Principal	\$0	\$0	\$0
Interest & Offsets	(\$6)	\$39	(\$1)
Subtotal NYCTFA	(\$6)	\$39	(\$1)
General Reserve	\$0	\$0	\$0
	(\$3,690)	(\$2,366)	(\$2,907)
Less: Intra-City Expenses	(\$148)	(\$73)	(\$72)
<b>Total Expenditures</b>	<b>(\$3,838)</b>	<b>(\$2,439)</b>	<b>(\$2,979)</b>
<b>Gap To Be Closed</b>	<b>\$2,344</b>	<b>\$580</b>	<b>(\$54)</b>

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

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
<b>City Stated Gap</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$4,578)</b>	<b>(\$5,162)</b>	<b>(\$5,417)</b>
<b>Tax Revenues</b>					
Property Tax	\$0	(\$15)	(\$40)	\$25	\$40
Personal Income Tax	(100)	(20)	(5)	(73)	(335)
Business Taxes	(85)	190	(195)	(385)	(385)
Sales Tax	(2)	296	71	(103)	(272)
Additional 0.5% Sales Tax Increase	(52)	(552)	(572)	(608)	(646)
Repeal Sales Tax Exemption on Clothing	(36)	(394)	(409)	(439)	(462)
Real-Estate-Related Taxes	(5)	435	575	655	650
<b>Subtotal</b>	<b>(\$280)</b>	<b>(\$60)</b>	<b>(\$575)</b>	<b>(\$928)</b>	<b>(\$1,410)</b>
<b>Plastic Bag User Fee</b>	<b>(\$0)</b>	<b>(\$100)</b>	<b>(\$160)</b>	<b>(\$140)</b>	<b>(\$140)</b>
<b>Expenditures</b>					
Overtime	(\$0)	(\$137)	(\$100)	(\$100)	(\$100)
Health Insurance Restructuring	0	(200)	(200)	(200)	(200)
10% Health Insurance Premium Co-pay	0	0	(357)	(386)	(418)
New Pension Tier Proposal	0	(200)	(200)	(200)	(200)
Payroll Tax		(70)	(72)	(74)	(76)
Public Assistance Grant Increase					(50)
Judgments and Claims	7	33	88	148	213
GASB 49	0	0	(500)	(500)	(500)
<b>Subtotal</b>	<b>\$7</b>	<b>(\$574)</b>	<b>(\$1,341)</b>	<b>(\$1,312)</b>	<b>(\$1,331)</b>
<b>Total Risk/Offsets</b>	<b>(\$273)</b>	<b>(\$734)</b>	<b>(\$2,076)</b>	<b>(\$2,380)</b>	<b>(\$2,881)</b>
<b>Restated (Gap)/Surplus</b>	<b>(\$273)</b>	<b>(\$734)</b>	<b>(\$6,654)</b>	<b>(\$7,542)</b>	<b>(\$8,298)</b>

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## II. The FY 2009 Budget

The City's May Modification reflects the financial crisis and deepening recession that have gripped the nation and the City since budget adoption in June 2008. The City's FY 2009 tax revenue estimate is \$503 million below the June 2008 projection and \$2.14 billion less than FY 2008 receipts, the first time tax revenues will decline year-over-year since FY 2002. The decline in the tax revenue estimate is partially offset by an upward revision of \$301 million in non-tax revenues, \$125 million of which is due to restitution agreements achieved by the Manhattan District Attorney's Office.

Downward revisions to City-funds spending estimates more than offset the drop in projected revenues. The usual reduction to the General Reserve and recognition of prior-year-payable savings in January account for \$760 million of this reduction. A temporary increase in the Federal Medical Assistance Percentage (FMAP), from the American Recovery and Reinvestment Act of 2009 (ARRA), accounts for another \$447 million of savings in City-funds spending. Table 4 shows changes to the FY 2009 Budget since adoption.

**Table 4. Changes in FY 2009 Estimates  
May Modification vs. Adopted Budget**

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

<b>Adopted Budget Gap</b>	<b>\$0</b>
Tax Revenues	(\$503)
Other non-tax revenues	301
<b>Total Revenues</b>	<b>(\$202)</b>
Prior-year payable	\$500
General Reserve	260
Federal Matching for FMAP	447
Energy	94
Debt Service Savings	188
State Budget Expense Impact	(44)
Other Agency spending	(200)
<b>Total Expenditures</b>	<b>\$1,245</b>
<b>May Budget (Gap)/Surplus</b>	<b>\$1,043</b>
<b>Gap-Closing Initiatives</b>	
Mid Year Property Tax Increase	\$576
Repeal Sales Tax Exemption on Clothing	36
0.5% Sales Tax Increase	52
Agency PEGS	507
<b>Total-Gap-Closing Initiatives</b>	<b>\$1,171</b>
<b>Budget (Gap)/Surplus after Gap-Closing Initiatives</b>	<b>\$2,214</b>
Prepayments of FY 2010 Expenditures	(\$1,684)
Defeasance of Certain 2011 NYCTFA Debt	(\$530)
<b>Remaining Gap</b>	<b>0</b>

Even though the spending reductions are expected to result in a FY 2009 Budget surplus of \$1.043 billion, the City finds it necessary to include gap-closing initiatives totaling \$1.171 billion in FY 2009 to help address the fiscal challenges confronting FY 2010. Of these initiatives, only agency programs to eliminate the gap (PEGs) are within the control of the Mayor. However, the mid-year property tax increase was approved by the City Council in December 2008. The repeal of the sales tax exemption on clothing and a 0.5 percentage point sales tax increase would require State legislative approval. If the City were to achieve the full benefits from these gap-closing initiatives, the additional resources combined with spending reductions would allow the City to increase its prepayments of FY 2010 expenses by \$1.684 billion to \$2.496 billion, and defease \$530 million of certain FY 2011 New York City Transitional Finance Authority (NYCTFA) debt.

The use of FY 2009 resources to prepay outyear expenditures is made possible by surpluses accumulated in prior fiscal years. These accumulated surpluses allowed the City to prepay \$4.635 billion of FY 2009 expenditures in FY 2008. Of this, \$1.609 billion will be needed to balance the FY 2009 Budget. The remaining \$3.026 billion will be used to fund the prepayment of FY 2010 expenditures and the defeasance of certain FY 2011 NYCTFA debt.

In addition to the FY 2008 prepayments, FY 2009 expenditures were further reduced by actions taken in FY 2007. These actions include the defeasance of General Obligations (G.O.) and NYCTFA debt, which reduced FY 2009 debt service by \$641 million, and the prepayment of \$34 million of FY 2009 lease purchase debt service. After adjusting for the impact of these prior actions and the portion of FY 2008 prepayments required for budget balance, the City's estimated operating expenses in FY 2009 exceeds projected revenues by \$2.284 billion. Thus, while the May Modification presentation shows a budget surplus, the current fiscal year will in effect end in an operating deficit.



### **III. The City's Economic Outlook**

#### **A. COMPTROLLER'S ECONOMIC FORECAST FOR NYC, 2009-2013**

During late 2008 and early 2009, the U.S. economy contracted at an alarming rate, raising fears among reputable forecasters as well as the general public that the country was heading into a second Great Depression. Fortunately, in recent months a number of indicators have signaled that the pace of economic decline is slowing significantly, raising hopes that the end of the longest post-war recession is in sight. While the Comptroller's Office concurs that the two-quarter economic free-fall that began in September has slowed, and that a technical end to the recession will probably come during 2009, we believe that many significant obstacles to full economic recovery remain. Rather than anticipating the type of vigorous rebound that followed most 20<sup>th</sup> Century recessions, the Comptroller's Office expects an extended period of slow and halting recovery that will pose a new set of challenges for households, businesses and government.

Thus far, the city's economic contraction has been milder than the nation's. Local businesses have slashed proportionately fewer jobs and residential real estate prices have proven among the most resilient in the country. One reason the city has fared better is that the bursting of the credit bubble, and the subsequent freezing of credit markets, has disproportionately affected construction, manufacturing, and freight transportation, industries not highly concentrated in New York City. Since December 2007, construction, manufacturing, transportation, warehousing and retail trade have accounted for about two-thirds of the national job decline. At the employment peak, those industries accounted for over 30 percent of national nonfarm employment but for only 17 percent of the city's. Even within the financial sector, the largest job losses have thus far occurred in the "retail" operations associated with housing finance and real estate; only 15 percent of financial industry job reductions since August 2007, have been in commercial banking and securities, commodities contracts, and investments.

Although the city's labor and housing markets have been less severely affected by the recession than those in many other areas of the country, the recession has and will continue to have a damaging effect on the city's economy. The Comptroller's Office projects a decrease of 250,000 payroll jobs from the cyclical peak in August 2008 through the expected trough in late 2010. The deteriorating labor market will push the number of unemployed residents from a cyclical low of 166,500 in December 2007 to nearly 400,000 by mid-2010. Many other households will experience declining economic circumstances through work hour reductions, smaller annual bonuses, reduced business incomes, and lower interest and investment income.

New York City is estimated to have produced nearly 4.0 percent of the nation's gross domestic product (GDP) in 2008, and its economic growth outpaced the nation's in 2005, 2006, and 2007. However, the city's economic growth rate is estimated to have fallen below the nation's during 2008, and unfortunately, it is projected to under-perform

the nation until 2013. That is primarily because of the well-known difficulties of the city's financial sector. While the finance and insurance sector and the professional and business services industries accounted for 25 percent of the city's employment in August 2008, they have since absorbed 48 percent of the job reductions. Moreover, those are high-wage, high-value added activities that have a disproportionate effect on the city's economic output.

Although the Comptroller's Office does not believe that the recent crisis spells "the end of Wall Street," the structural damage that the crisis has caused will take years to repair, and some highly-profitable financial activities may never return to their pre-crisis levels. Other financial activities will need to be reinvented to address the excesses and pitfalls that were revealed by the crisis, and that will take years of innovation and experimentation. In the meantime, it is likely that the city's economic recovery will lag behind even the tepid growth projected for the national economy.

Table 5 compares the Comptroller's and Mayor's forecasts for the city.

**Table 5. NYC Forecasts of (1) Change in GCP, Percent, and (2) Change in Payroll Jobs, Year-over-Year, Calendar Years 2009-2013**

		2009	2010	2011	2012	2013
Change in GCP, percent	Comptroller	(4.1)	(2.9)	0.7	2.7	3.0
	Mayor	(12.0)	(1.9)	3.2	3.4	2.2
Change in Payroll Jobs, '000	Comptroller	(120.0)	(84.0)	6.0	44.0	52.0
	Mayor	(172.0)	(129.0)	9.0	39.0	42.0

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the Mayor (Office of Management and Budget) in the Executive Budget, 2009-2013.

## B. UNDERLYING FACTORS AFFECTING THE FORECAST

After 16 months of recession, there are signs that indicate that the national economy's steep decline is leveling off. The indicators are not robust, but are broad enough to indicate that the rate of decline experienced for the past two quarters will not continue into the spring and summer months. Among the indicators that signal a slowing rate of decline are: increases in mortgage applications and home sales; stabilizing, if not growing, retail sales; stabilizing auto sales; declining initial unemployment insurance claims; declining monthly job losses; declining risk premiums in corporate bond and inter-bank credit markets; increases in issuance of certain asset-backed securities; increases in consumer and small business confidence indexes; and a stock market rally. In addition, businesses cut back their inventories severely during the first quarter, a necessary precondition for resumed growth, and mortgage rates have declined precipitously, creating a more favorable climate for housing market stability.

There are several reasons the Comptroller's Office believes these indicators are reliable and not simply signaling a "false dawn." First is the historical pattern of business cycles. Since 1947, there have been only two occasions (1953-1954 and 1974-1975) when the U.S. economy has had three consecutive quarters of negative real GDP growth and, of course, only one occasion in the past century when the U.S. economy lapsed into

outright depression. Consumers and businesses can tighten belts and retrench spending only so long in response to economic shocks such as September's financial turmoil. Eventually, their need for household necessities and for long-term residential and business investments produces a spring-back in spending and a reversal of the vicious cycle of economic decline. Usually, those spending decisions are supported by a rebound in consumer and business confidence, such as various indicators suggest is now occurring.

Also important has been the vigorous actions taken by the federal government in response to the financial crisis. The President and Congress have enacted a meaningful economic stimulus program that is just beginning to have an effect on consumer and government spending. The economic impact of the stimulus will grow in coming quarters, and will hopefully reinforce the natural tendency of the economy to adjust to adverse shocks. In addition, the \$750-billion Trouble Asset Relief Program (TARP) legislation has eased a dangerous capital crunch in the banking system, while the Treasury Department is proceeding with a longer-term program to remove distressed assets from banks' balance sheets. Perhaps most importantly, the Federal Reserve has implemented a series of unprecedented steps to provide liquidity to the financial system and to restart important financial markets that had virtually disappeared. The various Federal Reserve programs have contributed to a normalization of the commercial paper market, lowered mortgage and other long-term interest rates, and restarted asset-backed securities issuance.

Nevertheless, it is premature to anticipate the end of the recession, which is already the longest economic slump since 1933. Overall, the economic indicators signal stabilization, not recovery, and disappointing retail sales in March and April are a pointed reminder that American households remain under substantial economic stress. The Comptroller's Office consequently anticipates that the recession will continue through the present quarter and probably through the third quarter of 2009 as well, with a recovery taking root late in the year. The rate of real GDP decline should slow from the 6.3 percent and 6.1 percent rates of the last quarter of 2008 and the first quarter of 2009, respectively, to approximately 2.0 percent in the second and third quarters.

The character of the ultimate recovery is a critical consideration for the City's tax and revenue budgeting. Unfortunately, the Comptroller's Office sees little reason to be optimistic that the recovery from this recession will be vigorous. During the years of excessive credit creation, American households significantly increased their indebtedness and are now engaged in a process of retrenchment. Between year-end 2004 and year-end 2007, the amount of mortgage debt outstanding on 1- to 4-family homes increased by 34.6 percent while consumer credit outstanding rose 17 percent. By 2007, the share of debtor households with debt-to-income ratios of over 40 percent had risen to 14.7 percent, compared to 11.8 percent in 2001.

Although most American households have debt burdens that are easily manageable, clearly a significant number had become over-extended. Their problems were exacerbated by the housing deflation and associated credit market turmoil, which both deprived them of housing equity against which to borrow and prevented them from

refinancing onerous mortgages. As a result, the number of mortgage foreclosures has soared and delinquencies on other forms of consumer credit, including auto loans and credit cards, have also risen.

The credit expansion allowed personal consumption expenditures to increase at an annual rate of 5.5 percent from 2001 to 2007, even though personal income rose only 5.0 percent annually. As many households now struggle to reduce their indebtedness while many others find it difficult to obtain credit to buy homes, cars and nondurable goods, personal consumption growth will be limited to the rate of income growth, or possibly even less. That will deprive the recovery of the type of consumption surge that has fueled the early stages of past expansions.

A second factor is the decline of household wealth. Rapid increases in asset values, particularly of homes and stocks, stimulate consumer spending even beyond the loan collateral those assets represent. When households see their homes appreciating and their 401(k) portfolios growing, they feel—and in fact, are—richer and tend to reduce their savings in favor of current consumption. When asset prices decline, the opposite effect takes place. Because of the decline in home and stock prices since 2007, this “wealth effect” will further constrain consumer spending and economic growth. From the end of 2006 to the end of 2008, the net worth of households and nonprofit institutions fell nearly 18 percent, or over \$10.8 trillion.

A third significant factor is the international character of this recession. Although the financial crisis started in the United States, many other regions of the world either had holdings of distressed U. S. securities or had experienced similar credit expansions and housing price bubbles. As a result, the crisis quickly spread abroad and there are now few regions of the globe that are insulated. The International Monetary Fund (IMF) recently predicted that global economic activity would decline 1.3 percent in 2009; making it the deepest global recession since World War II. Moreover, the contraction will be particularly sharp among America’s major trading partners in Europe, where output is expected to decline by 4.0 percent in 2009 and by a lesser amount in 2010. Consequently, domestic businesses can expect little boost from export demand during this year and next, and the foreign trade sector may even be a net drag on the already weak U. S. economy.

For these reasons, the Comptroller’s Office anticipates a very weak national economic recovery in late 2009 and 2010, followed by better, but still modest, growth in 2011, 2012 and 2013. Since much of New York City’s economic activity is derived from services provided to firms and households elsewhere (for example, advertising and legal billings, architectural and engineering services, corporate securities underwriting, etc.), the city is likely to remain in recession through 2010 while the national recovery builds momentum. The Comptroller expects that it will take until 2012 before both the national and local economies are growing at some semblance of their pre-crisis rates.

Table 6 compares the Comptroller's and Mayor's forecasts for the nation.

***Table 6. Forecasts of U.S. Real GDP and U.S. Payroll Jobs,  
Percent Change, Calendar Years 2009-2013***

		2009	2010	2011	2012	2013
U.S. Real GDP, Percent	Comptroller	(3.3)	0.4	2.3	2.8	3.0
	Mayor	(3.5)	1.4	3.5	4.0	3.3
U.S. Payroll Jobs, Percent	Comptroller	(4.1)	(1.5)	1.6	2.0	2.0
	Mayor	(3.6)	(0.8)	1.5	2.4	2.2

SOURCE: Comptroller=Forecast by the NYC Comptroller's Office. Mayor=Forecast by the NYC Office of Management and Budget for 2009-2013.

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## IV. The FY 2010 Executive Budget and FYs 2010 – 2013 Financial Plan

The impact of the financial crisis and recession on the FY 2010 Budget is more severe than first anticipated. After the financial crisis erupted in September, in the November 2008 Financial Plan Modification, the City projected that year-to-year, FY 2010 tax revenues would decline \$541 million, or 1.5 percent. The City now projects tax revenues will decline \$2.14 billion in FY 2009 and another \$2.261 billion in FY 2010, a drop of more than 6.0 percent from FY 2009.

Table 7 shows, the change in FY 2010 estimates since the June 2008 Financial Plan. City-funds revenue forecast have been revised downward by \$4 billion while City-funds expenditures have been reduced by \$409 million. As a result, the \$2.344 billion gap projected in the June 2008 Financial Plan has widened by more than two and a half times to \$5.861 billion.

**Table 7. Changes in FY 2010 Estimates  
May 2009 vs. June 2008**

(\$ in millions)	
<b>Gap at Adopted (June 2008)</b>	<b>(\$2,344)</b>
Tax Revenues	(\$4,112)
Other non-tax revenues	186
<b>Total Revenues</b>	<b>(\$3,926)</b>
Federal Matching for FMAP	\$850
Energy	134
Pension Contributions	110
Debt Service Savings	47
State Budget Expense Impact	(162)
Other Agency spending	(570)
<b>Total Expenditures</b>	<b>\$409</b>
<b>May (Gap)/Surplus</b>	<b>(\$5,861)</b>
Gap-Closing Initiatives	
Eliminate \$400 Rebate	\$256
Repeal Sales Tax Exemption on Clothing	394
Additional 0.5% Sales Tax Increase	552
Plastic Bag User Fee	100
Pension Reforms	200
Agency PEGS	2,225
<b>Total Gap-Closing Initiatives</b>	<b>\$3,727</b>
<b>(Gap)/Surplus after Gap-Closing Initiatives</b>	<b>(\$2,134)</b>
Prior-Year Prepayments and Discretionary Transfer	\$1,684
Building Aid Revenue Support for NYCTFA Debt Service	\$100
Eliminate FY 2010 BSA	\$350
<b>Remaining Gap</b>	<b>\$0</b>

To address the gap of almost \$6 billion the City is proposing gap-closing initiatives totaling \$3.727 billion. Many of these initiatives, including the repeal of sales tax exemption on clothing and a 0.5 percentage point increase in the sales tax would be FY 2009 initiatives with recurring benefits. Of the \$2.225 billion agency PEGs, \$972 million are due to recurring benefits from FY 2009 initiatives.

Even if the City is successful in implementing all of its proposed gap-closing initiatives, it is left with a gap of \$2.134 billion. This remaining gap is expected to be closed with an anticipated increase of \$1.684 billion in FY 2009 prepayments and discretionary transfer, an additional \$100 million in Building Aid Revenues that will be used to pay the Department of Education (DOE) PIT-supported NYCTFA debt service and the elimination of the \$350 million FY 2010 Budget Stabilization Account contained in the June 2008 Financial Plan.

In addition to the gap-closing initiatives and FY 2009 prepayments, actions taken in FYs 2007 and 2008 are significant in balancing the FY 2010 Budget. The City prepaid \$1.986 billion of FY 2010 debt service in FY 2008, which together with interest savings, reduced FY 2010 debt service by \$2.036 billion. Further, the defeasance of certain G.O. and NYCTFA debt in FY 2007 reduced debt service by \$659 million. Finally, the FY 2007 prepayments and discretionary transfer included a prepayment of \$31 million of FY 2010 lease purchase agreement. Altogether, these prior-year actions provided \$2.726 billion of budget relief in FY 2010.

## **Risks and Offsets**

The Comptroller's Office's analysis of the May 2009 Modification and Financial Plan identified risks ranging from \$273 million to \$2.856 billion in the Modification and Plan projections. As Table 3 on page 3 shows, these risks could open up gaps of \$273 million and \$734 million in FYs 2009 and 2010, respectively, and widen the outyear gaps to \$6.654 billion in FY 2011, \$7.542 billion in FY 2012, and \$8.298 billion in FY 2013.

In FY 2009, risks to the May Modification estimates lie mainly in the City's tax revenue forecasts. The Comptroller's Office expects tax revenues to be \$280 million less than the City's forecast. The lower tax revenue forecast reflects the Office's less optimistic view of the economy and the uncertainty of the State approval of the City's sales tax proposals. In the outyears, the Comptroller's Office expects a slower recovery in the local economy relative to the City's forecast. However, the impact on tax revenues is tempered by the Office's belief that the real estate market will recover more quickly than the City anticipates. As a result, the Comptroller's Office anticipates net risks to the City's tax revenue forecasts of \$60 million in FY 2010, \$575 million in FY 2011, \$928 million in FY 2012, and \$1.41 billion in FY 2013. In addition, the City's assumption of additional revenues from a 5-cent plastic bag user fee beginning in FY 2010 poses a risk as discussed in "Miscellaneous Revenues" beginning on page 22.

The bulk of the risks to the City's FY 2010 expenditure estimates are due to gap-closing initiatives that require the consent of the City's municipal unions and State



legislative action. The City expects to achieve savings of \$400 million in FY 2010 from unspecified health insurance restructuring and pension reform. Pension reform was proposed by the City in the January Plan but the State did not enact pension reform in its adopted budget. It is uncertain if and when pension reform will be enacted.

Another risk to expenditures stems from the recent bill signed by the Governor to provide additional funding to the MTA. The bill includes a payroll tax of 0.34 percent. This tax would result in additional personal services spending of approximately \$70 million annually.

Additional risks exist in the outyears. The City has included savings beginning at \$357 million in FY 2011 from a proposed 10 percent employee contribution to health insurance premiums. The projected savings grow to \$418 million by FY 2013. This proposal, however, would require negotiations with the municipal labor unions. Until there is some indication whether the municipal labor unions will accept this proposal, it remains a risk to the budget.

Also, beginning in FY 2011, the biggest risk to the City's budget is the potential cost of pollution remediation. The City currently accounts for pollution remediation in the capital budget. However, GASB statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued in November 2006, requires governments to treat pollution remediation as an operating expense. Under State law, New York City is prohibited from borrowing for operating expenses and therefore pollution remediation expenses will have to be funded in the operating budget. The City expects to comply with the requirements of GASB statement 49 beginning in FY 2011 and has estimated the cost of pollution remediation at \$500 million annually. This amount is not included in the estimates in the current Financial Plan.

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## V. Revenue Assumptions

Total revenue projections for FY 2010 have decreased \$1.49 billion since the June 2008 Financial Plan, to \$59.4 billion in the Executive Budget. The decrease is primarily driven by a \$3.1 billion decline in non-property tax revenue projections, reflecting a deterioration of the local economy since last June, the housing and financial sector crisis and the disarray in the banking system. Miscellaneous revenue projections for FY 2010 were increased by \$523 million since last June due primarily to the City's initiatives to raise revenues by increasing fees and fines. The FY 2010 projection for State categorical grants declined \$322 million and projected Federal categorical grants increased \$1.1 billion, mostly from the recognition of resources provided by the ARRA stimulus plan.

### Tax Revenues

Excluding tax programs, the City projects total tax revenues of \$34.4 billion in the FY 2010 Executive Budget. This forecast reflects a 2.4 percent decrease from the Preliminary Budget forecast and a 6.2 percent drop from the FY 2009 level.<sup>1</sup>

A continued decline in common rate and base tax revenues in FY 2010 is expected to be partially offset by new tax programs, including a proposed sales tax rate increase and repeal of the sales tax exemption on clothing and footwear. Including tax programs, the City projects \$35.3 billion in total tax revenues for FY 2010, a 2.2 percent reduction from the Preliminary Budget. Due to an expected economic recovery in the outyears, total tax revenue is forecast to grow at an average annual rate of 3.4 percent from FY 2009 to FY 2013.

### Tax Program

The City's Executive Budget includes two sales tax initiatives — a one-half percentage point sales tax rate increase and the repeal of the sales tax exemption on clothing and footwear. The proposed sales tax rate increase is expected to raise sales tax revenues \$52 million, \$552 million, \$572 million, \$608 million and \$646 million in FYs 2009 to 2013, respectively. The proposed repeal of the sales tax on clothing and footwear will raise sales tax revenues by \$36 million, \$394 million, \$409 million, \$439 million and \$462 million in FYs 2009 to 2013, respectively. These initiatives require State Legislation which has not yet materialized.

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<sup>1</sup> If not indicated specifically, 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.

## Changes from January Plan

Total tax revenue projections, with the tax program, have increased \$600 million for FY 2009, and decreased \$800 million for FY 2010, since the Preliminary Budget. The downward revision for FY 2010 reflects declines in all major tax revenue forecasts. The City also lowered its forecasts for total tax revenue \$849 million, \$999 million, and \$1.1 billion for FYs 2011, 2012, and 2013, respectively.

The City has increased its real property tax revenue forecast by \$56 million in FY 2009, and \$5 million annually in each of FYs 2011 to 2013. The increase in the outyears stems from an upward revision to expected STAR aid.<sup>2</sup> However, the City decreased its forecast for FY 2010 by \$109 million primarily because of a greater-than-expected reduction in property value from the Tentative Assessment Roll, to be recognized in the Final Assessment Roll scheduled to be released at the end of May.

In the FY 2010 Executive Budget, forecasts for all non-property taxes have been revised downward. The City has decreased its FY 2010 personal income tax (PIT) forecast \$235 million, or 3.4 percent, compared to the forecast in the Preliminary Budget. This change reflects the deepening of the recession in the national and local economies and the impact of the continued financial market turmoil. Wall Street bonuses are forecast to decline for the third year in a row and more private sector unemployment is expected. The PIT forecasts for the outyears were also reduced further by \$442 million, \$613 million, and \$667 million for FYs 2011, 2012, and 2013, respectively.

The largest forecast decline in FY 2010 non-property tax revenues comes from the business taxes. The business tax revenue projection for FY 2010 has decreased \$275 million, or 6.5 percent, from the Preliminary Budget. The decrease is attributable to a downward revision in the forecasts for all three business taxes. The general corporation tax (GCT) revenue forecast declined \$168 million, the banking corporation tax (BCT) revenue forecast declined \$92 million, and the unincorporated business tax (UBT) revenue forecast declined \$15 million, compared with the Preliminary Budget. For the outyears, the total business tax forecast was reduced by \$184 million in FY 2011, \$169 million in FY 2012, and \$168 million in FY 2013.

Excluding the tax program, the FY 2010 Executive Budget sales tax revenue forecast decreased \$70 million, or 1.7 percent, from the Preliminary Budget. Even when the proposed tax program is included, the sales tax revenue forecast is still lower by \$18 million, or 0.4 percent, compared to the Preliminary Budget. If enacted, the proposed sales tax initiatives--repeal of the sales tax exemptions on clothing, and the additional 0.5 percent sales tax rate increase--will increase City sales tax revenue \$88 million, \$946 million, \$981 million, \$1.047 billion, and \$1.108 billion in FYs 2009, 2010, 2011, 2012 and 2013, respectively. Because the underlying economic outlook has deteriorated, these changes are insufficient to fully offset the decline in expected revenues for FYs 2010 through 2013.

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<sup>2</sup> Property tax includes New York State STAR aid for property tax.

The City has reduced its real-estate-related tax revenue projections for FY 2010 by \$71 million, or 6.1 percent, reflecting the City's anticipation of a further decline in both the number of transactions and sales prices for residential and commercial properties. The Executive Budget reflects a \$40 million decline in the real property transfer tax revenue projection, as well as a \$31 million drop in anticipated revenues from the mortgage recording tax for FY 2010. For the outyears, the estimated real-estate-related tax revenue has been revised down by \$46 million, \$10 million, and \$25 million for FYs 2011, 2012, and 2013, respectively. The City's tax revenue assumptions for FYs 2009-2013 are illustrated in Table 8.

**Table 8. Changes to the City's Tax Revenue Assumptions, FYs 2009-2013**

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Property	\$56	(\$109)	\$5	\$5	\$5
PIT	(62)	(235)	(442)	(613)	(667)
Business	393	(275)	(184)	(169)	(168)
Sales	49	(18)	(75)	(93)	(132)
Real-Estate Transaction	(161)	(71)	(46)	(10)	(25)
All Other	325	(91)	(107)	(119)	(153)
<b>Total</b>	<b>\$600</b>	<b>(\$800)</b>	<b>(\$849)</b>	<b>(\$999)</b>	<b>(\$1,140)</b>

SOURCE: Office of Management and Budget.

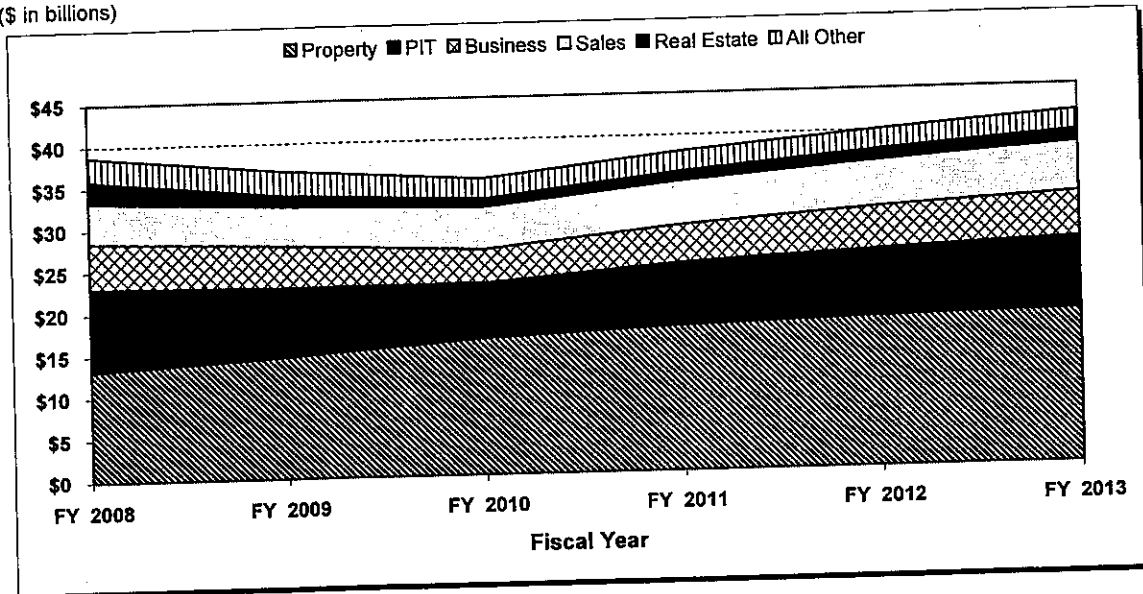
### **Tax Revenue Trends**

Including the tax program, total tax revenue is projected to increase \$5.2 billion from FY 2009 to FY 2013, an average annual rate of growth of 3.4 percent. Chart 1 on page 20 shows, the projected growth of the major tax revenue categories. Without the sales tax initiatives, projected tax revenues would grow only \$4.2 billion, or 2.8 percent annually, over the Plan period.

Real property tax revenue is projected to increase 10.2 percent in FY 2009 and 11.8 percent in FY 2010. Growth slows to 6.4 percent, 3.4 percent, and 2.2 percent in the final three years of the Plan period as the phase-in of assessed value increases is completed. Revenue is projected to expand 25.7 percent, or \$3.7 billion, from FYs 2009 to 2013, an annual average growth rate of 5.9 percent.

**Chart 1. Projected Trend of Major Tax Revenue Categories**

(\$ in billions)



Non-property tax collections are expected to increase in FYs 2009 to 2013 by \$1.5 billion, or 1.6 percent annually. Non-property tax revenues are projected to decline in FYs 2009 and 2010, before rebounding in FYs 2011 to 2013. The City expects the non-property tax revenues to grow in each of the three years from FYs 2011 through 2013 at an average annual rate of almost 7.0 percent. However, non-property tax revenues are not expected to recover to their FY 2008 levels during the Financial Plan period.

PIT yearly growth is expected to average 0.9 percent from FYs 2009 to 2013. The City estimates a decline in PIT revenues of 16.6 percent in FY 2009 and 19.6 percent in FY 2010, followed by increases of 13.8 percent, 6.3 percent, and 6.6 percent in FYs 2011 through 2013, respectively. While the annual growth rates are expected to be over 6.0 percent in the last three years of the Plan, expected PIT revenue in FY 2013 will still be \$1.3 billion lower than the FY 2008 level.

Business tax revenue is forecast to grow 1.8 percent on an average annual basis over the Financial Plan period. The City expects business tax revenues to decline 7.4 percent and 21 percent in FYs 2009 and 2010, respectively, before recovering to a 10 percent average annual growth rate from FY 2011 to FY 2013. Despite strong projected growth in FYs 2011 to 2013, business tax revenue forecast for FY 2013 would still be below the FY 2008 level.

Revenues from the sales tax, with the tax program, are expected to grow on average by 5.8 percent annually from FY 2009 to FY 2013. Sales tax revenue is forecast to decline 3.8 percent in FY 2009, followed by four years of consecutive growth with sales tax revenues in each of these fiscal years projected to be higher than that in FY 2008. The growth in FY 2010 and beyond is driven by the sales tax initiatives, which include repealing the tax exemption on purchases of clothing and footwear and increasing

the sales tax rate by 0.5 percent. Without these programs, projected sales tax revenues would be lower by \$524 million in FY 2010 and the recovery would be delayed to FY 2012.

Real-estate-related tax revenues are projected to experience the sharpest decline, with drops of 47.1 percent in FY 2009 and 19.2 percent in FY 2010, reflecting expectations of continued weakness in both the commercial and residential real estate markets. The City anticipates that real-estate-related tax revenues will rebound in FY 2011 and grow at an annual rate of 11.4 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 more than \$1 billion below the FY 2008 level.

**Table 9. Tax Revenue Forecast, Growth Rate, FYs 2009–2013**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Average Annual Growth
Property	10.2%	11.8%	6.4%	3.4%	2.2%	5.9%
PIT	(16.6%)	(19.6%)	13.8%	6.3%	6.6%	0.9%
Business	(7.4%)	(21.0%)	12.4%	12.7%	7.4%	1.8%
Sales	(3.8%)	7.1%	3.4%	6.4%	6.4%	5.8%
Real-Estate Transaction	(47.1%)	(19.2%)	10.3%	9.2%	13.6%	2.5%
All Other	0.8%	(18.6%)	0.8%	(0.2%)	(0.3%)	(5.0%)
<b>Total</b>	<b>(5.3%)</b>	<b>(3.8%)</b>	<b>7.8%</b>	<b>5.4%</b>	<b>4.5%</b>	<b>3.4%</b>

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

### **Risks and Offsets to Tax Revenues**

Based on current year collections and economic growth projections, the Comptroller's Office projects the risks and offsets to the City's tax revenue assumptions. For FY 2010, the Comptroller's Office expects tax revenues to be \$60 million lower than the City's estimate, as shown in Table 10. The lower forecasts stem from the uncertainty surrounding State legislative approval of the City's sales tax proposals and differences in economic outlook. For the outyears, the Comptroller's Office expects combined risks of \$575 million, \$928 million, and \$1.41 billion for FYs 2011, 2012, and 2013, respectively.

The Comptroller's Office forecast for real property tax revenues continues to be lower than the City's in the near-term and slightly stronger in the last two years of the Financial Plan. This outlook results in risks of \$15 million and \$40 million in FYs 2010 and 2011 respectively, and offsets of \$25 million and \$40 million in FYs 2012 and 2013, respectively. Average annual growth from FYs 2009 to 2013 remains projected at 5.5 percent.

The Comptroller's forecasts for real-estate related tax revenues are significantly higher than the City's throughout the Plan period. Total collections are expected to increase 59.3 percent from FYs 2009 to 2013. Over the same period, the real property transfer tax and the mortgage recording tax are forecast to climb 54 percent and 64.4 percent, respectively. The Comptroller's Office believes that real estate activity was unusually suppressed by credit market turmoil in FY 2009 and will gradually return to normality during the Plan period. A \$5 million combined risk is estimated for FY 2009,

while \$435 million, \$575 million, \$655 million, and \$650 million in offsets are expected in FYs 2010 through 2013.

The Comptroller's Office's forecasts of revenues derived from income sensitive taxes (PIT, business taxes, and sales tax) reflect the Comptroller's expectation of a weak and halting recovery from the current recession. Both the Mayor and the Comptroller expect a decline in non-property tax revenues in FYs 2009 and 2010 and a rebound in the outyears. However, the Comptroller expects a slower recovery from the present economic slump, while the City projects a relatively strong recovery in FYs 2011 to 2013. In addition, the Comptroller considers revenues from the proposed sales tax initiatives at risk. These proposals require State legislative approval. Since the State did not consider these proposals in its recent budget process, the sales tax initiatives are uncertain at the present time. Overall, the Comptroller's Office expects combined risks of \$275 million, \$480 million, \$1.11 billion, \$1.6 billion, and \$2.1 billion for FYs 2009, 2010, 2011, 2012, and 2013, respectively, for PIT, business tax, and sales tax revenues.

**Table 10. Risks and Offsets to the City's Revenue Projections**

(\$ in millions)

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Property	\$0	(\$15)	(\$40)	\$25	\$40
PIT	(100)	(20)	(5)	(73)	(335)
Business	(85)	190	(195)	(385)	(385)
Sales	(90)	(650)	(910)	(1,150)	(1,380)
Real-Estate Related	(5)	435	575	655	650
<b>Total</b>	<b>(\$280)</b>	<b>(\$60)</b>	<b>(\$575)</b>	<b>(\$928)</b>	<b>(\$1,410)</b>

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 non-recurring revenues deriving from asset sales and other one-time resources. In the FY 2010 Executive Budget, miscellaneous revenues are estimated at \$4.37 billion, a decrease of \$69 million from FY 2009 (exclusive of private grants and intra-City revenues). As Table 11 shows, this latest forecast is \$96 million higher than the Preliminary Budget estimate. The largest forecast increases are in water and sewer revenues (\$115 million) and charges for services (\$114 million).



**Table 11. Changes in FY 2010 Estimates**  
**Preliminary FY 2010 Budget vs. FY 2010 Executive budget**

(\$ in millions)

	Preliminary	Executive	Change
Licenses, Franchises, Etc.	\$476	481	\$5
Interest Income	20	30	10
Charges for Services	648	762	114
Water and Sewer Charges	1,253	1,368	115
Rental Income	212	220	8
Fines and Forfeitures	1,005	894	(111)
Other Miscellaneous	663	618	(45)
<b>Total</b>	<b>\$4,277</b>	<b>\$4,373</b>	<b>\$96</b>

SOURCE: NYC Office of Management and Budget.

Water and sewer revenues represent the largest category in miscellaneous revenues. However, the bulk of these revenues are dedicated to the cost of providing water and sewer services and, therefore, not available for general operating purposes.

The increase in charges for services results mainly from a reallocation of \$100 million in expected revenues from the proposed 5-cent user fee for disposable plastic bags, which was previously accounted for in the "other miscellaneous" category. In light of the State's not addressing this initiative in its budget process, the Comptroller's office considers the initiative at risk. The City expects to collect the remaining \$14 million in revenues from fees, such as a credit card convenience fee, civil service exam fees and multi-space meters in commercial parking zones.

Estimates for fines and forfeitures and "other miscellaneous" categories were revised downward by \$111 million and \$45 million, respectively. The net decrease in the "other miscellaneous" category results from the above mentioned reallocation of the \$100 million in estimated revenues from the proposed plastic bag user fee. This loss is partially offset by \$71 million the City expects to receive in Health and Hospitals Corporation payments which were delayed from FY 2009 to FY 2010.

Throughout the plan period, estimates for fines and forfeitures were revised downward to reflect the red light camera legislation enacted by the State. In the January Plan, the City submitted a proposal to expand the red light camera program to an unspecified number of locations and to increase the fine amount from \$50 to \$100. The City expected to raise an additional \$133 million in FY 2010, \$188 million in FY 2011 and \$252 million in each of FYs 2012-13. Instead, the recently passed State Legislation allows the City to install cameras in 50 additional locations and it does not authorize fine increases. The City's current estimates stemming from the program were reduced by \$115.8 million in FY 2010, \$174.8 million in FY 2011, and \$239.6 million in each of FYs 2012 through 2013.

Over the Financial Plan period, miscellaneous revenue is expected to remain stable at \$4.3 billion annually. Unlike previous years, non-recurring resources are not expected to be significant in FY 2010 or the outyears.

## Federal and State Aid

The Executive Budget projects Federal and State aid to total \$18 billion in FY 2010, constituting about 30 percent of the City's revenue budget. These estimates represent a significant improvement over the January Plan due to recognition of new Federal assistance stemming from the ARRA. Compared with the January Plan, the City has recognized about \$1.1 billion in additional Federal aid in FY 2010, with a similar increase expected in FY 2011. Combined with the FMAP increase, the other major component of the ARRA stimulus package, the federal plan is expected to provide overall support of about \$3.63 billion to the City's expense budget over the course of the current plan. However, because the stimulus funding would only last through FY 2011, Federal and State grants are projected to drop from \$18.3 billion in FY 2011 to \$17.7 billion in FY 2012, before rising to \$18.4 billion by FY 2013.

The new Federal funds recognized in the Executive Budget are chiefly in education. The Financial Plan has identified three major components of the additional education aid. The City estimates that ARRA would provide the Department of Education with \$335 million in Title I funding for economically disadvantaged students. Federal IDEA grants for special education also are expected to increase by \$158 million. In addition, the distribution of State Fiscal Stabilization Grants under ARRA would restore about \$459 million in school aid reductions by the State. Altogether, these resources would increase funding to the DOE by \$952 million in FY 2010, rising to \$961 million in FY 2011. The Executive Budget also anticipates the receipt of an additional \$48 million in Community Development Block Grant (CDBG) in FY 2010 covering various programmatic areas, including building repairs and remediation projects for the Departments of Education and Housing Preservation and Development. No additional CDBG funding is expected after FY 2011 under the stimulus plan. Rounding out the remainder of the ARRA impact are funds earmarked for foster care and adoption services (\$20 million), transportation (\$10 million) and higher education (\$14 million). The residual flow from this group is projected at \$20 million in FY 2011 and \$10 million in FY 2012.

The City also has revised its savings assumptions for the FMAP increase in the Executive Budget. The Financial Plan previously expected the FMAP increase would ease the City's Medicaid burden by \$1 billion annually in FYs 2010 and 2011. However, the State's allocation methodology of the FMAP dollars, which essentially retains a greater share of these funds for its own budget relief than initially indicated by the Governor, has significantly dampened the outlook for these savings. As a result, the City now is recognizing about \$400 million less in FMAP dollars than previously assumed in the January Plan. The timing of the savings has been revised to \$447 million in FY 2009, \$850 million in FY 2010, and \$295 million in FY 2011.

The Executive Budget recognizes a net cost of \$161 million for FY 2010 from the enacted State budget. The components of this estimate are a \$96 million shortfall in red light camera revenues, \$59 million in additional expenditures for welfare and correction and \$91 million in health insurance costs, partly offset by \$85 million from the

restoration of revenue sharing aid. The net cost of these changes is estimated to range between \$152 million and \$213 million in the outyears of the Plan.

The City also anticipates substantial gap-closing relief from actions requiring approval by the State. While these actions remain viable options, they were not addressed by the State in its budget process. Total revenues and savings from these initiatives are expected at \$1.25 billion in FY 2010 and \$1.34 billion in FY 2011, including a proposed increase in the City's sales tax rate and repeal of the clothing sales tax exemption that would boost tax revenues by \$946 million and \$981 million sequentially during these two years. A 5-cent plastic bag use fee would generate \$100 million in FY 2010 and \$160 million in FY 2011. Lastly, the creation of a new pension tier for new City employees would garner savings of \$200 million annually.

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## VI. Expenditure Assumptions

Total-funds spending, which includes Federal and State categorical expenditures, totals \$59.6 billion in the FY 2010 Executive Budget, a decline of \$1.8 billion from the revised FY 2009 level.<sup>3</sup> However, the FY 2010 expenditure estimates reflect spending reductions in excess of \$5 billion from FY 2009 prepayments and other prior-year actions. After adjusting for prepayments and prior-year actions, FY 2010 expenditures total \$65.404 billion, an increase of 2.8 percent from the adjusted FY 2009 estimate of \$63.6 billion.

Over the Plan period, expenditures adjusted for prepayments and prior-year actions are projected to grow 9.8 percent, an annual average growth rate of 3.2 percent. As shown in Table 12, expenditure increases are dominated by growth in spending on pensions, health insurance, debt service, and judgments and claims (J&C). The combined growth in these areas over the Financial Plan period is projected to be 20 percent, or 6.3 percent annually, more than two and a half times the projected average annual inflation rate for this period. All other expenditures are projected to grow 5.1 percent over the Plan period, averaging 1.7 percent growth annually.

**Table 12. FYs 2010 – 2013 Expenditure Growth**

(\$ in millions)

	FY 2010	FY 2011	FY 2012	FY 2013	Growth FYs 10–13	Annual Growth
Pension	\$6,575	\$7,110	\$7,433	\$7,707	17.2%	5.4%
Debt Service	5,481	5,820	6,252	6,530	19.2%	6.0%
Health Insurance	4,078	4,438	4,717	5,080	24.6%	7.6%
J & C	663	720	781	844	27.3%	8.4%
<b>Subtotal</b>	<b>\$16,797</b>	<b>\$18,088</b>	<b>\$19,183</b>	<b>\$20,161</b>	<b>20.0%</b>	<b>6.3%</b>
Salaries and Wages	\$22,285	\$23,257	\$22,804	\$23,372	4.9%	1.6%
Other Fringe Benefits	3,205	3,328	3,405	3,352	4.6%	1.5%
Medicaid	5,757	5,916	6,090	6,271	8.9%	2.9%
Public Assistance	1,299	1,299	1,299	1,299	0.0%	0.0%
Other OTPS	17,393	17,197	17,781	18,209	4.7%	1.5%
<b>Subtotal</b>	<b>\$49,939</b>	<b>\$50,997</b>	<b>\$51,379</b>	<b>\$52,503</b>	<b>5.1%</b>	<b>1.7%</b>
MA FMAP Increase	(\$850)	(\$295)	\$0	\$0	(100.0%)	(100.0%)
Health Insurance Cost Reduction	(\$200)	(\$557)	(\$586)	(\$618)	209.0%	45.7%
Retiree Health Benefit Trust	(\$82)	(\$395)	(\$672)	(\$0)	(100.0%)	(100.0%)
Pension Reform	(\$200)	(\$200)	(\$200)	(\$200)	0.0%	0.0%
<b>Total Expenditures</b>	<b>\$65,404</b>	<b>\$67,638</b>	<b>\$69,105</b>	<b>\$71,846</b>	<b>9.8%</b>	<b>3.2%</b>

<sup>3</sup> Expenditures in this report include NYCTFA debt service.

## Overtime

The City budgeted approximately \$816 million in the FY 2010 Executive Budget for overtime expenditures, \$27 million less than projected in the FY 2010 Preliminary Budget. This decline is due mainly to a \$30 million downward revision in overtime projections for uniformed employees at the Fire Department. The current forecast for the Fire Department reflects savings of \$3.4 million from an initiative to reduce administrative uniformed overtime by 10 percent and an adjustment that reflects uniformed overtime spending trends in the Department in recent fiscal years.

The current FY 2010 estimate of overtime spending is about \$112 million less than the FY 2009 forecast of \$928 million. This estimate continues a pattern of under-budgeting at the beginning of the fiscal year. For FY 2009, overtime cost was expected to total \$792 million in the FY 2009 Executive Budget. Since then the forecast has increased by \$136 million or 17 percent, mainly to fund overtime earned by uniformed employees at the Police Department and the Department of Correction (DOC).

As Table 13 shows, the Comptroller's Office estimates that FY 2010 overtime spending will be at least \$137 million more than the City's estimate. Most of the risk to the overtime budget stems from the uniformed employees overtime budget. The City's overtime budget for uniformed employees is \$594 million. However, uniformed employee overtime cost, which has averaged \$639 million annually between FYs 2005 to 2008, is on track to reach about \$700 million for FY 2009. The Comptroller's Office estimates that uniformed employees overtime cost will total \$716 million in FY 2010.

**Table 13. Projected Overtime Spending, FY 2010**

(\$ in millions)			
	City Planned Overtime FY 2010	Comptroller's Projected Overtime FY 2010	FY 2010 Risk
Uniformed Forces			
Police	\$334	\$420	(\$86)
Fire	145	145	0
Correction	59	95	(36)
Sanitation	56	56	0
Total Uniformed Forces	\$594	\$716	(\$122)
Others			
Police-Civilian	\$45	\$60	(\$15)
Admin for Child Svcs	13	13	0
Environmental Protection	21	21	0
Transportation	28	28	0
All Other Agencies	115	115	0
Total Civilians	\$222	\$237	(\$15)
<b>Total City</b>	<b>\$816</b>	<b>\$953</b>	<b>(\$137)</b>

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

Overtime spending estimates for police officers present the greatest risk to the overtime budget. The budgeted amount of \$334 million is \$86 million lower than the Comptroller's projection. Uniformed overtime spending in the Police Department for the first ten months of FY 2009 totals \$341 million and is expected to be about \$410 million for the fiscal year. Should this trend continue into FY 2010, uniformed police overtime spending will be at least \$420 million.

The overtime budget for uniformed DOC officers also faces a risk of \$36 million. The department has spent \$75 million on uniformed overtime for the first ten months of FY 2009 and is on target to spend just under \$100 million for the full fiscal year. The Comptroller's Office estimates that the Department will spend \$95 million on uniformed officer's overtime in FY 2010. The expected drop in overtime spending from FY 2009 is due to on-going recruitment and management initiatives and a relatively constant level of the average daily inmate population. The average daily inmate population through March 2009 was 13,406 compared to 13,962 in 2008 and 13,985 in FY 2007.

## **Headcount**

Current City-funded full-time headcount has remained virtually unchanged since the Preliminary Budget, totaling 243,357 as of March 31, 2009. Table 14 shows, the current FY 2010 forecast of 232,929 employees, which is 6.0 percent above the one shown in the January 2009 Modification. Headcount is expected to remain relatively stable in FY 2011, and then drop by more than 13,000 in FY 2012 when the Federal Stimulus package expires. The City expects to reinstate approximately 10,000 of these full-time positions by the end of FY 2013.

As expected, DOE's proposed layoff of roughly 14,000 full-time teachers in FY 2010 was averted by Federal Stimulus funding. This accounts for the 6.0 percent plan-to-plan increase in FY 2010 full-time headcount. Unfortunately, this funding is set to expire at the end of FY 2011, and layoffs reappear in FY 2012. However, when compared to the January 2009 Financial Plan, the March 2009 Modification reflects an optimism about the City's ability to fund and reinstate almost 10,000 pedagogical positions in FY 2013.

As part of the City's Program to Eliminate the Gap (PEGs), several agencies are reducing planned headcount. Most notably, planned civilian headcount for the Police Department in the FY 2010 Executive Budget is 520 positions less than the previous target in the FY 2010 Preliminary Budget. Specifically, the current budget will eliminate 125 traffic enforcement agent (TEA) positions via attrition and vacancy reductions, and lay off an additional 395 civilian employees agency-wide, when compared to the January Modification. At the DOC, 72 civilian vacancies will be eliminated in each of FYs 2010 through 2013. DOC will, however, benefit from a PEG restoration of 259 corrections officers and seven civilians in FY 2010, arising from revised capacity efficiency assumptions. The Department also will hire 98 more officers for Bronx Court holding cells in the upcoming fiscal year.

For the second consecutive financial plan, the Department of Homeless Services (DHS) again has PEGs that are dominated by layoffs, and to a lesser extent attrition, which will reduce targeted headcount by a minimum of 105 positions in each of FYs 2010 through 2013 as compared to the January Modification. The Department of Social Services, the Department of Probation and the Department of Health and Mental Hygiene will see plan-to-plan reductions of 145, and just over 36 and 30 existing vacancies respectively, in each of FYs 2010 through 2013.

The Department of Transportation (DOT) will achieve most of its plan-to-plan gap-closing headcount reductions through funding switches. In total, 54 full-time City-funded positions will be federally funded as of FY 2010, of which 34 pertain to staff for a traffic management center, while the remaining 20 will continue in their current roles for ferry maintenance, but will now be funded by the Federal Transportation Administration (FTA). Additionally, in FY 2010 only, 33 positions formerly funded by the City, now will be funded by the State under the Consolidated Local Street and Highway Improvement Program (CHIPS). Augmenting the gap-closing funding switches are vacancy reductions in the borough engineering office and other divisions that will trim 17 positions from the previous Financial Plan beginning in FY 2010. Other technical adjustments will further reduce DOT's targeted headcount by an additional 41 positions in FY 2010, 60 positions in FY 2011, and 96 positions in each of FYs 2012 and 2013 respectively when compared to the January Financial Plan. These technical adjustments will have no gap-closing effect.



**Table 14. City-Funded Full-Time Year-End Headcount Projections**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
<b>Pedagogical</b>					
Dept. of Education	95,868	94,690	94,676	80,827	90,601
City University	2,686	2,656	2,656	2,656	2,656
Sub-total	<b>98,554</b>	<b>97,346</b>	<b>97,332</b>	<b>83,483</b>	<b>93,257</b>
<b>Uniformed</b>					
Police	35,128	33,217	34,109	35,002	35,284
Fire	11,223	10,772	10,772	10,772	10,772
Corrections	8,658	8,141	7,896	7,896	7,896
Sanitation	7,452	7,234	7,319	7,291	7,291
Sub-total	<b>62,461</b>	<b>59,364</b>	<b>60,096</b>	<b>60,961</b>	<b>61,243</b>
<b>Civilian</b>					
Dept. of Education	7,905	7,906	7,904	7,904	7,904
City University	1,640	1,579	1,475	1,475	1,475
Police	14,640	13,628	13,663	13,668	13,678
Fire	4,836	4,708	4,708	4,708	4,708
Corrections	1,423	1,437	1,430	1,430	1,430
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	11,346	10,740	10,734	10,734	10,734
Homeless Services	2,221	1,884	1,927	1,914	1,915
Health and Mental Hygiene	3,977	3,863	3,893	3,892	3,892
Finance	2,126	2,107	2,089	2,071	2,071
Transportation	2,226	2,104	2,200	2,186	2,206
Parks and Recreation	3,096	2,849	2,887	2,887	2,887
All Other Civilians	16,175	15,577	15,108	15,027	15,031
Sub-total	<b>80,208</b>	<b>76,219</b>	<b>75,898</b>	<b>75,776</b>	<b>75,811</b>
<b>Total</b>	<b>241,223</b>	<b>232,929</b>	<b>233,326</b>	<b>220,220</b>	<b>230,311</b>

As shown in Table 15, City-funded full-time equivalent (FTE) headcount is expected to be approximately 26,400 in each of FYs 2010 through 2013, consistent with the January 2009 Financial Plan.

**Table 15. City-Funded FTE Year-End Headcount Projections**

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
<b>Pedagogical</b>					
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	<b>2,493</b>	<b>2,446</b>	<b>2,446</b>	<b>2,446</b>	<b>2,446</b>
<b>Civilian</b>					
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	1,263	1,418	1,418	1,410	1,410
Parks and Recreation	3,721	3,393	3,426	3,433	3,438
All Other Civilians	1,835	1,729	1,731	1,731	1,731
Sub-total	<b>24,275</b>	<b>23,928</b>	<b>23,962</b>	<b>23,961</b>	<b>23,966</b>
<b>Total</b>	<b>26,768</b>	<b>26,374</b>	<b>26,408</b>	<b>26,407</b>	<b>26,412</b>

## Health Insurance

The City expects to spend a combined \$3.796 billion on pay-as-you-go health insurance for employees and retirees in FY 2010, \$581 million or 18 percent more than amount budgeted for FY 2009. In the outyears health insurance spending is expected to decline to \$3.486 billion in FY 2011 and to \$3.460 billion in FY 2012 before increasing to \$4.462 billion in FY 2013, as shown in Table 16.

The projected health insurance spending reflects a prepayment of \$460 million of FY 2009 costs in FY 2008 as well as savings of \$282 million in FY 2010, \$952 million in FY 2011, \$1.258 billion in FY 2012, and \$618 million in FY 2013. These savings include as yet undefined cost containment measures which are expected to reduce spending by \$200 million annually beginning in FY 2010, and reductions in the City's health insurance spending of \$357 million in FY 2011, \$386 million in FY 2012, and \$418 million in FY 2013 from a proposal that will require a 10 percent contribution for premiums from employees and retirees. The implementation of these two measures will require reaching agreements with the municipal unions. Additionally, the City will use \$1.15 billion of the RHBT assets to partially pay retiree pay-as-you-go health insurance cost for FYs 2010 through 2012. The savings to the City from the reduced health insurance expense will be used to fund additional pension contributions resulting from pension investment losses.

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

(\$ in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Department of Education	\$1,397	\$1,582	\$1,702	\$1,716	\$1,803
CUNY	37	40	43	47	47
All Other	1,781	2,374	2,298	2,283	3,230
Health Insurance Cost Containment	0	(200)	(200)	(200)	(200)
Health Insurance Reform Savings	0	0	(357)	(386)	(418)
Total Pay-As-You-Go Health Insurance Costs	\$3,215	\$3,796	\$3,486	\$3,460	\$4,462
Health insurance Cost Containment	0	200	200	200	200
Health Insurance Reform Savings	0	0	357	386	418
Reduction to RHBT	0	82	395	672	0
Prepayment	460	0	0	0	0
Adjusted Pay-As-You-Go Health Insurance Costs	\$3,675	\$4,078	\$4,438	\$4,718	\$5,080

From FYs 2009 to 2013, health insurance cost is expected to increase by 8.4 percent annually, excluding projected savings. The projections reflect premium increases of 12.8 percent in FY 2010 and 8.0 percent in each of the outyears. Since FY 2000, the City has seen premium increases averaging 9.55 percent annually.

## Pensions

The City's May 2009 Financial Plan projects pension expenses of approximately \$6.4 billion in FY 2010, \$6.9 billion in FY 2011, \$7.2 billion in FY 2012 and \$7.5 billion in FY 2013. The projections include funding of \$431 million in FY 2011, \$794 million in

FY 2012 and \$1.173 billion in FY 2013 to offset projected FY 2009 investment losses of 20 percent.<sup>4</sup> Pension fund investments on March 31, 2009 showed a fiscal year-to-date loss of 26 percent. Every percentage point in pension investment return on June 30, 2009 above or below the current funding will result in additional or reduced contributions of \$15 million in FY 2011, \$28 million in FY 2012, and \$42 million in FY 2013.

As part of its gap-closing initiatives, the City has proposed pension benefit reform for new employees which is expected to reduce annual contributions by \$200 million beginning in FY 2010. In order for the City to achieve the projected savings, the City Actuary will have to change the current assumptions and methodology in determining pension contributions. Any changes in key methodologies will require State Legislation. In addition, the City Actuary has not indicated if he will commit to such changes.

A proposal in the State Legislature to create a new pension tier of retirement benefits for future employees was not enacted during the State's Adopted Budget process. It is uncertain if or when such a proposal will be enacted. The proposal calls for a modification of pension benefits structure for new employees, mainly requiring civilian workers to contribute to the pension plan for all years of service. Additionally, uniformed employees would be required to work at least 25 years and be at least 50 years old to qualify for full pension compared to 20 years with no age requirements for current employees.

The pension projections also reflect the impact of a combined investment loss of 5.4 percent on pension fund investments for FY 2008 and a reserve of \$200 million annually beginning in FY 2011 to fund potential changes in actuarial assumptions and methods.

## **Labor**

The City has contracts in place for the current round of collective bargaining with most major unions. Contracts for United Federation of Teachers (UFT) and Council of School Supervisors and Administrators will expire on October 31, 2009 and March 5, 2010, respectively. However, the first two increases in the next contract for these unions will correspond to the last two increases of the current contracts for the remaining municipal unions. The labor reserve contains funding for a two-year contract for UFT and CSA employees of a 4.0 percent increase on the first day of the contract and another 4.0 percent on the first day of the thirteenth month of the contract, patterned after the contracts for other municipal unions.

The City has reserved annual wage increases of approximately 1.25 percent for all employees for the next round of collective bargaining in the Financial Plan. Several

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<sup>4</sup> The City's current actuarial asset valuation method recognizes pension investment returns above or below the Actuarial Investment Return Assumption (AIRA) of 8.0 percent over a seven-year period, cumulatively zero percent in year one, 15 percent in year two, 30 percent in year three, 45 percent in year four, 60 percent in year five, 80 percent in year six, and 100 percent in year seven.

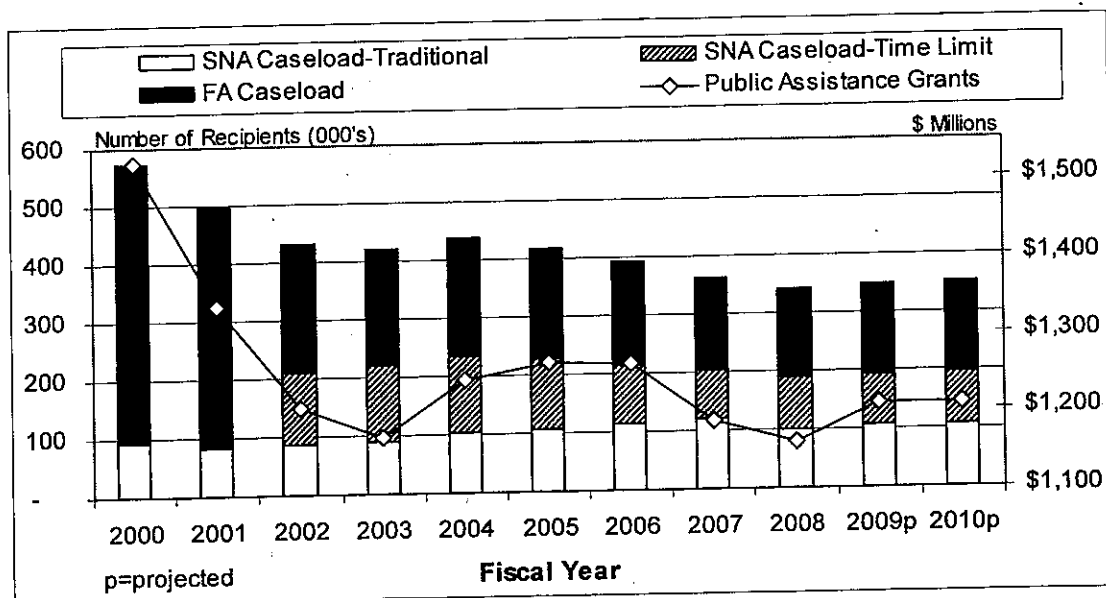
unions' contracts will expire over the next two fiscal years. District Council 37's (DC37) contract will expire on March 2, 2010, the latter half of FY 2010. Contracts for Communications Workers of America (CWA), Organization of Staff Analysts (OSA), Uniformed Firefighters' Association (UFA), and Patrolmen's Benevolent Association (PBA) will expire in FY 2011. Each additional percentage wage increase above the funded amount for these unions will cost the City about \$96 million annually.

## Public Assistance

In the Executive Budget, the City has maintained the same projections for public assistance caseload and grants expenditures as in the January Plan. The City anticipates welfare caseload to reach 348,061 by the end of the current fiscal year. Over the course of the Plan, caseload is projected to reach 351,452 by the end of FY 2010 and then stay flat from FY 2011 through FY 2013. Projected gross baseline grants are expected to reach \$1.21 billion in FY 2009 and remain constant through the remainder of the Plan.

The City's public assistance caseload and grant expenditures have both declined significantly since FY 2000, as shown in Chart 2. A comparison of fiscal year-end caseloads from FY 2000 to FY 2008 shows a decrease of about 40 percent in the number of public assistance recipients, from 572,872 to 341,329. The City's caseload actually reached 334,329 in September 2008, the lowest level since the early 1960's, but has since rebounded to 342,333 in the latest reported caseload for April 2009. Similarly, baseline grants also have fallen by about 24 percent from \$1.53 billion to \$1.16 billion from FY 2000 to FY 2008. Given the current economic climate, the break in the declining trend in FY 2009 is not surprising. While there are signs of an upturn slowly emerging—both caseload and monthly grants expenditures have begun to rise during the latter portion of FY 2009—additional data is still needed to determine if this is the beginning of a major reversal in public assistance caseload and spending trends.

**Chart 2. Public Assistance Caseload and Spending Trends, FYs 2000-2010**



Further, the City's public assistance budget has not yet reflected a State action to incrementally increase basic allowances for cash assistance recipients by 10 percent annually over the next three years. The initiative, which is slated to go into effect in July 2009, will be wholly funded by the State during the implementation period from FY 2010 through FY 2012. However, once fully implemented, the City would be required to contribute to the funding of this new cost. Based on State estimates, this action could require additional City funding of at least \$50 million beginning in FY 2013.

## **Department of Education**

The Executive Budget has reflected a significant boost to the Department of Education (DOE) budget from funding provided in the Federal Economic Stimulus Plan. Compared with the January Plan, the Executive Budget raises the DOE spending projection by nearly \$1 billion, almost entirely in Federal funds, to \$18.31 billion for FY 2010. The new Federal funding would lift funding for the DOE budget over the next two years, partly offsetting the cumulative impact of State and City budget cuts that the Department sustained in prior plans and averting potential layoffs of its pedagogical staff.

Against a backdrop of City and State budget difficulties, the Preliminary Budget in January had cast a worrisome fiscal outlook for the Department in coming years. Between the June 2008 and January 2009 plans, the projected FY 2010 budget for the Department fell by a net of about \$1.37 billion to \$17.32 billion after absorbing reductions mostly in State and City funds. The heaviest round of cuts occurred in January, which slashed funding for the Department by a net total of \$981 million. At the time, the Department indicated that reduced State support of \$766 million would force the layoffs of nearly 14,000 pedagogical positions. The Department also would have needed to identify alternative funding sources to make up for a proposed shift in State costs for pre-kindergarten handicapped services.

As detailed in the Executive Budget, the Federal Economic Stimulus Plan adds new funding of \$952 million to the DOE budget in FY 2010. Of this total, \$335 million in Title I funds and \$158 million in special education grants would flow to the Department under the federal plan. The other components stem from the distribution of Fiscal Stabilization Grants by the State, restoring \$362 million in school aid reduction assessed to the City and \$97 million in funding for pre-kindergarten handicapped services. The Department already has indicated that layoffs of pedagogical positions no longer will be needed because of the infusion of Federal funds.

Though in a recent announcement, the Chancellor indicated that in order to close an internal gap of \$405 million, school budgets will be further trimmed by 5.0 percent in FY 2010. The cuts will likely lead to reduce funding for after-school and weekend programs. While no teacher layoffs are expected, other staffing titles such as, teacher assistants and school aids, may face elimination. The Department largely has been exempted from additional PEG reductions in the Executive Budget. Compared to the January Plan, City funding for the DOE actually has increased by almost \$100 million mainly from the recognition of a FY 2009 surplus (\$55 million), revised health insurance costs (\$35 million) and collective bargaining transfers (\$23 million), offset by net energy

savings (\$15 million). Regarding the State's maintenance-of-effort funding requirement, the FY 2010 Executive Budget exceeds the mandate with an \$85 million year-to-year increase in City funds over the FY 2009 spending projection.

The new federal funds would bring about a temporary change in the Department's funding structure over the next two years. The DOE budget, which receives 90 percent of its financial support from the City and State, would see these two sources shrink to respective shares of about 40 and 45 percent in the next two years. Federal support, which traditionally constitutes only up to 10 percent of the DOE general expense budget, is expected to average more than 14 percent annually in FYs 2010 and 2011. The overall DOE budget is projected to grow \$654 million in FY 2010 and \$1.02 billion in FY 2011, reaching \$19.34 billion in FY 2011. However, the termination of the Federal stimulus funding would cause a decline of \$647 million in projected spending for FY 2012, before recovering by \$715 million in FY 2013. As a result, projected DOE spending for FY 2013 is only marginally higher than in FY 2011.

### **Health and Hospitals Corporation**

In the Executive Budget, the City projects the Health and Hospitals Corporation (HHC) will retain a cash balance of \$922 million by the end of FY 2010. While HHC's cash balance remains relatively strong, it represents a decline of \$375 million from the \$1.3 billion previously anticipated in the Preliminary Budget. The decline mainly is attributable to the recognition of the State budget impact and a shortfall in HHC's prior assumption for maximization of Medicaid Disproportionate Share (DSH) revenues. Over the longer term, the Corporation's cash balance is expected to decline about \$300 million annually to \$658 million in FY 2011 and \$350 million in FY 2012.

The City projects that, on an accrual basis, HHC would face a budget deficit of \$718 million in FY 2010, representing a reduction of \$624 million since the January Plan. The Executive Budget shows a net increase of \$662 million in the Corporation's baseline revenue projections, mostly due to a delay in the timing of retroactive Medicaid Upper Payment Limit (UPL) revenues that now are expected to materialize in FY 2010 instead of FY 2009. The Corporation's baseline revenues also reflect additional UPL revenue assumptions that previously were held below-the-line as Federal and State actions in its gap-closing program. Given the nature of the changes, the revenue increase does not represent new resources to the HHC financial plan as a whole, since they were already captured in prior plans as FY 2009 revenues or gap-closing actions. In fact, because of the State budget impact and lower expectation for DSH revenue maximization, the overall value of baseline and gap-closing revenue assumptions have actually declined, evidenced by the diminished FY 2010 ending cash balance.

For FY 2010, the Corporation is contemplating a gap-closing program of \$361 million that chiefly relies on internal savings of \$316 million. While HHC has not yet outlined a plan for the full savings, some of the measures already identified include efficiencies in procurement and revenue collections, as well as savings through attrition and layoffs. The balance of the program is expected from medical malpractice cost containment (\$25 million) and Federal/State actions (\$20 million).

In the outyears, the City projects HHC spending to range between \$7.34 billion in FY 2011 to \$7.82 billion in FY 2013, reflecting an average growth of more than 3.0 percent annually from a base of \$7.1 billion in FY 2010. Meanwhile, revenues are expected to be stagnant between \$5.95 billion and \$6.18 billion in FYs 2011 - 2013, compared to a higher base of \$6.39 billion in FY 2010. As a result, budget gaps are expected to widen in the outyears to a range of \$1.39 billion to \$1.63 billion annually. To achieve the projected cash balances during these years, the Corporation would need to implement gap-closing programs of more than \$800 million each year. HHC also would return to a greater reliance on Federal and State actions to close its gaps, with expectations of \$460 million to \$525 million in each of the outyears.

## Debt Service

As shown in Table 17, debt service, after adjusting for prepayments, is projected to grow from \$4.84 billion in FY 2009 to \$5.55 billion in FY 2010, \$5.89 billion in FY 2011, \$6.33 billion in FY 2012, and \$6.61 billion in FY 2013. Over the FYs 2009 - 2013 period, total debt service is expected to grow \$1.76 billion, or 36.4 percent. This represents decreases of \$232 million in FY 2009, \$62 million in FY 2010, \$129 million in FY 2011, \$134 million in FY 2012, and \$145 million in FY 2013 from the January Plan.

**Table 17. FY 2010 Executive Budget & Financial Plan, May 2009**

(\$ in millions)

Debt Service Category	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Change FYs 2009 - 2013
G.O. <sup>a</sup>	\$3,511	\$4,066	\$4,416	\$4,848	\$5,128	\$1,617
NYCTFA <sup>b</sup>	1,079	1,137	1,153	1,157	1,158	79
Lease-Purchase Debt	163	278	251	247	245	82
TSASC, Inc.	89	74	74	74	74	(15)
<b>Total</b>	<b>\$4,842</b>	<b>\$5,555</b>	<b>\$5,894</b>	<b>\$6,326</b>	<b>\$6,605</b>	<b>\$1,762</b>

SOURCE: FY 2010 Executive Budget, May 2009, Office of Management & Budget.

NOTE: Debt service is adjusted for prepayments.

<sup>a</sup> - Included long-term GO debt service and interest on short-term notes.

<sup>b</sup> - Amounts do not include NYCTFA Building Aid Revenue Bonds (BARBs).

General Obligation bonds (G.O.) make up the majority of the expected growth in debt service from FYs 2009 - 2013, accounting for \$1.62 billion, or 92 percent of the increase. The NYCTFA currently has no additional bonding capacity and thus its debt service is relatively flat through FY 2013.

The decrease of \$232 million in FY 2009 from the January Plan is due primarily to estimated G.O. variable rate demand bond (VRDB) savings of \$168 million, VRDB savings related to NYCTFA bonds of \$53 million, and lease-purchase debt savings of \$13 million. Savings of \$62 million in FY 2010 is mainly attributable to \$27 million in lower than anticipated G.O. borrowing costs, \$22 million of estimated debt service savings from the use of ARRA sponsored Federal School Tax Credit Bonds, and

\$7 million of NYCTFA baseline re-estimates. The decrease of \$129 million in FY 2011 is due to \$77 million anticipated benefit from the Federal School Tax Credit bonds<sup>5</sup>, \$24 million in lower debt service costs related to one-half percent drop in interest rate cost assumptions, and approximately \$15 million in lower-than-expected borrowing costs. Estimated savings of \$134 million and \$145 million in FYs 2012 and 2013, respectively, follow a similar pattern with \$98 million and \$108 million of estimated savings from Federal School Tax Credit bonds coupled with savings from lowered interest rate borrowing assumptions of one-half percent in the first half of FY 2011, 1.0 percent in the second-half of FY 2011, and one-half percent lower in the first half of FY 2012 from the January Plan.

### **Debt Burden**

An accepted measure of debt burden and affordability is debt service as a percent of tax revenues.<sup>6</sup> As shown in Chart 3, adjusted for prepayments, debt service as a percent of tax revenues is projected to be 12.8 percent in FY 2009, increasing to 15.2 percent in FY 2010, 15.2 percent in FY 2011, and stabilizing at 15.7 percent in FYs 2012 - 2013.<sup>7</sup> Debt service is projected to grow at a rate of 8.0 percent per year from FYs 2009 to 2013, significantly outpacing tax revenue growth of 3.4 percent per year over the same period. The City has reduced its capital program over the FYs 2010 – 2019 period to bring the growth of debt service in line with tax revenue growth. As a result, projected debt service growth slows significantly beyond FY 2013, and over the FYs 2010 – 2019 period, is projected to grow at an annual pace of about 3.5 percent matching expected annual tax revenue growth of 3.5 percent over the same period. This comparable growth helps stabilize the ratio at about 15 percent by FY 2019.

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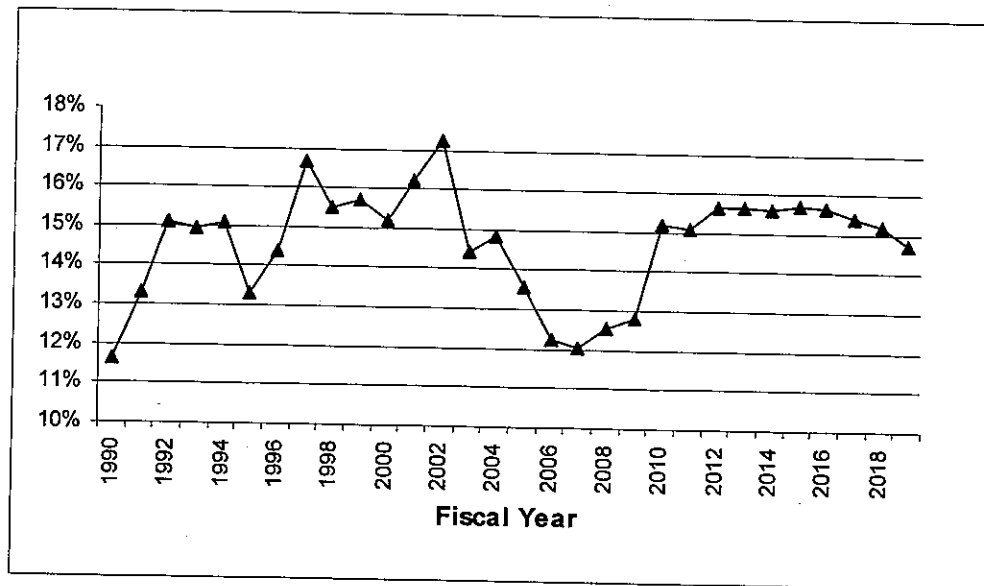
<sup>5</sup> Includes Qualified School Construction Bonds (QSCBs) and Qualified Zone Academy Bonds (QZABs).

<sup>6</sup> Debt service in this analysis is comprised of G.O., lease purchase, PIT-supported NYCTFA, and TSASC debt service.

<sup>7</sup> Debt service is adjusted for prepayments. Prior-year prepayments are added back to the total and current year planned prepayments are subtracted from the total.



**Chart 3. Debt Service as a Percent of Tax Revenues, FYs 1990-2019,  
FY 2010 Executive Budget**



SOURCE: FY 2010 Executive Budget and Financial Plan, NYC Office of Management and Budget, May 2009.

### Financing Program

The Financing Program for FYs 2009 - 2013 totals \$42.81 billion, an increase of \$685 million from the January 2009 Financial Plan. As shown in Table 18, G.O. bonds, payable from property tax retention, constitute \$27.76 billion, or 64.8 percent of the total expected financing from FYs 2009-2013. This level of borrowing represents a \$1.08 billion increase from the January Plan. Included in the G.O. borrowing plan is the assumed use of about \$1.7 billion of Qualified School Construction bonds (QSCBs) and Qualified Zone Academy bonds (QZABs). The QSCBs are assumed to be issued as zero-interest bonds sold at par in lieu of the deep discount of a zero-coupon bond. If the bonds are sold below par, it would diminish the theoretical benefit of the program as more bonds would have to be issued for the same funding requirements.

The administration is seeking additional bonding capacity for the NYCTFA Personal Income Tax bonds. If authorized, the City would issue about one half of the current G.O. borrowing in NYCTFA PIT bonds over the Financial Plan period. The PIT-supported NYCTFA credit is more highly rated than G.O. and will offer a lower cost vehicle as well as diversifying the City's debt issuance. The legislative proposal is still pending.

The New York Water Finance Authority (NYWFA) borrowing comprises \$10.05 billion, or 23.5 percent of the Plan. These bonds, which are supported with water and sewer revenues, are used to fund the capital improvement program of the City's Department of Environmental Protection. Projected borrowing for NYWFA has actually declined by \$398 million from the January Plan.

NYCTFA Building Aid Revenue Bonds (BARBs) sum to \$5 billion, or 11.7 percent, over the period with \$2.5 billion in FY 2009 and the balance of \$2.5 billion to be issued over FYs 2010-2013. These bonding assumptions remain unchanged from the January Plan.

The Financial Plan includes no pay-as-you-go capital spending over this period. However, when properly implemented, it is a source of prudent funding for the capital program reducing the need to borrow exclusively for capital needs.

**Table 18. FYs 2009-2013 Financing Program, May 2009**

(\$ in millions)

Type of Debt	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	Total
GO	\$5,291	\$6,450	\$6,000	\$5,300	\$4,720	\$27,761
NYCTFA PIT Bonds	0	0	0	0	0	0
Water Authority Bonds	2,600	2,202	1,934	1,753	1,561	10,050
NYCTFA BARBs	2,500	250	800	700	750	5,000
Total	\$10,391	\$8,902	\$8,734	\$7,753	\$7,031	\$42,811

SOURCE: FY 2010 Executive Budget, May 2009, Office of Management and Budget.

Note: NYCTFA BARBs are supported by State Building Aid and its debt service is not included in the debt service budget.

## Capital Plan

The FY 2010 Executive Capital Commitment authorized Plan for FYs 2009 - 2013 equals \$47.11 billion in total funds and \$37.07 billion in City funds.<sup>8</sup> After the reserve for unattained commitments of \$2.91 billion over the period, total capital commitments will be \$44.2 billion and City-funds commitments will be \$34.17 billion. The Plan continues to be front-loaded with more than 50 percent of both total and City commitments over FYs 2009 - 2013 in FYs 2009 and 2010. An analysis of seven Executive Budget Commitment Plans from FY 2002 to FY 2008 reveals a tendency for the Plan to underestimate out-year commitments versus actual results. The third and fourth year of a plan, on average, understated actual results, by 35 and 51 percent, respectively.

In January, the City proposed a 30 percent commitment reduction program to the January G.O. and BARB-funded capital plan with estimated reductions of \$6.917 billion over FYs 2010 - 2013.<sup>9</sup> As of the May 2009 Plan, the commitment plan achieved lowered commitments of \$3.45 billion in all-funds over FYs 2009-2013.<sup>10</sup> As shown in Table 19, City-funds authorized capital commitments in January 2009 were \$41.03 billion over FYs 2009 - 2013 and have declined to \$37.08 billion in May 2009, a decrease of

<sup>8</sup> City-funds exclude NYCTFA BARBs.

<sup>9</sup> The planned reduction was presented below the line in the January Commitment Plan.

<sup>10</sup> This is comprised of lowered City-funds commitments of \$3.95 billion coupled with an increase of \$508 million in non-City funds.

\$3.95 billion, or 9.6 percent. When comparing the fully authorized January 2009 City commitment level of \$41.03 billion against the current City-funds capital commitment program of \$34.17 billion after the reserve for unattained commitments over FYs 2009 - 2013, the decline is \$6.86 billion, or about 17 percent from the January Commitment Plan.<sup>11</sup> In addition, this decrease includes projected City-funds commitment reductions of \$662 million over FYs 2009 - 2013 to the DEP. The DEP was assumed to be exempt from the reduction program in the January Plan.

**Table 19. Changes in the Capital Commitment Plan from January to May 2009, City Funds**

(\$ in millions)

Description	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FYs 2009 - 2013
January City Authorized Commitments	\$15,648	\$7,479	\$6,017	\$4,357	\$7,529	\$41,030
January City Commitments after Reserve for Unattained Commitments and the Reduction Program	\$11,304	\$7,144	\$5,023	\$4,000	\$5,145	\$32,616
May City Authorized Commitments	\$13,315	\$8,928	\$5,028	\$3,971	\$5,833	\$37,075
May City Commitments after Reserve for Unattained Commitments	\$9,752	\$8,699	\$5,733	\$4,588	\$5,397	\$34,169
Change from January in City Authorized	(\$2,333)	\$1,449	(\$989)	(\$386)	(\$1,696)	(\$3,955)
Change from January in City Authorized after reserve for Unattained Commitments	(\$1,552)	\$1,555	\$710	\$588	\$252	\$1,553

SOURCE: May 2009 Executive Commitment Plan & January 2009 Commitment Plan, OMB & NYC Comptroller.

Consistent with prior plans, capital commitments in DOE and the City University of New York (CUNY), the Department of Environmental Protection (DEP), Department of Transportation (DOT) and Mass Transit, and Housing and Economic Development account for the majority of all-fund commitments with 68 percent of the total projected commitments over the period, as shown in Table 20.

<sup>11</sup> The 2009 "Message of the Mayor" that was released with the Executive Budget shows a capital reduction of 27 percent. The reduction was derived by calculating the decrease in commitments over the FYs 2009 - 2019 City-funds G.O. base in the May Plan from the commitments over the FY 2010 - 2019 period in the January Plan and adding a 4 percent offset in education projects from the \$1.694 billion of Qualified School Construction Bonds to this decrease.

**Table 20. FYs 2009 – 2013 Capital Commitments, All-Funds**

(\$ in millions)

Project Category	May 2009-2013 Commitment Plan	Percent of Total
Education & CUNY	\$11,791	25.0%
Environmental Protection	9,386	19.9
Dept. of Transportation & Mass Transit	6,497	13.8
Housing and Economic Development	4,526	9.6
Administration of Justice	3,065	6.5
Technology and Citywide Equipment	3,344	7.1
Department of Parks and Recreation	2,321	4.9
Hospitals	722	1.5
Other City Operations and Facilities	5,458	11.7
<b>Total</b>	<b>\$47,109</b>	<b>100.0%</b>
Reserve for Unattained Commitments	(\$2,906)	n/a
<b>Adjusted Total</b>	<b>\$44,203</b>	<b>n/a</b>

SOURCE: Office of Management and Budget, FY 2010 May Capital Commitment Plan, May 2009.

The City-funds portion of the authorized Plan totals \$37.075 billion over FYs 2009 through 2013, as shown in Table 21. After adjusting for the reserve for unattained commitments, the City-funds plan totals \$34.169 billion. As in total-funds commitments, capital projects in DEP, DOE and CUNY, DOT and Mass Transit, and Housing and Economic Development constitute more than 60 percent of the City-funds plan. The significant difference between the DOE's 15.8 percent share of the City-funds capital plan and its 25 percent share of the all-funds capital plan reflects the State-supported commitments of \$5.95 billion over FYs 2009 through 2013. This \$5.95 billion in State support for the education portion of the commitment plan comprises 59 percent of the total State and Federal support in the entire commitment plan over FYs 2009 through 2013.

**Table 21. FYs 2009 – 2013 Capital Commitment, City-Funds**

(\$ in millions)

Project Category	May 2009-2013 Commitment Plan	Percent of Total
Environmental Protection	\$9,171	24.7%
Education & CUNY	5,845	15.8
Dept. of Transportation & Mass Transit	3,999	10.8
Housing and Economic Development	3,573	9.6
Administration of Justice	3,060	8.3
Technology and Citywide Equipment	3,328	9.0
Department of Parks and Recreation	2,082	5.6
Hospitals	722	1.9
Other City Operations and Facilities	5,295	14.3
<b>Total</b>	<b>\$37,075</b>	<b>100.0%</b>
Reserve for Unattained Commitments	(2,906)	n/a
<b>Adjusted Total</b>	<b>\$34,169</b>	<b>n/a</b>

SOURCE: Office of Management and Budget, FY 2010 May Capital Commitment Plan, May 2009.

## Ten-Year Capital Strategy

Every odd calendar year the Mayor is required, in accordance with Section 215 of the City Charter, to publish a Ten-Year Capital Strategy (TYCS) to reflect the administration's long-term capital planning goals by agency. The TYCS for FYs 2010-2019 that was published in May 2009 totals \$61.68 billion, a decrease of \$9.40 billion from the Preliminary Ten-Year Capital Strategy (PTYCS) produced in November 2008. City-funds account for \$47 billion, or 76 percent of the capital strategy. Programmatically, education, environmental protection and the Department of Transportation projects account for 71 percent of the TYCS, or \$43.77 billion of the total.

As shown in Table 22, capital commitments in the DOE, DEP, and Housing and Economic Development account for \$7.18 billion or 76 percent of the decrease in the TYCS since November 2008.

**Table 22. Ten-Year Capital Strategy, FYs 2010-2019, May 2009**

(\$ in millions)

	November 2008 City Funds	November 2008 Total Funds	May 2009 City Funds	May 2009 Total Funds	Percent of Total – May 2009	Change in Total Funds from November 2008
Education	\$13,338	\$26,582	\$11,040	\$22,000	35.7%	(\$4,582)
Dept. of Transportation	7,526	9,633	6,144	8,850	14.3	(783)
Environmental Protection	14,283	14,508	12,839	12,920	20.9	(1,588)
Housing & Economic Development	5,154	5,597	3,770	4,582	7.4	(1,015)
Administration of Justice	3,163	3,163	3,141	3,141	5.1	(22)
Sanitation	2,478	2,478	2,108	2,108	3.4	(370)
Mass Transit	707	707	601	601	1.0	(106)
Other City Services	8,331	8,407	7,360	7,473	12.1	(934)
<b>Total</b>	<b>\$54,980</b>	<b>\$71,075</b>	<b>\$47,004</b>	<b>\$61,675</b>	<b>100.0%</b>	<b>(\$9,400)</b>

SOURCE: Ten-Year Capital Strategy Spreadsheet, FYs 2010-2019, NYC OMB, May 2009.

## Funding the Ten-Year Capital Strategy

The City-funds portion of the TYCS will be financed primarily with \$32.5 billion of G.O. bonds and \$12.8 billion of New York Water Finance Authority (NYW) bonds. Together, G.O. and NYW borrowing will finance \$45.3 billion, or 73 percent of the total TYCS. New York State support is expected to fund another \$11.5 billion of capital projects while the Federal Government and other non-city sources are anticipated to fund the remaining \$3.2 billion.

Thus, G.O. bonds are projected to finance 53 percent, NYW bonds 21 percent, the State of New York 19 percent, and the Federal Government just 5.0 percent of the TYCS. Of the non-City support, over 74 percent, or \$10.96 billion is expected to fund capital

projects in DOE. This projection reflects the continued assumed support of State Building Aid to help finance DOE's capital strategy.

### **Ten-Year Capital Strategy by Type of Work**

The May 2009 TYCS total of \$61.68 billion is broken down into three major types of work: 1) State of Good Repair (\$28.76 billion); 2) Program Expansion (\$19.12 billion); and 3) Programmatic Replacement (\$13.80 billion). State of Good Repair projects account for 46.6 percent of the total, followed by Program Expansion and Programmatic Replacement which account for 31 percent and 22.4 percent of the TYCS, respectively.

Projects included under State of Good Repair are the reconstruction and rehabilitation of schools (\$12.34 billion), reconstruction of the East River and other bridges (\$4.64 billion), and the reconstruction and resurfacing of streets and highways Citywide (\$3.16 billion).

Program expansion projects include the construction of new schools (\$9.52 billion), construction of water conveyance systems, (\$1.96 billion), new and special needs housing initiatives (\$1.8 billion), and construction of the third water tunnel (\$1.13 billion).

Programmatic Replacement projects include capital programs for water quality mandates and preservation (\$2.16 billion), water pollution control plant upgrades and stabilization (\$1.84 billion), and Citywide information systems and related equipment (\$1.82 billion).

### **Borough Presidents' Proposed Reallocations**

In accordance with Section 245 of the New York City Charter, the Borough Presidents may propose changes to the Preliminary Expense Budget during the Executive Budget process. The Queens Borough President submitted a proposal for inclusion in the Message of the Mayor. None of the other borough presidents submitted proposals in time for inclusion in the Message of the Mayor.

The Queens Borough President recommended proposed allocation changes of \$1.024 billion. This includes funding restoration of \$691 million to the Department of Education, and \$129 million to the Police Department. Other suggested increases include additions of \$46 million for youth programs, \$39 million for health and mental health programs, \$35 million for the CUNY, \$27.5 million for senior citizen-related programs, \$21 million for Parks, \$16.8 million for Cultural Affairs, \$9.6 million for the Queens Public Library, \$7 million for various housing programs, and \$1.4 million for the Queens Borough President's office and \$1.3 million for community boards.

The Queens Borough President did not propose specific reductions in other appropriations within the borough to offset the above increases. Instead, the proposed funding of the increases would come from procurement efficiencies, expansion of the

bottle return bill, energy conservation in public buildings, the elimination of the property tax exemption for Madison Square Garden, eliminating school year jury duty for teachers, and extending the general corporation tax to insurance company business income.

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## VII. Appendix — Revenue and Expenditure Details

**Table A1. FY 2010 Executive Budget Revenue Detail**

	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2010 - 13	
					Dollar	Percent
<b>Taxes:</b>						
Real Property	\$16,281	\$17,327	\$17,916	\$18,304	\$2,023	12.4%
Personal Income Tax	\$6,616	\$7,527	\$8,003	\$8,531	\$1,915	29.0%
General Corporation Tax	\$2,024	\$2,338	\$2,705	\$2,947	\$923	45.6%
Banking Corporation Tax	\$478	\$649	\$711	\$745	\$267	55.9%
Unincorporated Business Tax	\$1,455	\$1,461	\$1,596	\$1,689	\$234	16.1%
Sale and Use	\$5,015	\$5,186	\$5,516	\$5,870	\$855	17.0%
Real Property Transfer	\$613	\$649	\$708	\$794	\$181	29.5%
Mortgage Recording Tax	\$475	\$551	\$602	\$694	\$219	46.1%
Commercial Rent	\$543	\$531	\$528	\$537	(\$6)	(1.1%)
Utility	\$391	\$420	\$434	\$439	\$48	12.3%
Hotel	\$329	\$331	\$314	\$295	(\$34)	(10.3%)
Cigarette	\$96	\$94	\$92	\$90	(\$6)	(6.3%)
All Other	\$401	\$402	\$406	\$406	\$5	1.2%
Tax Audit Revenue	\$596	\$596	\$595	\$594	(\$3)	(0.4%)
<b>Total Taxes</b>	<b>\$35,313</b>	<b>\$38,062</b>	<b>\$40,126</b>	<b>\$41,935</b>	<b>\$6,622</b>	<b>18.8%</b>
<b>Miscellaneous Revenue:</b>						
Licenses, Franchises, Etc.	\$481	\$484	\$488	\$488	\$7	1.5%
Interest Income	\$30	\$43	\$99	\$128	\$98	326.7%
Charges for Services	\$762	\$819	\$799	\$799	\$37	4.9%
Water and Sewer Charges	\$1,368	\$1,339	\$1,355	\$1,368	\$0	0.0%
Rental Income	\$220	\$214	\$214	\$214	(\$6)	(2.7%)
Fines and Forfeitures	\$894	\$887	\$865	\$864	(\$30)	(3.4%)
Miscellaneous	\$618	\$502	\$481	\$478	(\$140)	(22.7%)
Intra-City Revenue	\$1,601	\$1,525	\$1,524	\$1,524	(\$77)	(4.8%)
<b>Total Miscellaneous</b>	<b>\$5,974</b>	<b>\$5,813</b>	<b>\$5,825</b>	<b>\$5,863</b>	<b>(\$111)</b>	<b>(1.9%)</b>
<b>Unrestricted Intergovernmental Aid:</b>						
N.Y. State Per Capital Aid	\$327	\$327	\$327	\$327	\$0	0.0%
Other Federal and State Aid	\$13	\$13	\$13	\$13	\$0	0.0%
<b>Total Unrestricted Intergovernmental Aid</b>	<b>\$340</b>	<b>\$340</b>	<b>\$340</b>	<b>\$340</b>	<b>\$0</b>	<b>0.0%</b>
<b>Other Categorical Grants</b>	<b>\$1,028</b>	<b>\$1,029</b>	<b>\$1,033</b>	<b>\$1,031</b>	<b>\$3</b>	<b>0.3%</b>
<b>Inter Fund Agreements</b>	<b>\$475</b>	<b>\$449</b>	<b>\$439</b>	<b>\$439</b>	<b>(\$36)</b>	<b>(7.6%)</b>
<b>Reserve for Disallowance of Categorical Grants</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>(\$15)</b>	<b>\$0</b>	<b>0.0%</b>
<b>Less: Intra-City Revenue</b>	<b>(\$1,601)</b>	<b>(\$1,525)</b>	<b>(\$1,524)</b>	<b>(\$1,524)</b>	<b>\$77</b>	<b>(4.8%)</b>
<b>TOTAL CITY FUNDS</b>	<b>\$41,514</b>	<b>\$44,153</b>	<b>\$46,224</b>	<b>\$48,069</b>	<b>\$6,555</b>	<b>15.8%</b>

**Table A1 (Con't.). FY 2010 Executive Budget-Revenue Detail**

	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2010 - 13	
					Dollar	Percent
<b>Federal Categorical Grants:</b>						
Community Development	\$305	\$246	\$241	\$241	(\$64)	(21.0%)
Welfare	\$2,543	\$2,541	\$2,532	\$2,532	(\$11)	(0.4%)
Education	\$2,682	\$2,711	\$1,759	\$1,759	(\$923)	(34.4%)
Other	\$892	\$829	\$828	\$817	(\$75)	(8.4%)
<b>Total Federal Grants</b>	<b>\$6,422</b>	<b>\$6,327</b>	<b>\$5,360</b>	<b>\$5,349</b>	<b>(\$1,073)</b>	<b>(16.7%)</b>
<b>State Categorical Grants</b>						
Social Services	\$1,941	\$1,931	\$1,922	\$1,922	(\$19)	(1.0%)
Education	\$8,209	\$8,649	\$8,939	\$9,524	\$1,315	16.0%
Higher Education	\$198	\$211	\$211	\$211	\$13	6.6%
Department of Health and Mental Hygiene	\$468	\$475	\$477	\$477	\$9	1.9%
Other	\$801	\$749	\$810	\$877	\$76	9.5%
<b>Total State Grants</b>	<b>\$11,617</b>	<b>\$12,015</b>	<b>\$12,359</b>	<b>\$13,011</b>	<b>\$1,394</b>	<b>12.0%</b>
<b>TOTAL REVENUES</b>	<b>\$59,553</b>	<b>\$62,495</b>	<b>\$63,943</b>	<b>\$66,429</b>	<b>\$6,876</b>	<b>11.5%</b>

**Table A2. FY 2010 Executive Budget Expenditure Detail**

(\$ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2010 - 13	
					Dollar	Percent
Mayorality	\$81,494	\$81,128	\$80,575	\$80,585	(\$909)	(1.1%)
Board of Elections	\$86,218	\$71,542	\$71,614	\$71,629	(\$14,589)	(16.9%)
Campaign Finance Board	\$67,551	\$11,216	\$11,220	\$11,223	(\$56,328)	(83.4%)
Office of the Actuary	\$5,139	\$5,183	\$5,188	\$5,192	\$53	1.0%
President, Borough of Manhattan	\$3,274	\$3,036	\$3,043	\$3,048	(\$226)	(6.9%)
President, Borough of Bronx	\$4,343	\$4,255	\$4,265	\$4,273	(\$70)	(1.6%)
President, Borough of Brooklyn	\$4,067	\$3,853	\$3,863	\$3,870	(\$197)	(4.8%)
President, Borough of Queens	\$3,998	\$3,597	\$3,604	\$3,609	(\$389)	(9.7%)
President, Borough of Staten Island	\$3,092	\$2,958	\$2,965	\$2,971	(\$121)	(3.9%)
Office of the Comptroller	\$66,033	\$66,086	\$65,786	\$65,786	(\$247)	(0.4%)
Dept. of Emergency Management	\$18,635	\$7,690	\$7,694	\$7,698	(\$10,937)	(58.7%)
Tax Commission	\$3,632	\$3,654	\$3,658	\$3,662	\$30	0.8%
Law Dept.	\$130,287	\$119,753	\$120,275	\$120,321	(\$9,966)	(7.6%)
Dept. of City Planning	\$24,177	\$23,082	\$23,017	\$23,017	(\$1,160)	(4.8%)
Dept. of Investigation	\$16,010	\$15,881	\$15,881	\$15,881	(\$129)	(0.8%)
NY Public Library - Research	\$21,136	\$21,145	\$21,145	\$21,145	\$9	0.0%
New York Public Library	\$102,654	\$102,451	\$102,451	\$102,451	(\$203)	(0.2%)
Brooklyn Public Library	\$77,087	\$76,935	\$76,935	\$76,935	(\$152)	(0.2%)
Queens Borough Public Library	\$75,286	\$75,065	\$75,065	\$75,065	(\$221)	(0.3%)
Dept. of Education	\$18,304,484	\$19,329,419	\$18,682,087	\$19,396,680	\$1,092,196	6.0%
City University	\$631,999	\$622,594	\$624,345	\$624,456	(\$7,543)	(1.2%)
Civilian Complaint Review Board	\$10,271	\$10,241	\$10,262	\$10,267	(\$4)	(0.0%)
Police Dept.	\$4,126,794	\$4,232,068	\$4,310,902	\$4,298,023	\$171,229	4.1%
Fire Dept.	\$1,589,887	\$1,595,948	\$1,594,977	\$1,592,398	\$2,511	0.2%
Admin. for Children Services	\$2,610,402	\$2,607,283	\$2,608,807	\$2,608,808	(\$1,594)	(0.1%)
Dept. of Social Services	\$7,886,048	\$8,595,656	\$9,063,764	\$9,244,409	\$1,358,361	17.2%
Dept. of Homeless Services	\$665,171	\$669,397	\$668,218	\$668,265	\$3,094	0.5%
Dept. of Correction	\$992,705	\$1,022,132	\$1,038,400	\$1,035,255	\$42,550	4.3%
Board of Correction	\$971	\$972	\$972	\$972	\$1	0.1%
Citywide Pension Contribution	\$6,375,368	\$6,909,699	\$7,233,372	\$7,506,585	\$1,131,217	17.7%
Miscellaneous	\$7,019,899	\$7,093,101	\$7,698,955	\$8,890,974	\$1,871,075	26.7%
Debt Service	\$4,343,750	\$4,666,945	\$5,094,560	\$5,372,591	\$1,028,841	23.7%
N.Y.C.T.F.A. Debt Service	\$1,137,345	\$1,117,933	\$1,157,389	\$1,157,826	\$20,481	1.8%
Pre-Payments	(\$2,036,374)	\$0	\$0	\$0	\$2,036,374	(100.0%)
FY 2007 BSA	(\$30,865)	\$0	\$0	\$0	\$30,865	(100.0%)
FY 2008 BSA	\$0	\$0	\$0	\$0	\$0	N/A
FY 2009 BSA	(\$1,949,870)	\$0	\$0	\$0	\$1,949,870	(100.0%)
FY 2010 BSA	\$0	\$0	\$0	\$0	\$0	N/A
Transfer for N.Y.C.T.F.A. Debt Service.	(\$545,747)	\$0	\$0	\$0	\$545,747	(100.0%)
Building Aid Revenue Support for NYCTFA						
Debt Service	(\$100,000)	\$0	\$0	\$0	\$100,000	(100.0%)
Defeasance of N.Y.C.T.F.A. Debt	(\$382,000)	(\$530,000)	\$0	\$0	\$382,000	(100.0%)
Call 2009/2010 G.O. Debt	(\$276,634)	\$0	\$0	\$0	\$276,634	(100.0%)
Public Advocate	\$1,771	\$1,808	\$1,813	\$1,817	\$46	2.6%
City Council	\$50,536	\$50,536	\$50,536	\$50,536	\$0	0.0%
City Clerk	\$5,197	\$5,210	\$5,210	\$5,210	\$13	0.3%
Dept. for the Aging	\$240,163	\$239,199	\$239,199	\$239,199	(\$964)	(0.4%)
Dept. of Cultural Affairs	\$130,846	\$130,851	\$130,851	\$130,851	\$5	0.0%
Financial Information Services. Agency	\$58,408	\$58,747	\$56,097	\$56,136	(\$2,272)	(3.9%)
Dept. of Juvenile Justice	\$130,854	\$132,045	\$135,925	\$135,934	\$5,080	3.9%
Office of Payroll Admin.	\$37,134	\$41,588	\$41,509	\$41,496	\$4,362	11.7%
Independent Budget Office	\$3,117	\$3,088	\$3,089	\$3,089	(\$28)	(0.9%)
Equal Employment Practices Comm.	\$717	\$728	\$728	\$728	\$11	1.5%

**Table A2 (Con't). FY 2010 Executive Budget Expenditure Detail**

(\$ in thousands)

	FY 2010	FY 2011	FY 2012	FY 2013	Changes FYs 2010 - 13	
					Dollar	Percent
Civil Service Commission	\$618	\$620	\$621	\$621	\$3	0.5%
Landmarks Preservation Comm.	\$4,870	\$4,872	\$4,872	\$4,872	\$2	0.0%
Taxi & Limousine Commission	\$29,644	\$29,157	\$29,157	\$29,157	(\$487)	(1.6%)
Commission on Human Rights	\$6,903	\$6,904	\$7,001	\$7,001	\$98	1.4%
Youth & Community Development	\$281,819	\$247,898	\$247,915	\$247,932	(\$33,887)	(12.0%)
Conflicts of Interest Board	\$1,814	\$1,827	\$1,828	\$1,828	\$14	0.8%
Office of Collective Bargain	\$1,795	\$1,809	\$1,810	\$1,811	\$16	0.9%
Community Boards (All)	\$12,735	\$12,737	\$12,737	\$12,737	\$2	0.0%
Dept. of Probation	\$80,374	\$79,623	\$79,793	\$79,793	(\$581)	(0.7%)
Dept. Small Business Services	\$123,079	\$93,430	\$91,192	\$87,430	(\$35,649)	(29.0%)
Housing Preservat'n & Developm't	\$513,159	\$477,302	\$471,938	\$471,800	(\$41,359)	(8.1%)
Dept. of Buildings	\$101,856	\$91,455	\$91,455	\$91,455	(\$10,401)	(10.2%)
Dept. of Health & Mental Hygiene	\$1,594,664	\$1,612,752	\$1,621,195	\$1,620,812	\$26,148	1.6%
Health and Hospitals Corp.	\$94,664	\$94,445	\$94,542	\$94,613	(\$51)	0.1%
Dept. of Environmental Protection	\$1,022,534	\$963,870	\$963,530	\$963,167	(\$59,367)	(5.8%)
Dept. of Sanitation	\$1,296,793	\$1,401,206	\$1,430,344	\$1,428,061	\$131,268	10.1%
Business Integrity Commission	\$7,146	\$7,165	\$7,075	\$7,075	(\$71)	(1.0%)
Dept. of Finance	\$226,447	\$223,551	\$222,637	\$221,742	(\$4,705)	(2.1%)
Dept. of Transportation	\$705,169	\$688,477	\$686,629	\$678,029	(\$27,140)	(3.8%)
Dept. of Parks and Recreation	\$292,041	\$282,929	\$283,191	\$283,417	(\$8,624)	(3.0%)
Dept. of Design & Construction	\$106,822	\$107,222	\$107,223	\$107,224	\$402	0.4%
Dept. of Citywide Admin. Services	\$376,984	\$379,163	\$375,792	\$382,262	\$5,278	1.4%
D.O.I.T.T.	\$243,130	\$230,063	\$228,603	\$228,692	(\$14,438)	(5.9%)
Dept. of Record & Info. Services	\$4,789	\$4,555	\$4,557	\$4,897	\$108	2.3%
Dept. of Consumer Affairs	\$18,854	\$16,538	\$16,538	\$16,538	(\$2,316)	(12.3%)
District Attorney - N.Y.	\$81,973	\$70,773	\$70,807	\$70,807	(\$11,166)	(13.6%)
District Attorney - Bronx	\$46,034	\$41,750	\$41,750	\$41,750	(\$4,284)	(9.3%)
District Attorney - Kings	\$77,244	\$70,869	\$70,772	\$70,772	(\$6,472)	(8.4%)
District Attorney - Queens	\$45,732	\$41,403	\$41,219	\$41,219	(\$4,513)	(9.9%)
District Attorney - Richmond	\$7,578	\$6,853	\$6,853	\$6,853	(\$725)	(9.6%)
Office of Prosecut'n. & Spec. Narc.	\$16,118	\$14,675	\$14,675	\$14,675	(\$1,443)	(9.0%)
Public Administrator - N.Y.	\$1,155	\$1,156	\$1,156	\$1,156	\$1	0.1%
Public Administrator - Bronx	\$424	\$425	\$425	\$425	\$1	0.2%
Public Administrator - Brooklyn	\$526	\$526	\$526	\$526	\$0	0.0%
Public Administrator - Queens	\$400	\$400	\$400	\$400	\$0	0.0%
Public Administrator - Richmond	\$297	\$297	\$297	\$297	\$0	0.0%
Prior Payable Adjustment	\$0	\$0	\$0	\$0	\$0	N/A
General Reserve	\$300,000	\$300,000	\$300,000	\$300,000	\$0	0.0%
Energy Adjustment	\$0	\$80,798	\$130,296	\$179,506	\$179,506	N/A
Lease Adjustment	\$0	\$22,098	\$82,209	\$106,773	\$106,773	N/A
OTPS Inflation Adjustment	\$0	\$55,519	\$111,038	\$166,557	\$166,557	N/A
<b>City-Wide Total</b>	<b>\$59,552,644</b>	<b>\$67,072,810</b>	<b>\$69,104,809</b>	<b>\$71,846,548</b>	<b>\$12,293,904</b>	<b>20.6%</b>

## **Glossary of Acronyms**

<b>AIRA</b>	Actuarial Investment Return Assumption
<b>ARRA</b>	American Recovery and Reinvestment Act
<b>BARB</b>	Building Aid Revenue Bonds
<b>BCT</b>	Banking Corporation Tax
<b>BSA</b>	Budget Stabilization Account
<b>CDBG</b>	Community Development Block Grant
<b>CHIPS</b>	Consolidated Local Street and Highway Improvement Program
<b>CSA</b>	Council of School Supervisors and Administrators
<b>CUNY</b>	City University of New York
<b>CWA</b>	Communications Workers of America
<b>DC37</b>	District Council 37
<b>DEP</b>	Department of Environmental Protection
<b>DHS</b>	Department of Homeless Services
<b>DOC</b>	Department of Correction
<b>DOE</b>	Department of Education
<b>DOT</b>	Department of Transportation

<b>DSH</b>	Medicaid Disproportionate Share
<b>FMAP</b>	Federal Medicaid Assistance Percentage
<b>FTA</b>	Federal Transit Administration
<b>FTE</b>	Full-Time Equivalent
<b>FY</b>	Fiscal Year
<b>GCP</b>	Gross City Product
<b>GCT</b>	General Corporation Tax
<b>GDP</b>	Gross Domestic Product
<b>G.O. Debt</b>	General Obligation Debt
<b>HHC</b>	Health and Hospitals Corporation
<b>IMF</b>	International Monetary Fund
<b>J&amp;C</b>	Judgments and Claims
<b>MTA</b>	Metropolitan Transportation Authority
<b>NYC</b>	New York City
<b>NYCTFA</b>	New York City Transitional Finance Authority
<b>NYWFA</b>	New York City Municipal Water Finance Authority
<b>OMB</b>	Office of Management and Budget

<b>OSA</b>	Organization of Staff Analysts
<b>OTPS</b>	Other than Personal Services
<b>PTYCS</b>	Preliminary Ten-Year Capital Strategy
<b>PBA</b>	Patrolmen's Benevolent Association
<b>PEG</b>	Program to Eliminate the Gap
<b>PIT</b>	Personal Income Tax
<b>PS</b>	Personal Services
<b>QSCB</b>	Qualified School Construction Bonds
<b>QZAB</b>	Qualified Zone Academy Bonds
<b>RHBT</b>	Retiree Health Benefit Trust
<b>STAR</b>	School Tax Relief Program
<b>TARP</b>	Troubled Asset Relief Program
<b>TEA</b>	Traffic Enforcement Agent
<b>TSASC</b>	Tobacco Settlement Asset Securitization Corporation
<b>TYCS</b>	Ten-Year Capital Strategy
<b>UBT</b>	Unincorporated Business Tax
<b>UFA</b>	Uniformed Firefighters' Association

<b>UFT</b>	United Federation of Teachers
<b>UPL</b>	Medicaid Upper Payment Limit
<b>U.S.</b>	United States
<b>VRDB</b>	Variable Rate Demand Bond



WILLIAM C. THOMPSON, JR.  
NEW YORK CITY COMPTROLLER

TESTIMONY BEFORE THE FINANCE COMMITTEE  
ON THE MAYOR'S EXECUTIVE BUDGET FOR FY 2010

NEW YORK CITY COUNCIL

CITY HALL

Monday, June 1, 2009

12:30 PM

Speaker Quinn, Committee Chair Weprin, and honorable members of the Finance Committee, good afternoon.

With me today is Deputy Comptroller Marcia Van Wagner.

As we come together this year, the worst economic downturn since the end of World War II is taking a heavy toll on the city's economy.

Although the city's labor and housing markets have been less severely affected by the recession than those in many other areas of the country, the overall state of the local economy remains grim. My office expects a decrease of 250,000 jobs from the cyclical peak in August 2008 through the expected trough in late 2010.

The deteriorating labor market will push the number of unemployed residents to nearly 400,000 by mid-2010. Furthermore, the city's economy is projected to under-perform the nation's until 2013, primarily because of the challenges facing our financial sector.

Two statistics tell the story: while the finance and insurance sector and the professional and business services industries accounted for 25 percent of the city's employment in August 2008, they have absorbed 48 percent of the job reductions since that time.

Because the City relies heavily on income-sensitive taxes, the recession's impacts on revenues have therefore been especially pronounced. The Executive Budget projects a total tax revenue decline of 11.3 percent – or 4.4 billion dollars – between Fiscal Year 2008 and Fiscal Year 2010.

Non-property tax revenues are not expected to recover their pre-recession levels during the Plan period. As a result, the City's fiscal outlook is sobering to say the least.

The FY 2010 Executive Budget and Four-Year Financial Plan depicts a risk-laden gap-closing program to balance the FY 2010 budget, followed by

projected budget gaps of 4.58 billion dollars in FY 2011, 5.16 billion dollars in FY 2012 and 5.42 billion dollars in FY 2013.

Even more troubling, analysis by my staff reveals that net risks to the budget would widen those gaps further to 734 million dollars in FY 2010, 6.65 billion dollars in FY 2011, 7.54 billion dollars in FY 2012 and 8.3 billion dollars in FY 2013.

Such large projected gaps are truly unprecedented. As the City has been making efforts to contain expenditures and raise revenues since the economy began to falter, additional gap-closing measures will become harder and harder to achieve.

One gap closing idea the city is pursuing would increase the sales tax burden in order to bring in an average of 1 billion 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.

Even with the proposed sales tax, because of uncertainty surrounding State legislative approval and differences in economic outlook, my office identifies tax revenue risks of 60 million dollars in FY 2010, 575 million dollars in FY 2011, 928 million dollars in FY 2012 and 1.41 billion dollars in FY 2013.

Additionally, neither the Council nor legislators in Albany have embraced a fee on plastic bags, creating an additional risk of 100 million dollars in FY 2010. That risk would grow to 160 million dollars in FY 2011.

The majority of the 574 million dollar expenditure risk my office has identified for FY 2010 stems from the uncertainty regarding the Mayor's projected savings associated with changes to employee benefits.

As you know, the Mayor's proposal to "restructure" employee health insurance benefits requires approval by our municipal unions. And his plan to

create a new, less costly pension tier requires the approval of both the unions and the state legislature. Those initiatives have been projected to yield 200 million dollars apiece in annual savings.

These risks will be augmented by others in the out years of the Plan. For instance, while the Mayor's health insurance cost containment initiative, requiring employees to contribute 10 percent towards health insurance premiums, would reap savings beginning in FY 2011, there is at present no agreement on this matter with the unions.

The other elements of spending risk for FY 2010 include 70 million dollars in payroll taxes the city will have to pay to conform with legislation enacted by the State Legislature in support of the Metropolitan Transportation Authority (MTA), as well as 137 million dollars in overtime pay.

The federal American Recovery and Reinvestment Act will provide education funding that will offset cuts made in the State Enacted Budget and stave off the need to lay off some 14,000 teachers. Therefore, the headcount projections in the Executive Budget do not reflect as draconian a reduction for FY 2010 as anticipated previously.

However, full-time City-funded headcount is expected to contract by about 8,000 in FY 2010, to be achieved through a mix of attrition and layoffs. Since most municipal employee unions have contracts in place through FY 2011, there is little opportunity other than lay-offs to save on direct labor costs.

At the time of the January Plan, the Mayor announced his intention to implement a 30 percent reduction to major components of the capital commitment plan. The purpose of the reduction was to bring growth in debt service costs in line with the average growth in tax revenues by reducing the size of the capital commitment program. The FY 2010 Executive Capital Commitment Plan would achieve a 17 percent reduction in the City-funded portion of the plan, after the reserve for unattained commitments.

Yet debt service is actually expected to continue to grow 8 percent per year through FY 2013 because the impact of incremental changes to the size of the capital commitment plan is felt over a long period. While debt service is projected to slow to a 2.3 percent pace after 2013, it could be even greater in the out years owing to a tendency by the city to underestimate commitments.

An analysis by my office of seven Executive Budget Commitment Plans from FY 2002 to FY 2008 showed that the third and fourth years of a given plan understated actual results, on average, by 35 and 51 percent, respectively.

Moreover, the State revenues are much more cyclically sensitive than the City's. Since the State Enacted Budget was approved by the legislature, the

Governor has warned that, based on current tax collections, the state could be facing a gap of at least 3 billion dollars in the current fiscal year. Since about 70 percent of the State budget consists of aid to localities, additional gap-closing actions in Albany are certain to result in more stress on the City budget.

The hurdles the City is facing during this Financial Plan period are daunting. The recession in all likelihood will be followed by several years of lackluster growth.

As a result, even if the City achieves its ambitious gap-closing plan, and despite the presence of substantial federal stimulus dollars, additional gap-closing initiatives will be necessary, and they will likely require sacrifice and patience on the part of New York City residents.

One thing I know is that such sacrifice will be rewarded. Again and again, in the most trying of times, New York and New Yorkers have shown themselves capable of adapting and emerging stronger and more resilient than before.

While we may press up against the limits of our budget, we must never put a limit on our confidence to nurture our city with vision and imagination.

Those are the values New York 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.



# NEWS

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William C. Thompson, Jr.



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## FOR IMMEDIATE RELEASE

June 1, 2009

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## THOMPSON: CITY'S FISCAL OUTLOOK EXTREMELY SOBERING

*-Unprecedented out-year gaps loom as tax revenues fall-*

*-FY 2010 gap-closing program has over \$700 million in risks-*

New York City Comptroller William C. Thompson, Jr. today provided his analysis of the Mayor's Fiscal Year 2010 Executive Budget and Four-Year Financial Plan.

"The worst economic downturn since the end of World War II is taking a heavy toll on the City's economy," Thompson said. "My office estimates the recession will cause a decrease of 250,000 jobs in New York City through late 2010, and the deteriorating labor market will push the number of unemployed residents to nearly 400,000 before our economy begins to rebound."

Thompson's full report is available at [www.comptroller.nyc.gov](http://www.comptroller.nyc.gov).

Thompson noted that while the finance and insurance sectors and professional and business services industries accounted for 25 percent of the City's employment in August 2008, when the recession began, they have absorbed 48 percent of the job reductions since, which will cause the City's economy to under-perform the nation's until 2013.

The Mayor's FY 2010 Executive Budget and Four-Year Financial Plan depicts a risk-laden gap-closing program to balance the FY 2010 budget, followed by projected budget gaps of \$4.578 billion in FY 2011, \$5.162 billion in FY 2012 and \$5.417 billion in FY 2013.

However, the review by the Comptroller's Office reveals net risks to the budget that would push gaps to \$734 million in FY 2010, \$6.654 billion in FY 2011, \$7.542 billion in FY 2012 and \$8.298 billion in FY 2013.

"Such large projected gaps are unprecedented, and given that the City has been striving to contain expenditures and raise revenues since 2008, any additional gap-closing actions will become increasingly difficult to achieve," Thompson said.

Falling tax revenues are among the risks to the Financial Plan. Accordingly, Thompson has estimated that due to current collection trends and the failure, thus far, of the City's sales tax increase initiatives to gain passage by the State Legislature FY 2009 will see a shortfall of \$280 million in tax revenue.

One gap-closing idea the City is pursuing would increase the sales tax burden in order to bring in an average of \$1 billion annually in fiscal years 2010 through 2013.

"Because that tax is regressive and disproportionately affects the very New Yorkers struggling to make ends meet in the current downturn, I have proposed an alternative tax on individuals making \$500,000 and above," Thompson said.

Specifically, the Comptroller is recommending a 4.3 percent tax rate on taxpayers with taxable income of \$500,000 and a 4.8 percent tax on taxpayers with taxable income of one 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 the Comptroller's Office, this would yield nearly \$1 billion in calendar year 2009 and a similar amount in City Fiscal Year 2010.

Because of differences in economic outlook and the uncertainty surrounding legislative approval of the City's sales tax proposals, the Comptroller's Office also identifies tax revenue risks of:

- \$60 million in FY 2010,
- \$575 million in FY 2011,
- \$928 million in FY 2012, and
- \$1.41 billion in FY 2013.

Additionally, lack of action in Albany on the Mayor's proposal to impose a fee on plastic bags creates a risk of \$100 million in FY 2010, which grows to \$160 million in FY 2011.

Risks to the Plan are also associated with the assumption that the Mayor will achieve changes to employee benefits, such as restructured employee health insurance and a new, less costly pension tier in FY 2010. However, since these have yet to receive the required support of the unions and State Legislature, Thompson has identified these as risks, along with the Mayor's plan to have City employees begin contributing 10 percent towards health benefits in 2011.

Due to the pending expiration of the Financial Control Board's temporary waiver of the requirement that certain expenses previously funded by debt supporting the capital budget be funded through the operating budget, starting in FY 2011 there is a gap of \$500 million per year that the City has not reflected in its Financial Plan.

The American Recovery and Reinvestment Act has staved off the need to lay off some 14,000 teachers. However, full-time City-funded headcount is expected to contract by about 8,000 in FY 2010, to be achieved through a mix of attrition and layoffs. And since most municipal employee unions have contracts in place through FY 2012, there is little opportunity other than lay-offs to save on direct labor costs, according to Thompson's analysis.

The Comptroller noted that the State budget is much more cyclically sensitive than the City's and the Governor has warned that, based on current tax collections, the State could be facing a gap of at least \$3

billion in the current fiscal year. "Any additional gap-closing actions in Albany are certain to result in more stress on the City budget," Thompson said

"The hurdles the City is facing during this Financial Plan period are daunting. As a result, even if the City achieves its ambitious gap-closing plan, and despite the presence of substantial federal stimulus dollars, tremendous out-year gaps loom," Thompson said. "Additional gap-closing initiatives will be necessary, and they will likely require sacrifice and patience on the part of New York City residents."

###

**Testimony of Steven W. Lawitts  
Acting Commissioner  
New York City Department of Environmental Protection (DEP)  
Before the Council of the City of New York  
Committees on Environmental Protection and Finance  
Concerning the Fiscal Year 2010 Executive Budget  
City Hall, June 1, 2009**

Good afternoon, Chairmen Weprin and Gennaro, and Members. I am Steven Lawitts, Acting Commissioner of DEP. I am joined at the table this morning by Joseph Murin, DEP's Assistant Commissioner for Budget. In the audience are other DEP senior staff who can help answer your questions.

**Capital**

DEP consistently provides over one billion gallons a day of some of the highest quality, best tasting drinking water in the State and treats New York City's wastewater to ever more rigorous federal standards. Carrying out these mandates requires, as you know, massive infrastructure that must continually be maintained and upgraded regardless of the overall state of the economy. However, this period of tremendous financial stress means that we must also do more with less, while ensuring the continued reliability of these critical systems as well as complying with federal and state standards. In addition to ensuring the funding of mandated projects, we have worked hard to continue funding many projects that are critical to ensuring the future of our drinking water and wastewater systems. However, we have had to make some hard choices.



The FY10 Executive Budget has DEP's capital commitment funded at \$1.7 billion, with total funding from FY10 through FY19 proposed at \$12.9 billion. As you may recall the FY10 Preliminary Budget provided capital funding of \$1.9 billion, with a total funding of \$14.5 billion for FY10 through FY19. The difference represents a reduction of approximately \$205 million in FY10 and \$1.6 billion over ten years.

In addition, last fall DEP, like all other capital agencies, submitted a plan to defer 20% of its Four-Year Capital Plan by stretching four years' worth of capital work, for the Fiscal Years 2009 through 2012, into five years, through 2013. This was part of a citywide program to contain the growth in capital expenditures and the associated debt service. In its Executive Budget submission earlier this year, DEP proposed a further ten percent reduction of capital commitments for Fiscal Years 2010-2019.

At DEP, this task is more difficult because prioritizing and reducing the capital budget is largely limited to our non-mandated projects. Mandated multi-year projects required by state and federal regulators – but not funded by them – are the largest single component, currently constituting 53%, of the total capital budget in FY2010. These mandated projects generally involve large capital investments and are critical to maintaining the quality of our drinking water or our harbor waters. The non-mandated projects generally fall into one of several categories that are not connected to some water-quality mandate: ensuring the dependability of the water supply; sewer and water main projects; reconstruction or repair projects at treatment plants; and upstate infrastructure, such as the repair of the Delaware Aqueduct, dam safety and road maintenance.

Fortunately, Federal stimulus funding should offer some relief. We are working closely with the State and expect to reach agreement on the selection of water and wastewater projects in the not-too-distant future. Based on many discussions with the State about the American Recovery and Reinvestment Act (ARRA) eligibility criteria, the range of potentially eligible DEP projects, and the amounts and schedules associated with them, the Executive Budget creates a \$100 million “ARRA placeholder.”

There have been a lot of questions about why the stimulus money isn’t leading immediately to significant rate mitigation. First, it is not yet in hand. And even if New York State informed New York City today that it was to receive \$100 million for designated projects, the grant would not be distributed in one lump sum. The ARRA funds for water and wastewater projects will be funneled through the process used by the State Revolving Loan Funds (SRF). ARRA funds will work in the same manner as current SRF funding – the City must fund eligible projects upfront using its own capital budget and then submit the project expenditures for reimbursement.

I should also note that the original ARRA legislation had envisioned subsidized loans to stimulate water and wastewater projects. New York City was instrumental in mandating nationally that 50% of the water and wastewater money be given in grants.

Water mains and sewers, although critical to local quality of life, are most often not mandated and are therefore more subject to deferral or cuts – cuts we do not make lightly. Moreover, because SRF funding lists give high

priority to projects involving water treatment, DEP does not expect New York State to award stimulus money to any water main or sewer projects. However, these types of projects may benefit from a “substitution effect.” When New York State notifies DEP as to which projects are stimulus eligible, DEP can make some estimates on the timing of the stimulus reimbursements. Depending on when and how much ARRA funding makes its way into the capital budget, DEP may be able to restore or advance some much needed water main or sewer work as an indirect result of ARRA.

### **Expense**

In the Preliminary Budget, the FY10 Expense Budget was projected at \$941 million. As we explained at that time, the budgeted amount would need to be updated in the Executive Budget to reflect the cost of non-discretionary, variable-cost and often-volatile items, such as the price of chemicals needed for water treatment, and collective bargaining increases. In the Executive Budget, the FY10 Expense Budget is proposed at \$1.023 billion. Though not yet fully reflected in the FY10 budget, DEP continues to implement a reduction plan of a \$24 million savings in FY10. The new needs causing an increase of approximately \$82 million in the Expense Budget between Preliminary and Executive include:

- Adding \$37.2 million to account for continued costs of chemicals used in the treatment of drinking water and wastewater;
- Adding \$7.6 million for Heat, Light and Power;
- Adding \$7.2 million for collective bargaining settlements;

- Adding \$5.4 million to reflect projected increases in upstate property taxes;
- Adding \$5.3 million for the Newtown Creek Settlement;
- Adding another \$7.2 million in other needs, including 35 positions, leases, postage and sludge removal; and
- Restoring 113 temporary positions and \$7.5 million to continue reducing the backlog of worksite safety concerns identified by our Environmental Health & Safety program; the funding for these positions technically expires at the end of each fiscal year and is then restored in the next.

I'd like to say a few words about the reduction in the FY 2010 rate increase proposal from 14% to 12.9%. There was an overall improvement in the water-and-wastewater utility's financial condition in the six weeks that elapsed between the initial 14% rate proposal on April 3 and the May 15 rate-adoption meeting of the New York City Water Board. The four factors that enabled a smaller increase were:

- Further expense reductions in the DEP operating budget, including an additional reduction of 74 positions at \$4.8 million in FY 2010;
- A significant savings of \$10.4 million due to decreases in the cost of fuel and gasoline;
- While not part of DEP's budget, lower interest rates significantly reduced debt service payments on bonds used to finance DEP's capital program; and
- Enhanced collection efforts brought about a stronger revenue performance for April than originally anticipated.

Partly because of April's stronger numbers, the Water Board approved the 1.1% rate reduction; however, going forward we are concerned about decreased revenues in May, continued uncertainties in the credit market, and changes in the bond market over which we have no control. In previous testimony, I outlined the many factors driving the increase in water and sewer rates needed to maintain the sustainability of the City: mandated projects; capital needs; higher energy, fuel and chemical costs; an unexpected drop in water consumption; and increasing levels of debt.

Due to these various uncertainties, the agency must be fiscally prudent. Therefore, DEP will continue its efforts to find efficiencies and cost savings to offset those elements of the system's revenue, debt service and operation and maintenance that vary beyond our control. While not directly subject to the City's PEG measures, I have established a target of \$50 million in baseline savings for FY10. Some savings, such as the headcount and fleet reductions, have already been achieved. Others, such as changes to sludge disposal and using alternative chemicals in water and wastewater treatment processes, are still being developed. Other Citywide initiatives proposed by the Mayor, such as pension and health care reform, would also contribute towards this target. All of these would mitigate, yet not eliminate, future rate increases.

I would like to address one of the non-water and sewer system initiatives in the Executive Budget. The FY10 Expense Budget includes new positions related to improving oversight of certain types of construction activity. As you know, following the tragic fire at 130 Liberty Street, Mayor Bloomberg

ordered a comprehensive review of construction, demolition and asbestos abatement sites. The bills heard before the Environmental Protection Committee in May are the result of a collaborative process that combined the findings of the task force with legislative proposals put forth by members of the Council in the wake of the accident.

To effect the changes recommended by the Task Force, the Administration will establish a new Asbestos Technical Review Unit (A-TRU), staffed jointly by the Department of Buildings and DEP, which will review and permit asbestos abatement projects that could potentially pose a risk to public safety. The additional 12 positions required to establish A-TRU are fully funded in the Expense Budget. Revenue from new permit requirements will offset the cost of additional staff, and because these activities are not related to the water and sewer system, they will not affect the rate. The Council and all other stakeholders have worked diligently to quickly and comprehensively address the need for greater oversight and agency coordination at construction, demolition and abatement sites. We look forward to finalizing and enacting this legislation.

Thank you. That concludes my prepared statement. I would be pleased to take your questions.

# Cultural Institutions Group

## **STOP THE BLEEDING – RESTORE THE \$18 MILLION CUT TO PREVENT THE CRIPPLING AND DESTABILIZING IMPACT OF THESE ADDITIONAL CUTS ON THE CIG AND ON NEW YORKERS**

### **A resource in danger—and a sacrifice out of balance**

CIGs have been asked to shoulder an unbalanced portion of city budget cuts – \$18 million in proposed cuts, on top of having just lost \$15 million last year.

CIGs have already drastically reduced staff & programs—most have cut budgets 6 -15%. Job losses are similarly serious—417 people have been laid off. CIGs have furloughed 459 people and plan to furlough another 1058 next year. Nearly all have deferred new or replacement hires, a total of 243 people. The proposed additional cuts would force further layoffs, salary reductions and furloughs.

Of equal concern from a policy perspective is a decrease of activity at these organizations. 3/4 of CIGs have already postponed or canceled programming, reducing the number NYC residents served and the overall appeal of the institutions to tourists.

These new cuts will force cutbacks in free programs, public hours and important community cultural and social services, and unfairly impact the millions of people who depend upon CIGs for experiences that last a lifetime.

Cuts will force increases in voluntary fees or mandatory fees for CIGs that currently have none— putting these resources beyond the reach of many of our most underserved populations—as well as the families and children that have come to depend upon our great institutions as places to learn and grow at a time when they all need them most.

### **CIGs are vital to our City and our people**

The 34 CIGs in all five boroughs are cornerstones of the city's cultural offerings – attracting 20 million families, schoolchildren, teachers and tourists a year – and are a critical part of a neighborhood's fabric. CIGs—zoos, botanic gardens, museums and performing arts spaces—are places where people can go to share time with loved ones and learn with their children. Access to them makes living in New York more desirable and improves quality of life for all.

CIGs offer many free programs to some of the most deserving populations in our city—including kids and seniors. These are needed now more than ever; since the downturn, CIGs have seen significant increased attendance at these free programs.

CIGs are open to all members of the community – whether lifelong New Yorkers, new arrivals to our city or visitors from around the world seeking a “true New York experience.”

### **A critical resource in lean economic times**

CIGs are a cost-effective and educational experience for children and families. They also return \$8 of economic activity for every \$1 of city support and are critical for the City's economic revitalization and health. Reducing CIG's ability to operate takes real money away from NYC.

Some CIGs are the largest employers in their communities – employing nearly 11,000 people across the five boroughs. Budget cuts that force the elimination of jobs would severely impact entire neighborhoods – and potentially destabilize the fabric of increasingly strong communities, especially in the outer boroughs.

# Cultural Institutions Group

Restoring the long-standing Council Initiatives, eliminated in FY09, will enable CIGs to rehire employees who have lost their jobs, and to retain workers whose jobs are now threatened.

**City funds support jobs at CIGs**—Nearly 1000 people have already been laid off or furloughed at CIGs, hundreds hires have been held off, and far worse will occur if funds are not restored in FY10. Estimating \$40,000 per job, \$10 million will save and restore some 250 jobs that are critical to the CIG and to all of New York.

## **Range and Quality of Jobs**

Cultural institutions not only serve and help people, they *are* people. As one of NYC's major attractions, the cultural community is not only an economic engine but also a workforce of vibrant, creative, hard-working, and socially engaged individuals, part of our city's "brain trust." The jobs that will be made available will be long-term positions with career advancement opportunities, and will range from entry to upper level in all aspects of operations, including finance, maintenance, security, visitor services, and education, positions that demand the kind of highly diverse and creative workforce that has been a hallmark of NYC throughout its history.

## **Economic Importance of Employment**

CIGs are cornerstones of NYC and of their respective communities, creating employment and educational opportunities for residents and businesses as well as fueling the economy. Restoring jobs at CIGs will have a positive multiplier effect well beyond the lives of the individuals hired.

## **Impact on Local Businesses**

Local businesses rely heavily on the strength and vitality of cultural institutions for revenue. Visitors and employees of these neighborhood anchors eat and drink at their restaurants, shop at their stores, and use other local services and small businesses for personal and as business needs.

## **Impact on Families**

Putting people back to work has an impact beyond the individual employee. When one member of a family is employed, benefits accrue to the entire family in the form of the financial stability of a regular paycheck, health care benefits, pension and other benefits, ensuring greater security for New Yorkers, especially children, whose wellbeing depends on a family member's earnings.

## **Impact on the Community**

CIGs strengthen our communities most at need through partnerships with our City schools, providing diverse and content-rich educational opportunities. This support—at the core of the CIG's public service compact with the City—is a huge and ongoing contribution of private equity into our over-extended public system. Hiring these people will enable CIGs to provide the essential educational and community programs in communities across NYC that have long been Council priorities.

## **Maintaining the City's Asset**

Many employees are dedicated to ensuring that these City-owned facilities stay accessible & safe for visitors. Workers constantly maintain and improve these institutions, to ensure that they do not fall into the spiraling disrepair that our City has witnessed in prior times of economic hardship.

## **Revenue Impact**

Currently, the thousands CIG employees support the City and State's tax rolls with millions in payroll taxes, and the addition of these new employees would increase these payroll taxes.



Testimony  
NYC Council Finance Committee Hearing  
June 1, 2009

By Ralph Palladino  
2<sup>nd</sup> Vice President Local 1549 DC 37

The administration budget proposal for 2010 does not help those in need or the local economy. Services and jobs will be lost while those who can afford to pay the most will get off the hook. The best way to balance the budget is to raise revenues and cut wasteful spending, not cut jobs.

Nearly 4000 tax paying city employees will be laid off beginning July 1 if this budget is enacted. This will mean less tax paying residents for the city and less purchases in local businesses. It will mean that those 4000 former productive workers will have to seek unemployment insurance and city services in order to survive. It will mean an increase in homelessness and in foreclosures. This will only make the local economy worse and strain city services more than they already are.

I know someone well who is recently came off a Civil Service list in the Agency for Children's Services who is on the lay off list. She has a husband who is out of his construction job and cannot find work. They have three young children. Last year they had an income of roughly \$80,000. After July 1 they will not have any income. How is this Staten Island family going to survive and pay their mortgage? No one will take her place on the job. Isn't it better that workers such as her keep working to help the public?

It makes no sense to lay off close to 900 civilian employees of the New York City Police Department and replace them with higher paid police officers. This idea of the NYPD's might also mean the city's proposal to receive the President's stimulus COPS Program funding in order to hire more police officers will be in jeopardy. Why would the federal government turn over stimulus funds meant for job creation when it might be used directly or indirectly to make it easier to lay off lower waged workers. In the long run, civilianizing the NYPD would enhance public safety and save tax dollars.

The city administration can save tax dollars by eliminating most of the \$9 billion in wasteful contracting out of jobs to private companies. These companies make huge profits while paying their workers next to nothing with no benefits to perform tasks of regular city employees. Contracting out takes quality and absence controls out of city management's hands. These contract workers are untrained, and unlike clerical civil servants, they did not have to take a test in order to get their jobs.

The city should also adopt the fair tax on wealthier citizens proposed by City Council Speaker Quinn. This could raise close to \$1 billion if enacted.

Will the city continue to give away tax breaks to companies that never create local jobs? The city's newspapers annually run stories on this outrageous give-a-way to businesses.

These and other savings along with other proposals to raise city revenues if enacted would mean there would not have to be layoffs, nor service reductions. This could help turn the local economy around.

City employees should not be the ones to pay for this crisis. We are taxpayers who must pay higher rents and MTA fares too. Let's restore fairness to the budget.

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



**Budget Hearing  
June 1, 2009**

The New York Building Congress is testifying this afternoon on the Capital Budget component of the proposed Fiscal Year 2010 New York City Budget out of concern for sufficient funding of the City's Capital Plan over the next decade.

After proposing, in January, a 30 percent reduction in overall spending as part of the City's ten-year capital strategy, the Mayor's revised executive budget plan instead proposes a more modest reduction that allows for overall capital spending at about \$10 billion for the next two years. The Building Congress, which called the original proposal counterproductive to the City's economic health, believes the revised plan is a significant improvement. This was achieved by:

- reducing commitments financed by the City's general obligation bonds to 27 percent rather than 30 percent;
- applying federal stimulus funds toward education projects; and
- reducing the non-City-financed portion of the plan by just 10 percent, including the Department of Environmental Protection's capital projects, which are financed by dedicated water and sewer fees.

The Building Congress acknowledges the depth of the City's current budget problems and the limited options available to close the deficit. For this reason, we appreciate and applaud the willingness of the City's leaders to find ways to modify the actual reduction in commitments from 30 percent to approximately 17 percent in the ten-year plan.

This revised capital strategy, and the continuation of \$10 billion annual near-term spending levels, is important for the construction industry as well as for the local economy.

While the initially proposed cuts, by our analysis, would have resulted in construction job losses of up to 10,000, the revised plan is expected to reduce that number to 5,800. Building Congress research shows the City lost 22,600 construction jobs between August of last year and February 2009 – a decline of 16 percent in just six months. Given that construction spending and employment generally lag the rest of the economy, it is likely that this alarming rate of job loss will continue until next year and possibly beyond.

By maintaining spending levels in the near term, the City will preserve thousands of jobs for working-class New Yorkers and significantly bolster economic activity during a period of rising unemployment.

Nevertheless, while the near-term outlook has improved, the forecast for fiscal 2011 and beyond is significantly more grim. The impact, most likely, will be felt starting in fiscal year 2012, when many current projects will be near or at completion. At the same time, the construction industry will likely be experiencing the severe impact of spending declines across the board. The Bloomberg administration is projecting that annual capital spending will drop to \$8 billion by fiscal year 2013 and continue its decline through the end of the

next decade where, absent revisions, spending would drop to about \$6 billion annually. We must do everything possible to avoid this scenario.

As the Building Congress has long advocated, the solution to the City's capital spending challenge is to identify and implement dedicated sources of funding – not to diminish spending on critical infrastructure needs.

The Bloomberg administration and the City Council deserve credit for their dedication to forward-looking investments in the City's infrastructure. We have been impressed with the City's commitment to school construction, transportation, environmental projects, and affordable housing – all comprehensive investments with long-term benefits. The Building Congress stands ready to continue working with the Mayor and the City Council, as well as the State Legislature and Governor, to identify dedicated sources of infrastructure financing and reduce reliance on debt while ensuring that the City's physical needs are continually and efficiently addressed.