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Analysis of the Mayor's Preliminary Budget for 2003

IBO's Reestimate of the Mayor's Preliminary Budget for 2003 and Financial Plan through 2006

IBO

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Preface

For the first time since the Independent Budget Office opened its doors in 1996, the city must confront a yawning budget shortfall without a sizable surplus from the prior year to help bridge the gap. The Bloomberg Administration estimates the shortfall for the fiscal year that begins July 1 is $4.76 billion. This amounts to nearly 18 percent of taxes and other city revenues, making this shortfall the largest in the two decades since the city's budget returned to balance after the fiscal crisis of the 1970s. The city's current fiscal difficulty is compounded by continuing economic weakness and the tragic events of September 11.

This report provides IBO's analysis of the Preliminary Budget for 2003 and Financial Plan for 2002-2006. In this report we examine the key budget proposals made by the Mayor, reviewing and, in some cases, reestimating the potential costs or savings from these initiatives. Both the expense budget and capital budget are considered. In accordance with section 246 of the New York City Charter, IBO also presents here its independent economic forecast and revenue projections.

Recognizing the extraordinary fiscal problems New York City faces, IBO will soon produce a companion volume to this report. In this second report, IBO will analyze cost-saving and revenue options for the city. Many of these options are being raised and publicly discussed by elected officials, civic organizations, advocacy groups, and others. IBO will provide estimates of the savings or revenues from more than two dozen options, as well as present the pros and cons associated with each of these measures.

The current report on the Preliminary Budget is the product of the expertise and hard work of IBO's team of budget analysts and economists. A list of staff contributors and their areas of responsibility are included at the end of this report. The report was produced under the supervision of Preston Niblack, Frank Posillico, and George Sweeting. Doug Turetsky served as editor and project manager, and Michael Hartmann did the layout.

Ronnie Lowenstein,

Director

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Overview

INTRODUCTION

As required by the New York City Charter, the Independent Budget Office (IBO) reviewed the Mayor's Preliminary Budget for 2003 and Financial Plan through 2006. IBO's analysis reflects its independent assessment of revenues, repricing of the Mayor's policy proposals, and reestimate of the cost of delivering existing services. Based on this comprehensive examination, IBO finds:

- A gap of $397 million remains for 2003 even if all the Preliminary Budget proposals are enacted. Gaps of more than $3.0 billion—or roughly 10 percent of city funded revenues—remain in each year from 2004 through 2006.
- Although the recession and events of September 11 worsened the city's fiscal difficulties, a large share of shortfalls for 2003 and beyond predate these events and result instead from long-term city spending rising faster than revenues.
- After tax revenues fall by a projected 5.7 percent in 2002, revenues will resume growing in 2003 and rise by 3.2 percent. Tax revenues are expected to continue rising through 2006, at an annual average rate of 5.0 percent during the 2002-2006 period.
- City debt service continues to rise at a fast pace, growing from $3.5 billion in 2003 to $5.2 billion in 2006, despite a 14.3 percent cut to the four-year capital plan.
- The Administration proposes using a total of $1.74 billion in borrowed funds to close the 2003 gap.
- The viability of $1.4 billion in cost-saving initiatives and a $441 million debt-refinancing proposal remain uncertain, and if not fully implemented could cause prospective budget shortfalls to rise.

Total Revenue and Expenditures

Dollars in millions

	2002	2003	2004	2005	2006	Average Change
Revenues	$ 41,954	$ 42,667	$ 42,157	$ 43,507	$ 45,080	1.8%
city funded revenues	*27,472*	*28,996*	*28,651*	*29,738*	*31,096*	3.1%
Expenditures:						
Before prepayments	$ 44,654	$ 43,308	$ 45,242	$ 46,771	$ 48,321	2.0%
city funded expenditures	*30,172*	*29,637*	*31,736*	*33,002*	*34,337*	3.3%
2001 prepayment	(2,944)	-	-	-	-	
2002 prepayment	244	(244)	-	-	-	
Subtotal	(2,700)	(244)	-	-	-	
Total expenditures	$ 41,954	$ 43,064	$ 45,242	$ 46,771	$ 48,321	3.6%
city funded expenditures	*27,472*	*29,393*	*31,736*	*33,002*	*34,337*	5.7%
Gap	**$ -**	**$ (397)**	**$ (3,085)**	**$ (3,264)**	**$ (3,241)**	

SOURCE: IBO

NOTES: Year 2002 includes a $244 million surplus, which is used to prepay 2003 expenditures.
City-funded revenues and expenditures exclude state and federal categorical grants.
Excludes intra-city revenues and expenditures.

BUDGET GAPS

The Bloomberg Administration estimates the projected budget gap for 2003 is $4.76 billion—17.9 percent of taxes and other city revenues. Unlike the past five years, in which the city ended each year with surpluses ranging from $1.0 billion to more than $3.0 billion, there will not be a significant surplus at the end of 2002 to help close next year's projected shortfall. IBO anticipates the city will end the current fiscal year with a surplus of $244 million.

If the spending and revenue changes proposed by the Mayor in the Preliminary Budget are enacted, IBO anticipates that a shortfall of $397 million still remains for 2003. IBO also projects the city will face budget gaps of $3.08 billion in 2004, $3.26 billion in 2005, and $3.24 billion in 2006.

These projected gaps assume the implementation of a number of proposals in the Preliminary Budget, including $800 million in anticipated new state and federal aid, $441 million in savings from debt refinancing and $500 million in savings from labor. The outcome of these proposals is uncertain and their failure—all or in part—could lead to substantially higher gaps.

While the recession and the terrorist attack of September 11 have exacerbated the city's fiscal difficulties, these events are not the only—and perhaps not even the largest—causes of the budget gaps. The shortfalls for 2003 and beyond mostly result from city expenditures growing faster than revenues. Over the past few years, spending growth has exceeded growth in revenues. The city was able to mask this structural imbalance by drawing down sizable surpluses that had accumulated during the boom years of the 1990s. These surpluses resulted from unsustainable sources of revenues, such as extraordinary Wall Street profits, and could not be counted on to support the growth of recurring expenditures. By using the surplus of one year to prepay certain expenses (primarily debt service) in the next, the underlying imbalance was simply pushed away for another year. Without the benefit of another large surplus, the city now must confront the structural imbalance and resulting budget shortfall.

REVENUE ESTIMATES

By early last spring New York City began to feel the effects of the economic slowdown. The recession, coupled with the September 11 attack, have led to the loss of 118,000 jobs in the city during calendar year 2001. Although IBO forecasts that the city will have some modest job growth in calendar year 2002 and stronger growth in 2003, the number of jobs will not return to the city's December 2000 peak—3.8 million—until the middle of 2005.

Based on this economic forecast, IBO anticipates that tax revenues in 2002 will be 5.7 percent—or $1.32 billion—less than in 2001. IBO expects revenues to resume growing in 2003, rising by 3.1 percent over 2002. Revenues are expected to continue rising through 2006, at an annual average rate of 5.0 percent during the 2002-2006 period.

Compared with the estimates in the budget adopted last June, tax revenues are expected to be $744 million lower in 2002 and $1.2 billion lower in 2003. The largest absolute shortfalls are in the cyclically sensitive sales tax, business income taxes, and personal income taxes. Revenues from the property tax and the property transfer-related taxes are now expected to exceed the levels projected last June.

EXPENDITURES

IBO projects city-funded expenditures to reach $29.4 billion in 2003. This includes the Administration's proposals to reduce agency spending by $1.6 billion along with citywide cost-saving initiatives of $1.4 billion (state and federal actions, fringe benefit savings, and a severance program). Also included in IBO's projection are expenditure reestimates totaling $272 million in 2003. Among these reestimates are IBO's expectation that the city will spend $100 million more than budgeted for police overtime, $60 million more for public assistance than currently planned, and $57 million more for the public schools.

While the Preliminary Budget recognizes that Medicaid costs are growing more than previously forecast by the Mayor's Office of Management and Budget, IBO estimates Medicaid will require an additional $39 million in city funds. The Bloomberg Administration has acknowledged higher inpatient and pharmacy costs and somewhat larger Medicaid caseloads. Two recent legislative actions in Albany also have resulted in higher Medicaid costs for the city: The health bill enacted in January raised Medicaid payment rates and provided coverage for recent legal immigrants.

City debt service continues to grow at a fast pace. Debt service, including payments to the Transitional Finance Authority (TFA), will increase from $3.5 billion in 2003 to $5.2 billion in 2006—an annual average rise of 13.5 percent. IBO projects that paying off city debt will consume 19.4 cents of each tax dollar by 2006, up from 16.3 cents in 2001.

Pricing Differences Between IBO and the Administration

Items that Affect the Gap

Dollars in millions

	2002	2003	2004	2005	2006
Gaps as estimated by the Mayor	**$ -**	**$ -**	**$ (2,574)**	**$ (2,926)**	**$ (3,112)**
IBO Pricing Differences:					
Revenues:					
Taxes:					
Property	(36)	5	(37)	(56)	(128)
Personal Income	111	(148)	23	(12)	149
General Sales	(3)	253	304	347	360
General Corporation	(92)	(203)	(91)	(234)	(253)
Unincorporated Business	(36)	(14)	(40)	(18)	(29)
Banking Corporation	36	60	46	3	(14)
Real Property Transfer	25	60	78	94	124
Mortgage Recording	-	7	13	(5)	1
Utility	-	10	12	13	13
Hotel Occupancy	1	(12)	(16)	(10)	(11)
Commercial Rent	3	(20)	(17)	(18)	(29)
PILOTS	24	(20)	(19)	(18)	(17)
	33	(22)	256	86	166
STaR Reimbursement	-	72	(44)	54	(37)
Sale of OTB	-	-	(250)	-	-
Airport Rent	-	(175)	(320)	(285)	(40)
Total Revenues	33	(125)	(358)	(145)	89
Expenditures:					
Public Assistance	(7)	(60)	(11)	8	8
Medicaid	(14)	(39)	(21)	(79)	(103)
Board of Education	(28)	(57)	(6)	(22)	(23)
Overtime	-	(100)	(100)	(100)	(100)
Campaign Finance	-	-	(15)	-	-
Prepayment Adjustment	16	(16)	-	-	-
Total Expenditures	(33)	(272)	(153)	(193)	(218)
Total Pricing Differences	-	(397)	(511)	(338)	(129)
IBO Surplus/(Gap) Estimate	**$ -**	**$ (397)**	**$ (3,085)**	**$ (3,264)**	**$ (3,241)**

SOURCE: IBO.

NOTES:

Year 2002 includes a $244 million surplus, which is used to prepay 2003 expenditures.

Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps.

Pricing differences exclude intra-city revenues and expenditures.

This increase in debt service comes despite the Bloomberg Administration's proposed cut of 14.3 percent in authorized capital commitments from 2002-2005. This amounts to a $4.7 billion reduction in capital spending, which the Administration estimates will save a total of $390 million in debt service through 2006.

Almost every city agency shared in the cuts to the capital program, but the level of their cutbacks varied. Among the agencies that receive the largest capital commitments, the Board of Education's capital plan for 2002-2005 was cut by $1.0 billion, or 22 percent. The Department of Transportation, which after the board receives the largest amount of capital dollars, had its plan trimmed 14 percent. The Administration proposed reducing capital funds for housing development and preservation by 18 percent, mostly by curtailing planned new construction.

Despite cuts to these and other agency construction and maintenance programs, the city's capital commitments remain large. Planned capital commitments for 2002-2005 total $25.1 billion, an average of $6.3 billion a year. During the 1990s, capital commitments averaged about $4.5 billion annually. Last year, commitments jumped to $6.7 billion.

BORROWING TO CLOSE THE GAP

The Administration proposes using a total of $1.74 billion in borrowed funds to close the 2003 gap—$1.5 billion from the Transitional Finance Authority and a net $235 million from the reserves of the Municipal Assistance Corporation (MAC).

The legislature approved legislation on September 13, 2001—two days after the terrorist attack on the World Trade Center—authorizing the city to borrow through TFA an unlimited amount of short-term debt for all disaster-related costs, in anticipation of federal and state disaster relief aid. The law also allowed the city to borrow up to a total of $2.5 billion in long-term debt for disaster-related purposes. The legislation explicitly allowed long-term borrowing for non-capital operating expenses—a practice prohibited under the state Financial Emergency Act (FEA). It also exempted the short-term borrowing from the provisions of the FEA that would not normally allow the city to end the fiscal year with outstanding short-term debt.

In October 2001, fearing extremely high disaster-related spending and a shortfall in revenues, the city used this authority to issue $1.0 billion in one-year notes, stating that the notes would either be repaid with federal or state aid at their term, or—as it now appears—refinanced with long-term bonds. Under the Mayor's Preliminary Budget, the city would issue another $1.0 billion in long-term "recovery bonds" in July 2002, for a total of $2 billion in TFA borrowing. The city will use $1.5 billion for general gap-closing purposes in 2003, and another $515 million, mostly in 2002, to pay for disaster-related spending already incurred but unlikely to be reimbursed by the federal government. The city projects that this borrowing will increase debt service costs $180 million annually for 20 years.

The Municipal Assistance Corporation, created in 1975, provided the city with access to capital markets in the wake of the fiscal crisis. The city makes annual payments to MAC for debt service. In essence, the city is proposing to lower its payment in 2003 by $250 million—to be repaid to MAC in 2008, the last planned year of its existence. To ensure repayment, the city will purchase a surety bond—essentially an insurance policy—for $15 million, for a net proceed of $235 million.

While this borrowing helps close the yawning budget gap in 2003, it does not address the shortfalls in the ensuing years. In fact, it is a one-time revenue that not only leaves the same gap to be addressed in 2004 and beyond but also increases the burden on future taxpayers. Given the depth of the shortfall for 2003 and the weakness in the local economy, the borrowing is understandable but should be kept to a minimum. The city's primary focus should be on spending cuts, state and federal assistance, and tax increases needed to restore structural budget balance.

UNCERTAINTIES

While all preliminary budgets present a number of trial balloons, giving mayors the opportunity to float a variety of proposals, this budget appears more preliminary than most. There are several major proposals that would provide the city with savings of $1.84 billion if enacted. IBO has included the full value of these measures in its reestimate of the Mayor's Preliminary Budget and Financial Plan. If these proposals fail, or are only partially adopted, the budget gaps for 2003 and beyond could grow steeply.

The city is counting on a total of $800 million in savings in 2003 through state and federal initiatives ($400 million each from state and federal sources), and a total of $500 million ($250 million each) in the out-years. The Preliminary Budget proposes to generate these savings from a larger menu of state and federal initiatives totaling $2.1 billion in 2003 and $1.5

billion in 2004-2006. IBO notes that some of theses menu items, such as those related to debt, pensions, severance, and the E-911 surcharge, are also included in other savings initiatives elsewhere in the budget. The intention behind counting savings in different parts of the budget is largely to maximize flexibility as the Administration works toward the Executive Budget. If these items are removed from the state and federal menu, however, the $800 million savings target for 2003 (and $500 million per year in 2004-2006) must be generated off a smaller menu of possible savings, totaling about $1.4 billion in 2003-2006.

The city also anticipates saving $500 million in 2003—rising to $575 million in 2006—by containing the growth in some fringe benefit costs for city workers. The Administration specifically proposes lengthening the phase-in of automatic cost-of-living adjustments for municipal employee pensions from 5 years to 10. This change requires the approval of the state legislature, which enacted the automatic adjustment in 2000. Stretching the phase-in over 10 years would save the city $275 million in 2003. Further containment of fringe benefit costs would come from unspecified measures. The Administration has asked the unions to identify actions that would achieve the additional savings needed to reach the targets for 2003 through 2006.

Another proposal in the Preliminary Budget anticipates saving $441 million in 2003 through a refinancing of existing debt. The Administration hopes to achieve nearly three-quarters of this savings by winning changes in Washington and Albany that will ease restrictions on municipal refinancing.

The viability of these as well as some other proposals, such as the plan for a severance program to save $100 million annually, should become clearer when the Mayor releases his Executive Budget in April.

Revenues

Economic Outlook

OVERVIEW

- The U.S. economy fell into recession in March 2001 and then was further weakened by the September 11 attacks. The Bureau of Labor Statistics reports that job losses for the national economy exceeded 1 million between December 2000 and December 2001.
- It appears that the New York City economy started to contract at approximately the same time as the national economy, but then plunged deeper after September 11. The New York State Department of Labor reports that 132,000 jobs were lost between December 2000 and December 2001.
- Both the U.S. and New York City economies are expected to emerge from recession early this year, but the initial recoveries are expected to be slow. Brisk growth is not expected until 2003.

RECENT DEVELOPMENTS

In March 2001, the U.S. economy ended a 10-year expansion, the longest on record according to the National Bureau of Economic Research. As the economy shifted from growth to contraction, payroll employment declined sharply in both the second and third quarters, primarily in manufacturing, and then dropped dramatically following the September 11 attacks. The Bureau of Labor Statistics reports that job losses between December 2000 and December 2001 exceeded 1 million. Transportation, hotels, and other travel-related businesses were affected directly by the September 11 attacks, while trade, business services, and manufacturing suffered indirect hits. The seasonally adjusted unemployment rate rose to 5.8 percent in December 2001, up from a low of 3.9 percent in October 2000. IBO estimates that corporate profits dropped by 16 percent between 2000 and 2001. The Commerce Department estimates that real gross domestic product (GDP) declined by 1.3 percent in the third quarter and grew by 1.2 percent for the year as a whole, a sharp contrast to GDP growth of 4.1 percent in 2000. Had it not been for surprisingly strong consumer demand and a large boost in military spending, the picture for 2001 would have been considerably worse.

It now appears that New York City entered the recession at approximately the same time as the nation. Then, on September 11, the New York City economy suffered a devastating blow. In addition to the many lives so tragically lost, approximately 30 percent of the supply of prime commercial office space in the downtown market was destroyed or damaged in the World Trade Center attack, displacing an estimated 100,000 workers in 6,000 firms. Businesses in the immediately surrounding area came to a full halt for several days to several weeks. Tourism and business travel slowed dramatically.

The New York State Department of Labor reports that 132,000 jobs disappeared from the city between December 2000 and December 2001. Job losses in finance, insurance and real estate (FIRE) exceeded 30,000 during this period, while losses in business services approached 39,000. Manufacturing employment dropped by 17,500. Employment in transportation, communications, and utilities (TCU) fell by 15,000, as did employment in retail trade.

Other indicators showed weakness, as well. The seasonally adjusted unemployment rate for the city stood at 7.3 percent in December, up from 5.3 percent last March. Securities industry profits plunged from $21 billion—an all-time high—in 2000 and to an estimated $8.5 billion in 2001. IBO estimates that fourth-quarter real gross city product (GCP) was 8.1 percent less than its level a year earlier.

NATIONAL ECONOMIC OUTLOOK

IBO—consistent with most other forecasters—is projecting that the national recession will end early this year, but the recovery to follow will be sluggish.

IBO expects total payroll employment to grow very slowly throughout most of 2002, pick up some steam in 2003, and then maintain slow but steady growth through 2006. In turn, the unemployment rate is expected to be 6.1 percent in 2002, fall to 5.7 percent in 2003, 5.3 percent in 2004, and then reach 5.2 percent by 2006. IBO projects real GDP growth to turn up in the second half of this year, grow by 4 percent in 2003, and then settle down to an annual growth rate of about 3 percent. Due to the resilience of consumer demand throughout most of the recession, a major boost in consumption is not anticipated. Given this moderate growth scenario, IBO anticipates the U.S. inflation rate to be just 1.4 percent in 2002 and then stay in the 2.3 to 2.5 percent range through 2006.

Economic Forecast: IBO and City OMB

	2001	2002	2003	2004	2005	2006
National Economy						
Real GDP Growth						
IBO	1.1	1.2	4.0	3.2	3.1	3.0
OMB	1.0	0.5	4.1	3.6	3.0	2.9
Non-farm Employment Growth						
IBO	0.4	-0.6	1.9	2.0	1.2	1.3
OMB	0.4	-0.3	1.1	1.6	1.3	1.0
Inflation Rate (CPI-U)						
IBO	2.8	1.4	2.3	2.3	2.5	2.4
OMB	3.0	1.8	2.4	2.7	2.7	2.8
Personal Income Growth						
IBO	4.9	2.0	4.4	5.3	4.8	4.7
OMB	4.9	2.7	5.7	5.5	5.0	5.2
Unemployment Rate						
IBO	4.8	6.1	5.7	5.3	5.3	5.2
OMB	4.8	6.2	5.7	5.1	5.0	5.0
10-Year Treasury Bond Rate						
IBO	5.0	5.2	5.7	6.2	5.9	5.9
OMB	5.0	5.2	5.8	6.0	5.9	6.0
Federal Funds Rate						
IBO	3.9	2.0	4.7	5.5	5.3	5.1
OMB	3.9	2.5	4.5	5.0	5.0	5.0
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	8.9	-93.0	54.2	53.1	31.5	30.5
OMB	19.7	-116.0	22.1	53.8	42.4	44.8
Employment Growth						
IBO	0.2	-2.5	1.5	1.4	0.8	0.8
OMB	0.5	-3.1	0.6	1.5	1.1	1.2
Inflation Rate (CPI-U-NY)						
IBO	2.8	2.6	2.7	2.5	2.6	2.4
OMB	2.8	2.1	2.5	2.7	3.0	3.0
Personal Income ($ billions)						
IBO	318.8	322.4	335.7	351.5	366.9	382.4
OMB	310.6	305.6	316.5	333.9	352.5	372.1
Personal Income Growth						
IBO	6.8	1.1	4.1	4.7	4.4	4.2
OMB	3.4	-1.6	3.5	5.5	5.6	5.6
Manhattan Office Rents ($/sq. ft.)						
IBO	58.92	55.46	55.72	56.55	56.84	57.19
OMB	58.86	55.93	58.38	61.43	63.95	65.85

SOURCES: IBO; OMB.
NOTES: All rates reflect year-over-year percentage changes except for unemployment, 30-year Treasury Bond, and Federal Funds. The local price index for urban consumers (CPI-U-NY) covers the New York/Northern New Jersey region. Personal income is nominal. This forecast is based on data available in February 2002.

LOCAL OUTLOOK

IBO projects that New York City also will move slowly out of recession this year. A brisk rebound is not expected until 2003, and growth beyond 2004 is expected to be moderate.

Employment. After anemic growth of less than 1 percent through most of 2002, payroll employment will grow by 1.4 to 1.5 percent through 2004 (adding 54,000 jobs in 2003 and another 53,000 in 2004), and then settle down to a growth rate of 0.8 percent (about 31,000 jobs per year). IBO does not expect the city to reach its pre-recession employment peak—3.8 million jobs—until late 2006.

IBO projects construction employment to rise significantly this year and remain high, as the cleanup continues at ground zero, rebuilding in the World Trade Center area gets underway, and many other projects that were already in the pipeline before September 11 proceed. Employment in non-cyclical industries—education, social services, and particularly health—is also expected to grow steadily. Retail trade and business services are expected to resume steady employment growth in 2003.

The outlook for employment in FIRE, manufacturing, and TCU is less optimistic. IBO projects employment in FIRE to start growing again in 2003, but remain more than 20,000 below its previous peak throughout the forecast period. Security industry profits are expected to rise this year and next, but decline in 2004 and then average about $14.3 billion (about two-thirds the 2000 profit level) in subsequent years. Although the recent decision by American Express to consolidate its operations in Lower Manhattan is encouraging, the number of American Express employees to return to Lower Manhattan will be about 1,000 less than the number displaced because of earlier layoffs. Moreover, other major financial firms also appear to be moving ahead with plans to move jobs out of the city. Manufacturing is expected to add nearly 7,000 jobs in 2003, but remain essentially fixed thereafter below its pre-recession level. TCU is expected to regain just a few thousand jobs during the forecast period.

Income Growth. Overall, IBO expects personal income to grow by just 1.1 percent this year, and then average 4.3 percent growth starting in 2003. A sharp 22 percent drop in personal income tax withholding in February suggests that Wall Street bonuses for 2001 were down significantly. Investment earnings are also expected to decline through mid-2002 and not show significant growth until late 2003. Wage and salary earnings are expected to follow the path of employment, growing strongly in 2003 and much of 2004 and then more moderately thereafter.

After growing slightly in each quarter of 2002, IBO forecasts that real GCP will grow by 4.4 percent in 2003 and then by roughly 3 percent annually through 2006. The city's unemployment rate is expected to remain above 7 percent through the first half of 2003 and then stay at or above 6 percent through 2006.

On balance, IBO's forecast is more optimistic than the Mayor's Office of Management and Budget (OMB) forecast of the timing of the recovery. In particular, IBO projects much greater gains in employment and personal income in 2003 than OMB. OMB expects higher growth rates than IBO in the years beyond 2004, however.

IBO's forecast assumes that the city's recovery from the current recession will track the recovery in the national economy quite closely. A risk for the city is that the local recovery will not be similar to the national recovery and instead follow the pattern of the early 1990s. The local economy badly lagged the national recovery from the 1991 recession. One factor that could propel the city out of recession faster this time is the boost to the local economy from the Lower Manhattan rebuilding efforts.

Taxes and Other Revenues

INTRODUCTION

IBO projects that revenues for 2002 will total $42.0 billion, 4.3 percent above the total for 2001. In 2003, revenues from all sources (taxes, miscellaneous city revenues, state and federal categorical aid, and other revenues including unrestricted aid) are forecast to grow at a much slower 1.7 percent rate to $42.7 billion. The slow growth is expected to continue through 2006 with growth averaging only 1.8 percent annually, bringing total revenues in the final year of the Financial Plan to $45.1 billion.

The bulk of this section is devoted to IBO's tax revenue forecast, which is built up from our forecasting models for 11 major tax sources. The section concludes with a brief discussion of IBO's projections for other-than-taxes revenues.

IBO Revenue Projections

Dollars in millions

	2002	2003	2004	2005	2006	Average Change
Tax Revenues						
Property	$ 8,500	$ 8,866	$ 9,253	$ 9,633	$ 9,977	4.1%
Personal Income	4,939	4,980	5,590	5,896	6,434	6.8%
General Sales	3,375	3,759	3,969	4,164	4,363	6.6%
General Corporation	1,316	1,217	1,443	1,405	1,503	3.4%
Unincorporated business	767	819	843	917	964	5.9%
Banking Corporation	349	403	456	438	447	6.4%
Real Property Transfer	429	464	510	561	630	10.1%
Mortgage Recording	401	373	389	398	434	2.0%
Utility	271	290	294	298	307	3.2%
Hotel Occupancy	181	194	212	233	247	8.1%
Commercial Rent	370	351	367	384	395	1.6%
PILOT's	168	87	93	96	98	-12.6%
Other Taxes and Tax Audits	714	681	681	683	686	-1.0%
Total taxes	21,780	22,484	24,100	25,106	26,485	5.0%
Other Revenues						
STaR reimbursement	632	717	650	765	723	3.4%
Miscellaneous revenues	3,186	2,971	2,625	2,610	2,625	-4.7%
Transitional Finance Authority - 9/11	-	1,500	-	-	-	n/a
All other	1,874	1,324	1,276	1,257	1,263	-9.4%
Total other revenues	5,692	6,512	4,551	4,632	4,611	-5.1%
State and Federal grants	14,482	13,671	13,506	13,769	13,984	-0.9%
Total Revenues	$ 41,954	$ 42,667	$ 42,157	$ 43,507	$ 45,080	1.8%

SOURCE: IBO.

NOTES:

Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax.

All other non-tax revenues include unrestricted intergovernmental aid, other categorical grants, inter-fund revenues, and disallowances.

Miscellaneous revenues are net of intra-city revenues.

TAX REVENUE FORECAST

With the U.S. and local economies both still struggling to shake off the recession that began early last year and grew much worse after September 11, IBO is forecasting a decline in tax revenues in 2002, with only modest growth from 2003 through 2006.[1]

- IBO projects that total tax revenues in 2002 will be $21.8 billion, a decline of $1.3 billion (5.7 percent) from 2001.
- The forecast calls for revenues to resume growing and reach $22.5 billion in 2003—3.2 percent above the forecast for 2002.
- From 2004 through 2006, revenues will grow at an average annual rate of 4.8 percent, with total collections expected to reach $26.5 billion.
- IBO's current forecast for tax revenue in 2002 is $744 million below the amount in the Adopted Budget Financial Plan from last June. For 2003, the shortfall is $1.2 billion.
- IBO's and the Mayor's Office of Management and Budget's (OMB) tax revenue forecasts are strikingly similar for 2002 and 2003. Beginning in 2004 IBO's projections are slightly higher than OMB's. Much of the difference can be attributed to IBO's somewhat more optimistic economic outlook.

REAL PROPERTY TAX

With property values continuing to grow, albeit at a slower pace than in recent years, property tax revenues are projected to reach $8.9 billion in 2003, 4.3 percent above their 2002 level. From 2003 to 2006, growth in revenues will continue, although at the somewhat more moderate average pace of 4.1 annually. Much of the revenue growth in the latter years is attributable to a feature of the city's property tax system that phases-in market value appreciation over five years for apartment buildings and commercial properties. The run-up in market values in recent years has created a "pipeline" of assessment increases still being phased-in that will help sustain revenue growth even as current market conditions are slowing, and in some sectors declining.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market values), and the applicable tax rate.[2]

Under the property tax law, every parcel is assigned to one of four classes for tax purposes: class 1, consisting of one-, two-, and three-family homes; class 2, composed of apartment buildings, including cooperatives and condominiums; class 3, made up of the real property of utility companies; and class 4, composed of all other commercial and industrial property.

Because assessment rates (the share of market value actually subject to tax) and, to a lesser extent, tax rates vary from class to class, there are wide differences between each class share of total market value, assessed value, and tax burden (levy). On the 2002 assessment roll, class 1 homes account for 46.1 percent of market value in the city, but only 11.4 percent of assessed value for tax purposes and 13.5 percent of the tax levy. In contrast, the other three classes each account for greater shares of the assessed value than of market value, and therefore bear a disproportionately large share of the property tax burden.

Outlook for Assessments in 2003. In January, the Department of Finance released the tentative 2003 assessment roll. After taxpayer challenges and other department adjustments are processed, the values will be finalized in May and used for setting 2003 tax bills. IBO expects that final market values will show growth of 10 percent over the prior year, with class 1 showing the largest increase at 13.5 percent, followed by class 2 at 9.6 percent and class 4 at 2.4 percent. In each tax class, aggregate market value growth on the 2003 roll is slower than on the 2002 roll; the most marked slowdown occurred in class 4 where growth was less than half the prior year rate.

Much of the class 1 market value growth is attributable to the continuation of rapid appreciation through the first half of calendar year 2001. The available evidence indicates that the local economic contraction that began early last year and the shock of September 11 have stopped but not reversed the appreciation of class 1 values. Other property types that have continued to show market value growth, even as the local economy has been battered, include Manhattan rental apartment buildings, up 9.6 percent over 2002, and mid-town Manhattan office buildings.

Although Manhattan values showed continued growth overall, the September 11 attack has taken its toll on downtown market values. At the start of the current fiscal year the Port Authority was completing its sale of a 99-year lease of the World Trade Center, and the city removed the full exemption on the property. This added $2.8 billion of taxable market value to the assessment roll for 2002. After the destruction of the buildings, the city had to subtract most of this value from the assessment roll (only the land value at $485 million remains on the roll), which pulled down the market value growth rate. Values for many of the buildings surrounding ground zero have also had their values cut significantly.

IBO projects that total assessed value on the final 2003 tax roll will grow 3.2 percent over the 2002 roll, less than half the increase in market values. The required phase-in of assessment increases for classes 2 and 4 accounts for part of this difference. An additional constraint on growth is the 6 percent cap on annual assessment increases (or 20 percent over five years) for class 1 properties. While class 1 market values on the 2003 assessment roll grew by 13.5 percent, class 1 assessed value will show growth of only 5.6 percent, in large part because of the 6 percent limit on assessment increases. While the city eventually captures the phased-in assessment increases in classes 2 and 4, much of the value lost to the caps in class 1 is essentially lost to the city forever. When values are growing faster than the 6 percent permitted under the cap, assessments fall further and further short of the 8 percent target assessment rate for class 1. Even in weak real estate markets, values rarely fall so far that assessments "catch up" to the 8 percent target.

Assessment Outlook for 2004-2006. Market values are expected to grow at an even slower pace over the later years of the Financial Plan. Growth will be slowest on the 2004 roll, which because of the timing of the assessment process, will be largely shaped by the economic conditions existing in calendar year 2002. IBO projects that class 1 market value growth will be negative for 2004, and then average 1.5 percent for the remaining two years. Annual market value growth in class 2 will average 2.0 percent in 2004 through 2006; in class 4 growth will average 0.7 percent annually.

With negative class 1 market value growth expected for 2004 though 2006, growth in assessments will also be anemic, with annual increases averaging 1.1 percent. The pipeline of previous growth will keep assessments in class 2 and 4 growing fairly briskly—and faster than market values—averaging 5.5 percent and 3.9 percent, respectively. Overall, assessment growth for all classes of property will average 4.1 percent annually.

Revenue Outlook. After the Department of Finance has completed the assessment roll, the actual property tax levy is determined by the City Council when it sets the tax rates for each class. Since 1992 the Council has observed an informal freeze in the average tax rate. IBO's property tax revenue forecast assumes that the freeze will be maintained, with the levy for 2003 and subsequent years equal to 10.366 percent of the aggregate assessed value for tax purposes on the assessment roll.

The amount of net property tax revenue in a fiscal year is determined not only by levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. IBO projects that net property tax revenue for 2002 will total $8.5 billion, 4.2 percent above revenues for 2001. For 2003, revenue will grow by 4.3 percent to $8.8 billion. For 2004 to 2006, growth will average 4 percent, with revenue totaling $10 billion by the last year of the plan period.

PROPERTY-RELATED TAXES

Commercial Rent Tax. Between 1994 and 2001, a series of tax policy changes significantly altered the incidence of the commercial rent tax (CRT) and reduced the revenues from over $700 million in 1994 to $367 million in 2001. In 2002, with the latest cut taking effect, revenues are expected to grow only slightly to $370 million. (Without the cut collections would have grown by 8.9 percent this year.) IBO expects that the continuing slump in the demand for office and retail space, particularly downtown, will result in lower CRT revenues in 2003; they are forecast to fall by 5.3 percent to $351 million. Revenues are projected to resume growing over the last three years of the plan at an annual average rate of 4 percent, reaching $395 million by 2006.

As of June 1, 2001, the tax is now only assessed on commercial tenants with annual rents over $250,000 (with liability phased in for rents between $250,000 and $300,000) in Manhattan below 96th Street. Liability is computed using an effective rate of 3.9 percent of the rent. The most recent change, which raised the liability threshold from $150,000 to $250,000, removed over 3,700 tenant-taxpayers with relatively modest rents, leaving roughly 6,700 still subject to the tax. IBO estimates that this reduction lowered CRT collections by $30 million in 2002.

Real Property Transfer Tax and Mortgage Recording Tax. Driven largely by the Federal Reserve Bank's 11 interest rate cuts in the last year, mortgage rates have been falling sharply. Lower mortgage rates account for much of the strength of current year collections from the real property transfer tax (RPTT) and the mortgage recording tax (MRT), even as the local economy has been contracting. IBO projects that 2002 revenues from these two sources will fall only slightly from their 2001 levels, show little growth in 2003, and then rebound strongly in 2004.

These two closely related revenue sources are collected at opposite ends of residential and commercial real estate transactions. The RPTT is levied directly on the sale price and is typically paid by the seller. The MRT is levied on the amount of the mortgage used to finance the purchase (usually the sale price less the down payment) and is paid by the buyer. While mortgage refinancing is often subject to the MRT, it is exempt from the RPTT, as no transfer of property is involved. Similarly, sales of coop apartments are subject to the RPTT but are exempt from the MRT because coop financing loans are not technically mortgages.

While sensitive to business cycle changes, the two transfer taxes are also influenced by mortgage rates, which have been decreasing steadily in recent months. The decrease in mortgage rates has sustained the number of home sales over the past several months, despite the economic slowdown. According to the National Association of Realtors, in January the number of existing home sales in the Northeast increased by 9.2 percent over the prior year.

IBO forecasts a decline in RPTT revenues of 11 percent to $429 million in fiscal year 2002, followed by renewed growth in 2003 through 2006. In 2003, IBO projects that RPTT revenues will reach $464 million (growth of 8.2 percent), as the local economy begins to recover. By 2004 RPTT revenues will surpass 2001 levels at $510 million.

The MRT is projected to decline 1 percent in fiscal year 2002 to $401 million. (IBO's MRT forecast reflects an expected $1.6 million annual savings in reimbursements for processing the tax from New York State.) The decrease is smaller than the 11 percent expected decline for the RPTT in 2002, and reflects recent increases in the number of mortgage refinancing transactions which have helped sustain MRT collections.

Interest rates are forecast to begin moving higher in the second half of this calendar year. The combination of higher mortgage rates and sluggish recovery in the local economy will result in a further decline in MRT revenues in 2003 to $373 million. With recovery more firmly underway during calendar year 2003, MRT revenues will resume growing in fiscal year 2004. IBO projects that revenues will reach $389 million in 2004 (a 4.3 percent increase). Growth will continue through 2006 when revenues reach $434 million, finally surpassing those of 2001.

PERSONAL INCOME TAX

Background and Recent Changes. The personal income tax (PIT) is levied on the incomes of city residents. Resident PIT liability is made up of two components: a base and a surcharge. The base rate is progressive, with income in higher tax brackets taxed at higher rates; the tax rate for the lowest of the four brackets is 2.55 percent, compared with 3.2 percent for the highest bracket.[3] After a temporary reduction in calendar year 2001, the surcharge reverted to being equal to 14 percent of base rate liability.

By fiscal year 2001, a number of recent tax cuts and credits—including the elimination of the commuter tax, expiration of the 12.5 percent "criminal justice" surcharge, introduction of the STaR program's PIT credit and cut in base rates, and the temporary reduction of the current surcharge—together reduced collections by almost one-quarter of what they would have been in the absence of the cuts.[4] In spite of this substantial loss of revenue, PIT collections grew an average of 3.7 percent annually from 1998 to 2001, buoyed by a prolonged economic expansion that continually surpassed expectations.

Revenues in the Current Year. By the end of the last fiscal year, however, there already were several indications that PIT revenue would fall substantially from 2001 to 2002. The nation's economy weakened throughout the spring, while employment growth in New York City came to a halt and a break in Wall Street's bull market became evident. Starting in May 2001, monthly PIT revenues have generally been less than what they were in the same month of the prior year.

The attacks on the World Trade Center profoundly worsened the outlook for the local economy in general, and for Wall Street employment and profits in particular. As a result, fiscal year collections to date are 14.7 percent lower than for the same period in fiscal year 2001. With a sharp decline of capital gains realizations in both the current and last calendar year, quarterly estimated payments of the PIT have decreased in particular. Similarly, with profits in the securities industry roughly halved from calendar years 2000 to 2001, bonuses paid to securities industry professionals have been slashed, in turn reducing withholding payments made at the beginning of this calendar year. One factor bolstering PIT collections this year is the restoration of the 14 percent surcharge, which took effect on January 1, 2002.[5]

On balance, IBO expects net PIT revenue (after refunds) to decline by 13.3 percent in 2002 to $4.9 billion, about 22 percent of all city tax collections. (These and other collections figures reported in this section include PIT receipts dedicated to the Transitional Finance Authority.)[6] IBO's 2002 PIT forecast exceeds OMB's by $111 million—2.3 percent of the total.

The Forecast for 2003 and Beyond. IBO expects only a slight increase in PIT collections, to $5.0 billion, in 2003. With employment growth beginning to exceed 5,000 jobs per quarter by the second half of calendar year 2002, withholding collections are expected to increase by a healthy 8.6 percent from fiscal year 2002 to 2003. Estimated payments, however, are projected to grow only 2.8 percent, in large part because capital gains realizations are expected to fall from calendar years 2001 to 2002 and then remain the same for another year. The enacted tax cuts of recent years, however, will not dampen growth from 2002 to 2003 because for the first time in many years, the phasing in of already enacted cuts has been completed.

IBO's 2003 PIT forecast is $148 million less than OMB's, mostly due to differences in the forecasts of PIT refunds. Following the sharp decline in PIT liabilities during calendar year 2001, both IBO and OMB have projected a sharp increase in refunds from 2001 to 2002. But for 2003, IBO expects refunds to fall slightly while OMB expects them to drop by over 20 percent.

With both employment and income growth expected to accelerate in calendar year 2003 plus an increase in capital gains realizations by 2004, IBO forecasts 8.6 percent growth in PIT revenue from 2003 to 2004, to $5.6 billion. For the last two years of the Financial Plan, growth will average 6.3 percent, and PIT collections will reach $6.2 billion by 2006. IBO's projections of personal income of city residents are generally higher than OMB's throughout the forecast period, and our forecast of PIT withholding collections after 2003 is consistently higher. But for the out-years (2004 to 2006), IBO's total PIT forecasts exceed OMB's by an average of only $54 million per year, less than 1 percent of revenues from the tax.

BUSINESS INCOME TAXES

IBO projects total revenues from the city's three business income taxes to be essentially identical in 2002 and 2003 at $2,433 million and $2,439 million respectively. These forecasts are 18 percent below the total for the three taxes in 2001, with the largest decline coming in the general corporation tax. Revenue growth is expected to pickup in 2004 through 2006, with collections expected to total $2.9 billion in the latter year.

General Corporation Tax. One of the few localities in the United States to levy a tax on corporate income, New York City collected $1,735 million in general corporation taxes (GCT) in 2001, slightly below the peak $1,779 million in collected in 2000 when revenues grew by 25 percent.[6] IBO forecasts a sharp plunge (24.1 percent) in GCT collections in 2002 and a further, smaller decline in 2003. The collections forecast of $1,316 million in 2002 and $1,217 million in 2003 would make these the weakest years since 1996.

About three-quarters of GCT revenues come from a tax of 8.85 percent imposed on the portion of net income that corporations allocate to New York City. The rest comes from three alternative bases for calculating city corporate tax liability: (1) capital allocated to the city, (2) net income plus compensation paid to major shareholders who are also officers of the corporation, and (3) a minimum tax of $300. The alternative bases apply when they yield a higher liability than the net income base.

The projected slump in GCT revenue reflects the strong and lingering impact of the recession on corporate profits in general and securities industry profits in particular. U.S. corporate profits fell an estimated 16 percent in calendar year 2001 and are expected to slip a little further in 2002; it will be five years before they regain the peak reached in 2000. The drop in securities industry profits is even more precipitous: from an all-time peak of $21 billion in calendar year 2000, IBO expects them to fall to no more than $8.5 billion in 2001, and recover to only $10.5 billion the following year.

A forecast 38 percent jump in securities industry profits and 11 percent increase in U.S. corporate profits in calendar year 2003 will be reflected in a projected 18.6 percent increase in GCT collections in 2004. A slight fall-off in collections in 2005 (resulting from projected slippage in securities industries profits) followed by modest growth will bring GCT collections to $1.5 billion in 2006.

Unincorporated Business Tax. New York City levies a 4 percent unincorporated businesses tax (UBT) on the income of sole proprietorships, partnerships, and (since 1994) limited liability companies. Until recently, sole proprietorships constituted more than three-quarters of UBT payers, while over 80 percent of UBT revenue has come from partnerships.

Increases in UBT credits (raised from $800 to $1,800 in 1998), however, have completely eliminated UBT liabilities for many smaller businesses (predominantly sole proprietorships), while the share of total UBT revenues accounted for by limited liability companies has been growing. Most UBT revenue comes from partnerships in the legal services and financial sectors.

UBT revenues more than doubled between 1994 ($379 million) and 2001 ($820 million). The recession and the additional shocks to the local economy are expected to deliver only a relatively glancing blow to the UBT. Collections are projected to fall 6.4 percent, to $767 million, in 2002, and then recover to $819 million in 2003. Projected steady growth throughout the rest of the plan period will bring collections to $964 million by 2006.[8]

This solid performance reflects that while one of the principal determinants of UBT revenue growth trends—security industry profits—declined steeply in calendar year 2001, the other principal determinant—legal services earnings—registered strong growth in 2001. Legal services earnings is expected to continue to grow (albeit more slowly than previously anticipated) over the next five years.

Banking Corporation Tax. New York City imposes a separate tax on banking corporations doing business in the city. Like the GCT, the banking corporation tax (BCT) requires three alternative calculations, including a 9 percent tax on net income allocated to the city. BCT revenues have always shown a pattern of sharp year-to-year jumps and declines. This pattern has continued in recent years, with a 50 percent ($247 million) plunge in 1994 followed by a 45 percent ($111 million) increase in 1995, and a 46 percent ($154 million) increase in 1998 followed by drops of 25 percent ($126 million) and 11 percent ($41 million) in 1999 and 2000. This volatility stems from overpayments and underpayments based on losses or gains experienced in some years but not recognized until a year or two later. Other contributing factors are the underlying volatility of bank profits in this rapidly restructuring industry, and the relatively small number of payers accounting for the majority of BCT liabilities.

IBO expects this pattern to continue through 2003, albeit muted by the current slowdown affecting all the business taxes. After growing 22.3 percent ($77 million) in 2001, BCT revenues are expected to decline 17.7 percent ($75 million) in the current year, to $349 million. Relatively mild double-digit growth is projected for the coming year (15.5 percent, $54 million). The forecast for 2004 shows the pattern breaking down with a second consecutive year of modest double-digit growth (13.2 percent, $53 million). This will bring collections up to $403 million in 2003 and $456 million in 2004. Little change is forecast for the final two years of the Financial Plan. As of 2006, BCT revenues will still be well below the 199 peak of $514 million.[9]

General Sales Tax. IBO projects that sales tax revenues will be $3.8 billion in 2003, the result of a strong rebound from 2002, which has been depressed by the general recession and the aftermath of the September 11 attacks. Collections in the current year (2002) are now expected to be only $3.4 billion, a decline of 7.8 percent from the prior year.

Consumers in New York City pay an 8.25 percent tax on the sales of most goods and services. The tax is composed of a 4 percent city tax, a 4 percent state tax, and a 0.25 percent public transportation surcharge to the Metropolitan Transit Authority. The sales tax base exempts most food products, medical services and supplies, mortgage and rental payments, interstate and international telephone services, and, beginning in March 2000, all clothing priced under $110. City sales tax revenues are a function of household spending of city residents along with consumption expenditures by businesses, commuters, and tourists. Household spending, in turn, is primarily determined by disposable income and the level of consumer confidence.

A year ago, when there were already signs of a slowdown in the U.S. economy, IBO forecast sales tax revenue growth of 1.8 percent in 2001 and 1.2 percent in 2002, much weaker than the growth rates of recent years. In December, amidst a deepening recession and the economic aftershocks of the World Trade Center attack, IBO projected a 0.6 percent drop in sales tax collections in 2002. It is now evident that the near-term aftershocks of September 11 were stronger than previously thought, and that the underlying economic picture has been bleaker. Over the last three quarters of calendar year 2001 year-over-year sales tax collections growth was -6.4 percent, -3.6 percent, and -6.8 percent, respectively. IBO now forecasts -7.8 percent growth in sales tax revenues for fiscal year 2002 overall. IBO's current 2002 projection of $3.4 billion is $265 million less our December forecast.

In contrast, IBO's new 2003 forecast of $3.8 billion is almost unchanged from December (and from last March). This reflects our view that the factors contributing to the plunge in sales tax collections in 2002 will snap back sharply as the nation emerges from the recession and the city recovers from the September 11 attack. Revenues are expected to jump 11.4

percent in 2003. Brisk but not booming sales tax revenue growth—averaging 5.1 percent per year—is projected for the out-years of the Financial Plan.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2003 totals $5.8 billion, $95 million lower than projected in the Preliminary Budget. The differences between the IBO and Administration forecasts vary for the out-years of the plan, with IBO $605 million below the Administration in 2004, $222 million below in 2005, and $68 million below in 2006.

Other revenues include funds from unrestricted intergovernmental aid, STaR reimbursement, private grants, inter-fund capital transfers, and miscellaneous revenues from recurring and nonrecurring sources. For 2003, the $1.5 billion in proceeds from TFA borrowing are included in the other revenues category. Other items of note follow.

Airport Rent. The Preliminary Budget anticipates receiving rental income from the Port Authority for JFK and LaGuardia airports of $185 million in fiscal year 2003, $330 million in 2004, $295 million in 2005 and $50 million in 2006. These projections include annual base rent of $50 million and anticipated payments of prior-year rental income that the city asserts it is owed based on its interpretation of what income should be included when calculating rent. The collection of airport back-rent has been under arbitration for over six years and there is no indication that the city will prevail in its claims. For this reason, IBO's revenue forecast entirely excludes contested back rental income. Additionally, we forecast that the city will receive approximately $10 million annually in airport base rent, reflecting the decline in revenues collected by the airports resulting from the trade center attack.

OTB Sale. In the Preliminary Budget Financial Plan the city once again postponed receipt of $250 million in revenue from the proposed sale of the Off-Track Betting Corporation (OTB). The plan now assumes that the proceeds will be realized in 2004 rather than in 2003. The new Administration, however, has deferred the OTB sale and has decided to wait and see if OTB continues to generate profits for New York City. (The city has not identified any alternative revenue source for 2004 if the sale were to be postponed again or cancelled.)

There remain significant obstacles to selling OTB. The deal is not entirely within the city's control, as it requires state legislative approval. In addition, the city is facing strong opposition from the union representing OTB workers, which has filed a lawsuit to block the sale. In projecting miscellaneous revenues, IBO has assumed that there will be no revenue generated from the sale of OTB over the term of the Financial Plan.

Categorical Grants. Categorical grants received from the state or federal government to fund specific programs account for approximately 30 percent of all funds spent by the city each year. IBO projects that state and federal categorical grants will total $8.4 billion and $5.2 billion, respectively, in 2003. For some types of categorical aid, such as education and welfare, IBO has developed forecasts based on changes in programs and caseloads. IBO's forecast of categorical aid in other parts of the budget is based on a methodology that takes the grant level in the current year, adjusts for historical trends and programmatic changes, and applies growth factors on an agency-by-agency basis.

IBO's forecast of state categorical grants is $61 million higher than the estimate provided in the Preliminary Budget for 2003, primarily due to a temporary increase in public assistance caseload projections. Beginning in 2004, IBO's forecast of state categorical grants exceeds the Preliminary Budget by $161 million, growing to $414 million in 2006 largely due to modest projected growth in school district operating aid.

IBO's forecast of federal categorical grants is $621 million higher in 2003, growing to $791 million in 2006. IBO's estimates of education, social services, and housing aid—which together account for close to 60 percent of all federal grants—are significantly greater than the Preliminary Budget's. IBO's higher projections are mainly attributable to an increase in housing rental subsidies and social service aid consistent with past years, along with an analysis of education funding increases included in federal appropriations enacted for school years 2001-2002 and 2002-2003 and proposed by the President for 2003-2004.

END NOTES

[1] IBO's revenue forecasts were completed prior to the release of the Department of Labor's revision to the 2001 employment data in early March, which changed the picture of when job losses began. IBO forecast that the city lost 123,000 jobs from the fourth quarter of 2000 to the fourth quarter of 2001, while the new revised figures show a loss of 118,000 jobs over the same period.

[2] When we refer to market values and assessments, we are including only taxable property. The assessed value for tax purposes reflects the required phase-in of assessment changes for apartment, commercial, and industrial buildings.

[3] For example, for married couple filing jointly, the lowest bracket ends at $21,600 of taxable income and the highest bracket begins at $90,000. For other types of filers, the income thresholds are lower.

[4] A separate PIT surcharge equal to roughly 12.5 percent of base liability, was instituted in 1990 but allowed to expire at the end of 1998. For much of its history, revenue from this second surcharge had been dedicated to criminal justice spending.

[5] The PIT surcharge rate had been reduced for calendar year 2001 through two separate initatives. However, under the state law authorizing the city to adjust the surcharge rate, the rate reverts to the full 14 percent unless legislation to continue the lower rates is adopted. Because such legislation has not been enacted, the Preliminary Budget is premised on the surcharge rate returning to 14 percent. IBO estimates that the reversion to the full rate has added $177 million to PIT revenues in 2002 and $344 million in 2003.

[6] Also included in the 2002 PIT total is a $153 million accrual revenue that will actually be received during 2003. The city plans to make this accounting adjustment because a delay in updating withholding tables to reflect the restoration of the full 14 percent surcharge rate will cause many employers to withhold less in city taxes than they should from January to May of this year, with taxpayers making up what they owe when they file their final returns for calendar year 2002 in city fiscal year 2003.

[7] The city also collects a significant amount of audit revenues from the GCT. Audits are expected to bring in $268 million in 2002, and over $250 million per year over the rest of the financial plan. Audit receipts are segregated from their individual taxes and shown as a separate tax revenue source in city budget documents.

[8] These projections are exclusive of audit revenues, which are expected to run around $34 million in 2002 and $32 million per year over the rest of the Financial Plan period.

[9] Annual BCT audit revenues of $40 million to $45 million are expected in the 2002-2006 plan period.

Expenditures

Department of Business Services (DBS)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2003 calls for a $33.9 million appropriation for the Department of Business Services, $5.0 million less than planned for 2003 in last June's Adopted Budget. The budget also specifies revenue-raising initiatives that together are expected to generate $2.1 million for the city's general fund. The Preliminary Budget also significantly reduces the city's capital commitment for economic development projects in the next few years.

- Three initiatives to reduce agency spending would cut appropriations to local development corporations (LDCs), the Garment Industry Development Council, and other programs for which the City Council had added a total of $1.7 million in 2003 funding at budget adoption.
- A swap of federal Urban Development Action Grant funding for city dollars would reduce the DBS appropriation for the Garment Industry Development Corporation (GIDC) and other LDCs by $375,000.
- Deferring a portion of city funding for the local Enterprise Zone (EZ) to later years would reduce DBS's 2003 appropriation by $3.1 million.
- Charging a fee for film permits issued by the Mayor's Office of Film, Theatre and Broadcasting (a division of DBS) would generate $900,000 of general fund revenue annually, starting in 2003.
- The Preliminary Budget includes a proposal to use $1.2 million from other, unspecified sources to fund some DBS operations.
- Most of the reductions in capital commitments for economic development are effected by deferring spending to later years, though a few large projects are no longer included in the capital plan.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$39.0
Program cuts	(1.8)
Funding swap	(0.4)
All other changes, net	(2.9)
February Plan	$33.9
IBO Repricing (see text)	5.0
IBO Reestimate	$38.9
Headcount	
Adopted Financial Plan	153
February Plan	153
Revenue PEGs	$2.1
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$1,506
February 2002 Plan	$1,302

EFFECTS OF BUDGET PROPOSALS

Background. In addition to the operations of the department itself, the budget for the Department of Business Services also funds the Mayor's Office of Film, Theatre and Broadcasting, NYC & Co. (formerly NY Convention and Visitors Bureau), and the city's contracts with the Economic Development Corporation (EDC) and with the local Enterprise Zone. A large portion of the money appropriated for DBS is used for loans, funds, and grants to businesses for economic development purposes; because it is often difficult to predict the amounts needed for certain economic programs during specific periods of time, DBS appropriations change frequently. The activities and funding needs of the department expanded greatly after September 11, resulting in a sharp increase since the Adopted Budget in the DBS appropriation for the current fiscal year. As projected in the Preliminary Budget, DBS's 2002 appropriation will total $65.7 million, with money from the Federal Emergency Management Administration (FEMA), the federal Community Development Block Grant, the city's Transitional Finance Authority, and other sources covering 62 percent of the budget.

The 2003 Budget and Changes Since June. The Preliminary Budget calls for the DBS budget to decrease by almost half from 2002 to 2003, to $33.9 million. The amount now planned for 2003 is substantially less than what had been projected last June in the Adopted Budget. The $5.1 million decrease results from a combination of cuts to agency programs, funding swaps that are not expected to affect services, and other adjustments. Details of the most significant changes from the Adopted Budget to the Preliminary Budget follow.

Program Cuts. The budget for DBS in 2003 (and for subsequent years) would be cut by $1.8 million. These cuts were first shown in the November Plan. This amount represents spending that had been added to the Adopted

Budget last June at the request of the City Council—$1.0 million for community revitalization programs, $373,000 for the Garment Industry Development Corporation, and $400,000 for the In-Place Industrial Parks.

Funding Swap. The Preliminary Budget also calls for further reducing the 2003 appropriation of city funds for GIDC and other local development corporations by $374,000. The cuts are not expected to lead to service reductions, however, because the city funds are to be replaced by money from the Housing and Urban Development's Urban Development Action Grant program. The federal money will be posted to the budget at a later date.

Restructuring EZ funding. The largest specific budget reduction from adoption to the Preliminary Budget concerns the DBS allocation for the New York City Empowerment Zone, which encompasses sections of Upper Manhattan and the South Bronx. Businesses locating in the federally designated EZ are eligible to receive a number of benefits, which are administered by the New York Empowerment Zone Corporation (NYEZ), a nonprofit group funded equally by the city, state, and federal governments. The city is committed to appropriating a total of $100 million over the life of the EZ, which has been extended through 2009, with some discretion as to the timing of the payments. The Preliminary Budget proposes to shift the timing of the city's obligation to the EZ, which is funded through the DBS budget, to later years, reducing the 2003 appropriation by $3.1 million. This change, however, is contingent upon the three levels of government amending their agreement regarding Empowerment Zone funding. OMB maintains that even with these cuts in 2003 and the following three years, the city's spending on EZ funding would be sufficient to allow NYEZ to meet its spending needs. This $3.1 million cut is incorporated into the "All other changes" line in the 2003 Budget Summary table.

Revenue Initiatives. The Preliminary Budget includes new DBS initiatives for 2003 to enhance city revenues. These initiatives do not affect the agency's budget directly because their additional revenues would go into the city's general fund.

One initiative concerns the Mayor's film office, which issues permits to film and television production companies working in the city. Currently no permit fee is charged. The Preliminary Budget calls for the film office to collect fees for film permits, with the expectation that the city would raise $900,000 in additional revenue in 2003 and in each subsequent year.

Another revenue proposal is under development. OMB is exploring the feasibility of raising money from several non-city sources to fund some of EDC's activities, with a preliminary estimate that $1.2 million of such funding would be available each year starting in 2003. If the city's efforts are successful, EDC would receive the funding directly from the source(s) and in turn reimburse the city, with the reimbursement being deposited into the city's general fund as miscellaneous revenue. OMB plans to ascertain by the time of the Executive Budget whether this proposal is feasible and, if so, revise the estimate as to how much revenue it will generate.

IBO Repricing. Even if all of the Preliminary Budget's proposals to cut the DBS budget are put into effect, IBO estimates that the agency's spending will be $5 million greater than the amount called for in the February Plan. The Preliminary Budget projects only $5.2 million in state and federal aid, all of it from the federal Community Development Block Grant. IBO's analysis of historical levels of state and federal aid, however, suggests that state and federal aid to DBS is likely to be almost double that amount. Accordingly, the projection of the DBS budget has been increased by $5 million.

CAPITAL PLAN

The capital plan accompanying the Preliminary Budget calls for $1.3 billion in spending on economic development projects from 2002 to 2005. DBS manages almost all of these projects, which include a large number of commercial and industrial development projects and many related to waterfront improvement.[1] The largest single project is the construction of a new facility for the New York Stock Exchange, which remains in the capital plan even though the Bloomberg Administration is now studying the matter. The project is listed at a cost of $252.5 million in 2002 and $28.4 million in 2003, the same as what had been included at the time of the Adopted Budget.

In the area of economic development, the recent capital plan is $204 million lower for 2002 through 2005 than what had been presented in the capital plan accompanying the Adopted Budget. Several projects have been cut altogether, such as the Coney Island Sports Museum ($3 million), the Howland Hook Marine Terminal Cranes ($12 million), street rehabilitation at Fulton Landing in Brooklyn ($8.9 million), and the Atlantic Terminal ($4 million).

Most of the reduction to the capital plan, however, comes from shifting at least a portion of planned spending on many projects from the 2002-2005 period to 2006 and later years, sometimes in conjunction with cuts to the total amount of planned spending. The capital projects with large amounts of spending delayed until after 2005, with the amounts deferred, include:

- 125th Street Sports and Entertainment Complex ($4 million)
- Coney Island Stadium/Amateur Sports Complex ($32 million)
- BAM cultural district projects ($18.5 million)
- Battery Maritime Building roof support ($6.9 million)
- Farley Post Office/LIRR and Amtrak station ($3.5 million)
- Governors Island redevelopment ($5 million)
- Brooklyn Navy Yard infrastructure ($6.4 million)
- Bronx Terminal Market condemnation and acquisition ($6.4 million)
- Pier 94 HVAC and electrical improvements ($10.1 million).

END NOTES

[1]DBS also manages a number of other capital projects relating to housing, healthcare facilities, parks, and roads. The capital budget totals discussed in this section do not include the cost of these projects.

Department of Cultural Affairs (DCA)

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for 2003 would reduce funding to the Department of Cultural Affairs by $18.1 million compared to the adopted Financial Plan—a reduction of 14 percent—to $109.7 million.

- The department will absorb a 15 percent, or $19.1 million cut, with details yet to be specified.
- The cuts are slightly offset by increased funding of $1.1 million for the Police Museum, for its move from Bowling Green to a building along the East River.

2003 Budget Summary
Dollars in millions

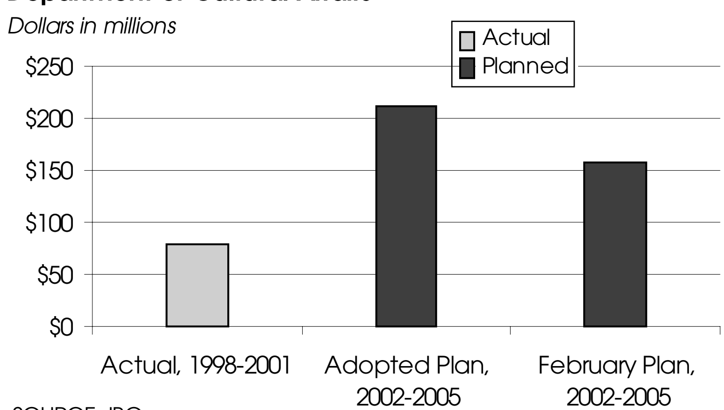
Expense Budget	
Adopted Budget	$127.8
Program cuts	(19.1)
New Needs	1.1
February Plan	$109.7
IBO Repricing (see text)	0.5
IBO Reestimate	$110.3
Headcount	
Adopted Financial Plan	35
February Plan	35
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$846.7
February Plan	$628.7

EFFECTS OF BUDGET PROPOSALS

The 2003 cut to DCA has been proposed as a lump sum, with the distribution of the cuts among cultural organizations and programs yet to be determined. The size of the proposed cut is the same as that included in the last Financial Plan update in December, when cuts were distributed as follows: $5.2 million from the Cultural Institutions Group (CIG), $13.1 million from Program Groups, $540,000 from the Program Development Fund, and $351,000 for defunct program groups. The distribution may not necessarily be the same, however, once negotiations between the department and its grantees are completed.

IBO estimates additional spending of $0.5 million funded through the federal Community Development Block Grant program, for an estimated total 2003 budget of $110.3 million.

Average Annual Capital Commitments, Department of Cultural Affairs
Dollars in millions



SOURCE: IBO

CAPITAL PLAN

The February capital plan proposes to decrease the four-year total capital budget for the Department of Cultural Affairs by $217.9 million, or 26 percent from the adopted plan. Authorized capital commitments between 2002 and 2005 would total $628.7 million. The apparent magnitude of the cut is tempered by the fact that in recent years average annual commitments have been substantially below planned levels.

Many of the reductions to the DCA capital plan for 2002 through 2005 are in the form of project delays, rather than outright cuts. Several larger organizations are programmed to receive the same level of funding as at adoption, but with the bulk of the funding deferred until 2006 and beyond, after the current four-year plan period.

In the adopted plan, for example, Lincoln Center was slated to receive $143 million between 2002 and 2005 and then $120 million between 2006 and 2010. The February plan cuts the 2002-2005 total to $68 million, shifting the balance (plus an additional $1 million) to later years. The Guggenheim Museum downtown is also slated to receive the same level of funding as in the adopted plan, but again the project is pushed back several years, reducing the four-year total. Members of the city's Cultural Institutions Group with significant project delays include the Queens Art and Cultural Center, the Metropolitan Museum of Art, and the Wildlife Conservation Society.

One organization with a substantial cut to its previously planned capital program is the Staten Island Institute of Arts and Sciences. The adopted plan anticipated committing $48.8 million between 2002 and 2011. The February plan reduces that amount to $3.2 million. This is due to cancellation of a project to build a new discovery center affiliated with the institute.

Department of Parks and Recreation (DPR)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget cuts Department of Parks and Recreation spending by $16.6 million, or a 9 percent decrease from the Adopted Budget, to $172.4 million. Based on recent history, IBO projects that the department will receive roughly $3.4 million in additional federal and state grants, bringing our estimate of the department's total 2003 budget to $175.8 million. Highlights of the budget proposal include:

- $5.1 million saved by eliminating an unspecified number of seasonal positions.
- $3.6 million cut from programs adopted at the initiative of the City Council.
- $1.5 million saved through full-time headcount attrition.
- $8.1 million is to be shifted from the expense budget to the capital budget through an agreement with the Wildlife Conservation Society (WCS).
- $2 million is to be generated through sponsorship and naming rights of selected park property.
- $667,000 saved by eliminating, through attrition, the Parks Enforcement Patrol in Manhattan.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$192.4
Program Cuts	(11.7)
Capital Swap	(8.1)
All Other Changes, Net	(0.2)
February Plan	$172.4
IBO Repricing (see text)	$3.4
IBO Reestimate	$175.8
Headcount	
Adopted Financial Plan	2,042
February Plan	1,958
Revenue PEGs	$2.2
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$797.8
February Plan	$621.1

EFFECTS OF BUDGET PROPOSALS

Elimination of Full-time and Seasonal Positions. The exact number of seasonal positions to be eliminated has not yet been determined, but the savings attributable to this initiative would fund approximately 200 full-time City Park Workers, or more than 400 six-month seasonal positions (based on a yearly average salary of $25,000 per City Park Worker). The full-time attrition—51 full-time workers plus 29 Parks Enforcement Patrol personnel—comes on top of the reduction of over 200 full-time positions between 1997 and 2001. These cuts can affect the condition of parks and their acceptability ratings, which are closely related to the number of workers maintaining parkland. Other services, such as recreation and youth-related programs, can also be affected by this change. Note that while the attrition proposal is projected to provide $1.5 million in annual savings through 2006, the elimination of seasonal positions is proposed only for 2003.

The impact of this cut is at least partially offset, however, by the approximately 3,000 Parks Opportunity (POP) participants working at the department. These workers are former welfare recipients whose benefits have recently run out. The parks department is receiving federal funding to employ POP workers for 11-month, 40-hour per week schedules. This program, along with the Work Experience Program (WEP), in which current welfare recipients work part-time at the parks department, have recently helped to sustain parks acceptability ratings. The parks department has expressed concern that, despite the contribution of these temporary workers, cutbacks have made it difficult to develop the full-time experienced and skilled workforce that it needs in the long run. In addition, federal funding for this program is not guaranteed in future years and depends on upcoming negotiations on changes in federal welfare policy.

Programmatic Reductions. A set of City Council initiatives has been cut in the Preliminary Budget in each of the last several years. Thus far, these iniatives have always been restored at budget adoption. The initiatives include $1.25 million for tree and stump removal contracts, $250,000 for a water safety program, and $75,000 for Operation REACH (a recreation program). The balance of the initiatives funds 51 seasonal playground associates and 51 seasonal maintenance and operations employees (two seasonal employees for each Council Member's district).

Capital Switch to the Wildlife Conservation Society. The parks department is under contract with the Wildlife Conservation Society to fund 50 percent of operating losses from the three New York City zoos: Central Park Zoo, Prospect Park Zoo, and the Bronx Zoo. This typically costs the parks department about $9 million per year. This year, the department has agreed with WCS to spend this money on a capital project at the Bronx Zoo, using debt-financed capital funds rather than tapping the expense budget.

Corporate Sponsorship of Parks. The Preliminary Budget proposes raising $2 million through corporate sponsorship of park areas and recreation centers throughout the city. Initially, this proposal was limited to advertisements and signs of about 2 feet by 2 feet posted in recreation centers and outdoor pools. A preliminary estimate proposed charging $100,000 per year per sign. The February plan expanded this revenue estimate by proposing naming rights and sponsorship of small areas of parkland. Full details of this program have not yet been worked out.

Manhattan Parks Enforcement Patrol Elimination. All 29 Parks Enforcement Patrol positions in Manhattan are scheduled to be eliminated through attrition, leaving 98 parks-funded PEPs elsewhere in the city. By 2003, the savings is a planned $667,000 and by 2004 and beyond, the savings would be $969,000. These positions are used mainly for special events; in the future, PEP officers from the other boroughs will be used for special events. The New York City Police Department would conduct basic enforcement functions in Manhattan parks. The role of PEP officers is somewhat different from that of police, however. While the latter provide basic security functions, PEP officers ensure parks quality of life, for example by cracking down on illegal vendors and enforcing leash laws.

CAPITAL PLAN

The four-year capital plan has decreased by $175 million, or 22 percent, from the adopted capital plan. No one significant project has been either added to or eliminated from the plan; rather, the cut is spread fairly evenly among the projects. The cuts fall disproportionately on City Council-sponsored projects, however, with a planned cut of $124 million, or 52 percent.

Department of Sanitation (DOS)

PRELIMINARY BUDGET OVERVIEW

The preliminary Department of Sanitation budget for 2003 is $971 million, down 3.5 percent from the 2003 budget projected in last June's Adopted Budget.

- Temporary suspension of the metal, glass, plastic (MGP) program, saving $56 million in 2003.
- Reduction in waste export costs, due to lower projected tonnage and proposed cost-savings measures, saving $27 million.
- Cancellation of the never implemented Waste Prevention Outreach Offices sought by the City Council as part of its approval of the city's Solid Waste Management Plan, saving $2.1 million in 2003.
- Increasing fines for recycling violations from $25 to $50, producing an additional $1.7 million each year.
- The city expects to receive reimbursement from the Federal Emergency Management Agency for $28 million in Fresh Kills operating costs in 2002—costs incurred because of the World Trade Center cleanup. DOS will also save $20 million in 2003 as Fresh Kills closure costs are deferred.

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted	$1,006.9
Program Cuts	(57.3)
Export Reestimation	(14.5)
New Needs/Collective Bargaining	71.3
Fresh Kills Closure Savings	(20.0)
All Other Changes, Net	(21.0)
WTC-Related Aid	5.6
February Plan	$971.0
Headcount	
Adopted Budget	10,176
February Plan	9,567
Revenue PEGs	$2.6
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$1,158
February 2002 Plan	$894

EFFECTS OF BUDGET PROPOSALS

Temporary Suspension of the MGP Program. The Administration is proposing that the metal, glass, and plastic recycling program be suspended for 18 months while DOS works on developing a more cost-efficient program. The projected savings from the suspension of the program is $56.6 million in 2003. DOS projects an average cost of $120 per ton to dispose of metal, glass, and plastic recyclables, compared to waste disposal costs of $65 per ton. MGP costs have risen because there is little market for glass and plastic recyclables, and there have been problems with contamination of the recyclables stream (notably broken glass embedded in plastic), leading to approximately 40 percent of the MGP waste being redirected to landfills or incinerators.

With the viability of the city's long-term waste export plan in question, however, waste disposal costs will likely continue to rise as contracts come up for renegotiation, and thus the initial savings generated by the suspension of the MGP program will decrease over time. When a new program is put into place, the city will also need to budget for public education programs.

Lower Export Tonnage Results in Savings. DOS has reestimated the waste export contract costs to reflect changes in tonnage—DOS had previously projected that 12,000 tons per day would be exported for disposal in 2002; the revised level is 11,500 tons per day. The lower tonnage will result in projected savings of $14.5 million in 2003.

Proposals to Further Reduce Waste Export Costs. The Preliminary Budget proposes the diversion of a portion of waste from Queens—approximately 1,500 tons per day—to the Bronx. Although this proposal would violate the previous Administration's policy of "borough self-sufficiency," it is projected to save the city $7 million annually because costs are lower at Bronx transfer stations than at the out-of-state transfer stations to which Queens trash is currently transported.

DOS is also proposing to replace uniformed workers with civilian workers at export relay posts—needed when it takes more than one shift to get a truck full of waste to transfer stations. Using civilian drivers would save a projected $5.5 million in 2003, rising to $17.1 million in 2004. In addition, DOS is proposing redeploying sanitation enforcement personnel from illegal dumping enforcement to regular sanitation enforcement, producing annual additional revenue of $850,000.

Other Program Cuts. DOS is proposing the elimination of its composting program, saving $1.8 million each year. In addition, the City Council and DOS have not yet reached agreement on implementation of the Waste Prevention Outreach program sought by the City Council when it voted to approve the city's modified Solid Waste Management Plan last year. DOS projects savings of $2.1 million from not implementing the program.

CAPITAL PLAN

For 2002-2005, DOS's capital budget totals $893.7 million, a 22.8 percent decrease from the 2002 adopted capital plan. Garages and other facilities account for 52.2 percent ($462.2 million) of the agency's capital spending, and 32.3 percent ($288.5 million) is for vehicle acquisition and maintenance. The remaining 15.5 percent ($130 million) is for waste management-related projects, including $41.6 million for the southwest Brooklyn waste transfer station, $19 million ongoing landfill monitoring and leachate control, and $39 million for the construction of an export facility for Staten Island's waste.

The construction and improvements of new and existing marine transfer stations as part of the long-term export plan have been delayed until 2004. Several garage reconstruction projects have been delayed and non-critical garage improvements have been cancelled.

Public Libraries

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget cuts city funding to New York City's public library systems by $39.3 million. This is a 15 percent decrease from the Adopted Budget, to $222.8 million.

2003 Budget Summary
Dollars in millions

Expense Budget	New York	NYPL-Research	Brooklyn	Queens Borough	Total
Adopted Budget	$99.6	$19.0	$73.3	$70.2	$262.1
Program Cuts	(14.9)	(2.8)	(11.1)	(10.5)	(39.3)
February Plan	$84.7	$16.1	$62.3	$59.7	$222.8
Capital Commitments					
Total, 2002-2005					
Adopted Plan	$129.8	$60.6	$46.2	$27.6	$264.1
February Plan	$84.3	$55.2	$34.0	$20.2	$193.7

EFFECTS OF BUDGET PROPOSALS

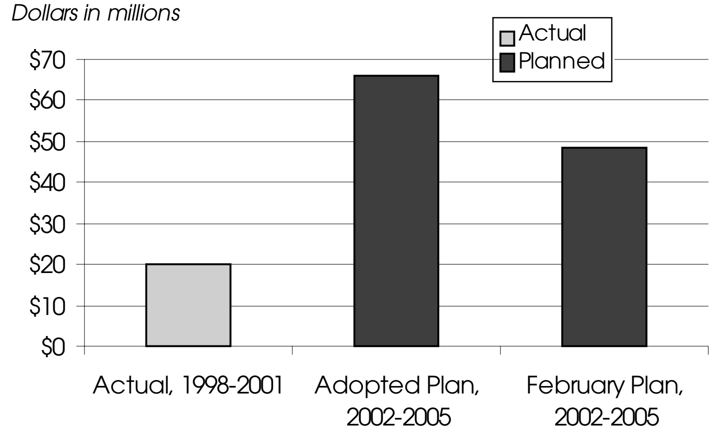
New York City provides funding to each of the city's four public library systems. The decision on how these funds are spent—and how to manage budget cuts—is determined separately by each library system. The Queens Borough Public Library has announced plans to eliminate 200 full-time staff positions and reduce service from six days to five in 50 out of 62 branches. In addition, the planned resumption at some branches of seven-day-a-week service would not occur. The Brooklyn Public Library would respond to the reductions by cutting $7.3 million from personnel, $1.5 million from library materials, and $2.3 million in other than personal services. The New York Public Library (which serves the Bronx, Manhattan, and Staten Island) would cut service to four or five day weeks in some branches and purchase 230,000 fewer books, an average of 2,700 fewer books per branch. The four research libraries would decrease service to five days a week.

These cuts come at a time of increased use of public libraries. The New York Public Library reports that library use has increased since September. Library attendance is up 12 percent and circulation up 19 percent compared with the same period last year, which NYPL attributes partly to job and health information resources available for public use.

CAPITAL PLAN

The preliminary capital plan proposes to cut the four-year total capital budget for libraries by $70.4 million, a 27 percent reduction from the adopted capital plan. This brings the combined four-year capital commitment level to $193.7 million. While the cut appears significant, it would still result in a higher average annual level of capital commitments than has occurred in recent years.

Average Annual Capital Commitments, Public Libraries
Dollars in millions



SOURCE: IBO

Much of the reduction can be accounted for by delays in project start dates. The new plan pushes some projects initially slated to begin within the four-year plan period to 2006 and beyond. One such example is the New York Public Library Mid-Manhattan branch expansion and renovation project: the adopted plan proposed capital commitments of $29.1 million between 2002 and 2005. The February plan reduces the commitments during this period to $9.7 million but includes commitments of $15.2 million in 2006.

The largest library capital project in dollar terms is the creation of a new Bronx Borough Center. This project is slated to receive $29.9 million between 2002 and 2006 in the February plan. The Bronx Borough Center has appeared in the capital plan since 1997. As of January 2002, no funds have actually been committed to the project due to difficulties in acquiring a site.

Historically, actual capital commitments for public libraries have diverged substantially from their plans. The adopted plan for 2001, for example, proposed 10 times the level of capital spending actually committed in that year. The proposed reductions in authorized commitments may therefore not necessarily result in a real decrease in the actual level of commitments.

Board of Education (BOE)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget includes $358 million in savings from cutting city-funded education programs, although as a result of other adjustments the total Board of Education budget for 2003 would decrease by only $46 million (0.4 percent) compared with last June's Financial Plan. Key 2003 budget actions since last June include:

- Announcement of a lump sum cut of $344 million in city funds with program impact left to BOE discretion.
- Identification of $14 million in itemized savings, including $5 million from cuts to central administration and the Fashion Institute of Technology, $3 million from terminating several City Council initiatives, and $6 million from revenue enhancements.
- Recognition of $191 million in anticipated federal revenue above the level in the Adopted Budget plan.
- Provision of $123 million in city funding to compensate for an offsetting reduction in anticipated state aid.
- Return of $98 million to the board that the previous Mayor and Council had removed and placed in escrow.
- Reduction in planned capital commitments from 2002 to 2005 by $1.1 billion (21.9 percent), forcing the board to defer over $600 million of projects from its 2000-2004 capital plan, which was just amended three months ago.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$11,723
Return of Funds Held in Escrow	98
State Revenue No Longer Anticipated	(125)
City Replacement of State Funds	123
Anticipated Additional Federal Revenue	191
Lump Sum Program Cut	(344)
All Other Changes, Net	11
February Plan	$11,677
IBO Repricing (see text)	341
IBO Reestimate	$12,011
Revenue PEGs	$4
Headcount	
Adopted Financial Plan (full-time)	103,043
February Plan (full-time)	to be determined
Full-time equivalents as of 1/28/02	136,722
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$4,836
February Plan	$3,779

EFFECTS OF BUDGET PROPOSALS

Budget Projections. IBO estimates that under the Mayor's Preliminary Budget proposals, BOE would spend $12.0 billion in 2003, an increase of $127 million over the projected 2002 level. Spending would grow at an average annual rate of 2.2 percent during the Financial Plan period, reaching $13.0 billion in 2006. IBO projects that city-funded spending would grow by an average of 1.0 percent a year, rising from $4.9 billion in 2003 to $5.1 billion in 2006.

In comparison, the Administration projects BOE spending of $11.7 billion in 2003 and $12.1 billion in 2006. Most of the difference between the IBO forecast and the Financial Plan stems from our higher forecasts of intergovernmental education aid. The balance of the difference—$57 million of city funds in 2003 and $22 million in 2006—is primarily attributable to minor differences in assumptions about the board's baseline needs.

The Administration's forecast of federal aid is cautious. The Administration estimates that BOE will receive $1.2 billion per year in 2003 through 2006, roughly the same amount as was received in 2001. IBO estimates federal revenue of $1.5 billion in 2003 rising to $1.7 billion by 2006, based on an analysis of federal appropriations already enacted for school years 2001-2002 and 2002-2003 as well as President Bush's proposal for 2003-2004. Federal aid is growing rapidly as the city benefits from large increases in grants, including Title I, that direct funds to districts with high concentrations of disadvantaged pupils.

Both IBO and the Administration project $5.6 billion of state aid in 2003—a slight decline from the current year—but IBO's projections are higher than the Administration's in the out-years. IBO projects that state aid will rise to $6.1 billion by 2006. The Administration expects state aid to be nearly flat, edging up to $5.7 billion by 2006.

Recent Trends. The current BOE budget outlook, with spending projected to grow at a rate slower than inflation, represents a significant divergence from recent years. BOE spending grew by $3.5 billion between 1997 and 2001, rising at an average annual rate of 9.4 percent—5.7 percent after adjusting for inflation. This four-year period of rapid expansion differed markedly from the first part of the 1990s when spending—after adjusting for inflation—declined. From 1990 up to 1997, real spending fell at an average annual rate of -0.3 percent.

Prior to the current year, increased funding was enabling the schools to reduce class sizes; expand summer, weekend, and evening sessions; and devote more resources to instruction, especially early childhood and arts programs. As a result, full-time pedagogical staff increased from 80,900 in 1997 to 94,400 in 2001. The upward trend has not been sustained this year, however; pedagogical headcount is 94,100 as of January 2002.

The state is questioning the adequacy of city support for education in its appeal of the Campaign for Fiscal Equity decision. While the rapid increase in city funds during the 1997-2001 period undermined the state's argument, the projected trends in city funding for BOE for the years 2002 through 2006 may give it renewed weight.

Higher Standards. An important factor driving increases in resources has been state and local pressure to improve student performance to meet higher promotion and graduation standards. New state graduation standards require all high school students to pass five Regents exams: English, math, science, global history and geography, and U.S. history and government. The board adopted a new policy, effective October 1999, mandating that promotion decisions for students in grades 3 and above be based on three criteria: coursework, test scores, and attendance. This policy departs from the past practice of promoting some students based on their age, regardless of academic achievement.

Even while facing fiscal constraints in the current year and in 2003, BOE also faces the challenge of meeting elevated federal standards. Indeed, federal legislation enacted in January 2002 has raised the bar even higher. The reauthorized Elementary and Secondary Education Act (ESEA)—the principal federal law affecting public school systems—requires states to "achieve 100 percent [student] proficiency within 12 years, with no exceptions or waivers." The No Child Left Behind Act mandates that states annually test students to assess whether schools are making "adequate yearly progress (AYP)." States are required to use the assessments to identify low performing schools. Initially states can provide technical assistance to low-performing schools and if necessary take corrective action like replacing the pedagogical staff. Any school that fails to meet its AYP target for five or more years would be subject to sanctions such as reconstitution, takeover by the state, placement under private management, or conversion to charter status.[1]

Enrollment Declines. Preliminary data from the current school year confirm that K-12 enrollment has declined over the past years. Enrollment, excluding prekindergarten, has dropped by roughly 16,000 pupils since 1998, while total enrollment has increased by around 15,000 due to prekindergarten expansion. In contrast, total enrollment grew by nearly 20,000 pupils per year during the early- to mid-1990s. The board's demographers project a modest decline in K-12 enrollment over the next five years, which should help contain spending growth.

Budget Adjustments. The preliminary education budget for 2003 reflects numerous adjustments that impact the level of BOE funding. Some adjustments increase the level of funding without necessarily providing new resources to strengthen education programs. For example, the budget returns $98 million that the previous Mayor and City Council had removed from the board's budget and transferred to an escrow account within the city's miscellaneous budget. Another example is the recognition of $191 million in anticipated federal revenue above the level contained in the Adopted Budget plan. Most of this adjustment stems from the Administration modifying its revenue plan to reflect the level of federal revenue actually received in 2001. As a result of these and other adjustments, the 2003 Preliminary Budget for the board is just $46 million below the level contained in last June's Financial Plan, despite much larger proposed cuts in city-funded programs.

Lump Sum Cut. The BOE portion of the 2003 citywide agency savings program is $358 million, equal to 7 percent of city funds and 3 percent of all funds in the board's budget. Almost all of the proposed savings, $344 million, would be cut as a lump sum with programmatic impact left to the board's option. These cuts come on top of $200-300 million of base budget reductions absorbed by the school system in 2002 due to the failure of the city and state to provide the resources needed to maintain the 2001 level of services. Prior to the opening of school last fall, Chancellor Harold Levy removed $180 million from the allocations to community school districts and high school superintendencies on a per-capita basis.

Because much of the BOE budget is essentially not discretionary, achieving the savings called for in the Preliminary Budget would require a larger percentage reduction in the areas of the budget directly under the board's control. The Administration's $11.7 billion forecast of BOE spending in 2002 includes $2.0 billion in reimbursable programs and $381 million reserved for collective bargaining. Of the remaining $9.4 billion, $596 million passes through to non-public schools, and $128 million goes to the New York Police Department's school safety division. This leaves roughly $8.6 billion of spending under the school system's direction.

The $8.6 billion includes $1.6 billion allocated to support services including $576 million for pupil transportation, $336 million for food services, $151 million for utilities, $63 million for leases, and $480 million for building maintenance and operations. Spending on support services is largely driven by external factors, making it challenging to identify savings. For example, expenditures on utilities and leases are largely determined by broad energy and real estate market conditions. State regulations determine pupil eligibility for free or subsidized transportation, while federal regulations determine eligibility for free or subsidized meals. Thus, the Preliminary Budget reductions would largely have to be found in the remaining $7.0 billion of the board's budget, which would have to be cut by more than 5 percent to meet the target. The $7.0 billion balance consists of $5.0 billion in salaries and wages, $1.4 billion in fringe benefits, and $600 million in contracts, equipment, supplies, and other non-personnel costs. The board's flexibility in implementing the cuts also is constrained by work rules that cap pupil-staff ratios.

Management Strategies. In the last year, the board has introduced several management strategies that may yield some savings. First, an administrative downsizing initiated in August 2001 will eliminate 565 positions over three years through attrition and possibly through the severance program being developed by the city. The Chancellor has asked all central administrative departments, including instructional offices, to prepare to reduce spending by an additional one-third, an action that IBO estimates would trim expenditures by as much as $60 million. These savings would be partially offset by required investment in information technology systems needed to automate various administrative functions.

Second, BOE plans to lower procurement costs by leveraging its purchasing power to buy commodities such as computers and office supplies at a substantial volume discount. The 2003 base budget assumes that BOE will achieve $55 million in procurement savings. If BOE achieves savings greater than $55 million, then money would be available for fiscal relief.

Third, the board plans to request legislative and regulatory relief that would grant school districts greater flexibility in the use of state and federal funds. BOE is expected to seek authorization to redirect some categorical grants towards general support. The board will likely also request approval to allocate Title I funding to a greater number of schools so that the maximum number of eligible pupils would benefit from increased federal dollars.

Per-Capita Cuts. While these management strategies would help BOE preserve core instructional services, a fourth announced action would more proximately affect the classroom. The Chancellor notified superintendents on March 12 that tax-levy allocations to the districts would be reduced in 2003 by $184 per pupil for a savings of $190 million. Superintendents have also been ordered to prepare an additional $115 million in contingency cuts in case the city has difficulty achieving some elements of its gap-closing program. The total potential cut including contingency equals $296 per pupil.

Itemized Savings. The budget also includes close to $8 million in targeted cuts, including $3.8 million from central administration, $0.7 million from the Fashion Institute of Technology, and $3.3 million by terminating six City Council initiatives. In addition, the budget includes around $6 million of revenue initiatives. For example, the city would save $2.1 million by using federal Temporary Assistance to Needy Families (TANF) grant money to support substance abuse prevention programs. Finally, the budget anticipates recouping $4.1 million from contract schools that overcharged the board for services to preschool special needs students.

Collective Bargaining. Collective bargaining agreements covering nearly 90 percent of BOE employees have expired, including contracts for the United Federation of Teachers (UFT), the Council of Supervisors and Administrators (CSA), and the custodians union. The 2003 preliminary budget reserves $472 million in city and state funds to provide members of these unions with increases in wages and benefits comparable in size to the pattern settlement with District Council 37 (DC 37) and other civilian unions.

DC 37 settled for a 9.87 percent increase over 27 months (April 1, 2000 through June 30, 2002).[2] The education labor reserve does not include resources to cover additional raises in 2003 through 2006.

The lack of a contract for teachers is a major impediment for the school system as it faces state and federal mandates to upgrade staff quality. Roughly one-sixth of all BOE teachers lack certification, including one-half of the teachers hired this year. Effective September 2003, state regulations prohibit the hiring of uncertified teachers. At the federal level, the ESEA requires school districts to employ "highly qualified" teachers in all classes supported by Title I funding. BOE also faces a boom in teacher retirements. Thousands of the most experienced teachers are expected to retire this summer after a pension enhancement takes effect on June 30, 2002.

The UFT represents the school system's 80,000 teachers; 17,000 classroom paraprofessionals; plus thousands of guidance counselors, social workers, nurses, laboratory specialists, occupational and physical therapists, secretaries, and other non-supervisory school personnel. The UFT seeks larger raises than the civilian pattern settlement offered by the city. The UFT has proposed a base salary increase of 22.7 percent for all bargaining units to make pay more competitive with surrounding school districts. The UFT has also proposed creating a $4,000 pay differential for teachers acquiring special skills, and 1.5 percent in additional compensation. Both sides await non-binding recommendations from the State Public Employment Relations Board (PERB), which recently completed fact-finding hearings.

IBO estimates that each prospective increase of 1 percentage point for the UFT carries an annualized cost of $64 million. The cost to the city, however, is less because the salaries, benefits, and pension contributions for 17 percent of BOE employees are fully reimbursable through federal and state categorical grants. In addition, BOE uses unrestricted state education aid to pay roughly half of the salaries and benefits (excluding pensions) for the other 83 percent of employees. Therefore, IBO estimates that the annualized city cost of each prospective 1 percentage point hike for the UFT would be $30 million, provided that the state continues to augment school district operating aid. There is no guarantee that state aid will rise, so the city cost could end up being higher. (The city cost of a retroactive increase of 1 percentage point above the pattern settlement would be $53 million, 83 percent of the total.)

Prior-year Claims. The fiscal outlook for BOE is complicated further by the state's tardiness in paying the full amount of education aid owed to the city for claims dating as far back as 1993. The state owes BOE $437 million in general support for the public schools from prior years, according to a February 2002 State Education Department analysis. Of the $437 million unpaid, $243 million has been accrued and recorded as open receivables, meaning that this amount of anticipated revenue was used to balance the board's books in 1993 through 1997.[3] The New York City Comptroller's policy is to drop, or "write down," receivables remaining unpaid for 10 or more years. For example, if the City Comptroller was to write down $84 million in receivables still unpaid from 1993, then the board would have an extra expense of $84 million in 2003.

The Governor's Executive Budget for state fiscal year 2002-2003 proposes $33 million in appropriations to retire prior-year claims from New York City. These appropriations, coupled with current appropriations for payments of prior-year claims, would reduce the amount owed by the state to $379 million, and would reduce the amount of open receivables to $185 million.

The Governor's proposed budget gives the city the option of having the state's Municipal Bond Bank finance additional prior-year claims. Under the most recent version of the proposal contained in the Governor's 30-day budget amendments, the bank would sell bonds with the proceeds going to the board to satisfy $204 million worth of prior-year claims. The bank would service the debt to bondholders by intercepting future state aid payments to the city. An advantage of the Governor's proposal is that the bank would advance to BOE sufficient funds to close remaining open receivables plus a modest amount for new needs, such as increasing teacher salaries, or fiscal relief. A potential disadvantage is that in future years BOE could receive less state aid than it would without the debt service intercept.

Although uncertainty remains regarding the state payment of prior-year claims, it appears that progress is being made toward a resolution. Consequently, IBO's budget projections for 2002 to 2006 assume that the state will make sufficient payments of prior-year claims to satisfy the open receivables and thus avoid the extra expenses BOE would incur if the receivables were to be written down by the city Comptroller.

Prekindergarten Expansion. During the first four years of a state initiative to make preschool available to all four-year olds, the board's general education pre-k enrollment has grown by 31,400 pupils to 45,700. During the current school year around 40,600 pupils are enrolled in the state-funded universal prekindergarten program and 5,100 in programs-such as SuperStart-that predate the universal state program. BOE spends $3,700 per pupil on universal pre-k. BOE supplements the $3,332 per pupil state contribution with $368 per pupil of discretionary funds from the city and other sources. One-third of the universal pre-k pupils attend BOE schools, while two-thirds attend classes in community-based facilities.

While New York City has by far the largest universal pre-k program in the state, expansion of the program has not met expectations. For two consecutive years the board has been unable to enroll a sufficient number of pupils to use all of the state funding available for pre-k expansion. This year, flexibility in the state budget enabled BOE to apply for a smaller universal pre-k grant without the city forfeiting the balance. The city instead is using $32 million initially intended for pre-k to help close the 2002 budget shortfall. In contrast, BOE and the city last year returned $10 million of unspent pre-k funds to the state.

There are several reasons for the expansion difficulties. BOE faces serious challenges in expanding prekindergarten while simultaneously trying to ease overcrowding and reduce class size in grades K-3. Many areas of the city lack classroom space in schools and community-based facilities to serve all eligible 4-year olds. Another difficulty is that universal pre-k is primarily a half-day program and demand for short sessions has been below expectations, leaving seats unfilled in some neighborhoods. The schedules of working parents often necessitate finding full-day placements for their children, rather than the two-and-one-half-hour sessions provided under the universal program. Implementation was particularly difficult this past year due to uncertainty surrounding state funds. The state was nearly six months late in completing a budget for the fiscal year that began April 1, 2001. Consequently, the state did not notify BOE and school districts across the state of their complete education aid allocations until mid-November.

The Governor's Executive Budget proposes to provide BOE with a $147 million universal pre-k grant for school year 2002-2003—sufficient funds to expand the program to an additional 3,400 youngsters. IBO's budget projections assume BOE will expand pre-k next year but not in subsequent years.

Charter Schools. In 1998, the state enacted a law permitting the creation of 100 new charter schools statewide, plus an unlimited number of conversions of existing public schools to charter schools. During the current school year, 16 charter schools are operating in New York City (11 new schools and five conversions). By law, BOE must provide charter schools in the city with a base operating payment equal to the school system's average operating expenditure per pupil as calculated by the state. Average operating expenditures exclude items for which charter schools receive separate funding, such as state and federal categorical grants, food service, and transportation. Some of these supplemental funding streams flow through BOE, while others flow directly to the charter schools, bypassing the board.

Based on the experience of other states, successful charter schools are likely to attract some students who would otherwise attend parochial or private schools, be schooled at home, or drop out. Successful charter schools would therefore increase the number of students under BOE fiscal responsibility. Although it is difficult to predict how many charter schools will open and close in the city each year, IBO's budget projections include a modest financial impact from incremental growth in charter school enrollment.

Other Needs. Last August, BOE announced plans to lower central personnel costs through automation of administrative functions, such as timekeeping and tracking parent inquiries. Based on recommendations made by consultants from McKinsey & Company, BOE plans to upgrade its information technology (IT) systems in 12 functional areas by 2004. To date, BOE has fully funded three of the twelve system enhancements and partially funded two others. To complete all these projects, BOE needs $74 million in additional capital financing and $9 million more in expense funding. IBO's projections assume that the city will provide $5 million towards the IT initiative in the 2004 expense budget.

BOE has entered into a leasehold agreement with the nonprofit Schoolhouse Foundation to develop a new three-school campus on Metropolitan Avenue in Forest Hills. The project is expected to create more than 2,000 seats at a cost of between $200 million and $270 million. Schoolhouse plans to finance the project primarily with tax-exempt bonds issued by the New York City Industrial Development Agency. Unlike other BOE capacity expansion projects that are funded from the city's capital budget, the Schoolhouse Foundation project will be funded out of the board's expense budget. BOE will service schoolhouse's debt through annual lease payments. Although an initial agreement is in place, the Preliminary Budget does not include funding for lease payments to the foundation. IBO's projections assume these payments will cost $20 million per year beginning in 2005.

CAPITAL PLAN

Planned Commitments Reduced. The city's latest four-year (2002-2005) capital commitment plan reduces the board's capital budget by 21.9 percent for $1.1 billion of savings from the total included in the adopted commitment plan. The plan provides a total of $3.8 billion for school capital projects, including $213 million for projects selected by the Mayor, the City Council, and the Borough Presidents.

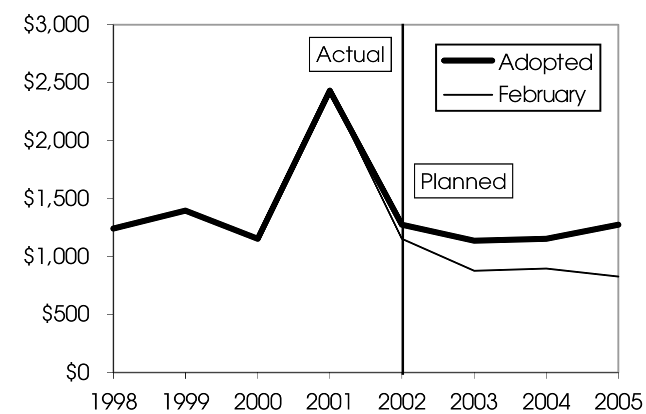
Under the city's plan, the BOE capital budget would be cut by $118 million in 2002, $252 million in 2003, $252 million in 2004, and $436 million in 2005, with some of the spending deferred until 2006 and later. The proposed reductions would significantly delay several school capital projects, in particular new school construction projects in overcrowded community school districts and high school superintendencies.

Annual capital commitments for education would fall below $1.0 billion starting in 2003. The lower levels represent a 6.5 percent reduction over the next three years (2003-2005) compared with the total average commitment on school capital projects between 1998 and 2000. (Fiscal year 2001 was atypical as actual commitments for education reached an all-time high of $2.4 billion due in part to the acceleration of $660 million worth of school capital projects originally scheduled for 2002 through 2004.)

Repair Projects Protected. Unlike the capacity expansion program, BOE's capital improvement program to upgrade and repair school buildings would remain largely intact, with the exception of Mayor and City Council-supported projects.

BOE Capital Commitments: 1998-2005

Dollars in millions



SOURCES: IBO based on New York City's February 2002 and Adopted 2002 Capital Commitment Plans.

A significant reduction in funding for the board's capital improvement program was not proposed because it already consists primarily of urgent building repair and upgrade projects necessary to ensure the safety of students and school staff.

Included in the city's $1.1 billion reduction in capital funding for education are changes to several Mayor and City Council-supported school projects. In 2001, the Mayor and City Council jointly funded an initiative to have the Economic Development Corporation manage a set of new expansion projects. This capital budget item would be delayed for a second year; $115 million would be shifted from 2002 to 2003. In 2002, $47 million in funding for City Council projects such as the purchase of computer equipment, renovation of libraries, and redevelopment of playgrounds would be eliminated.

The February commitment plan would also have the Department of Design and Construction (DDC) undertake a larger share of the funding for joint Mayor and City Council (MAC) school rehabilitation projects ($38 million compared with $14 million at adoption) in the current year. Starting in 2001, DDC was designated as the lead agency for MAC school capital projects, although the School Construction Authority, which manages most BOE capital projects, continues to be responsible for a small share of MAC work.

Comparison of City and BOE Capital Plans. The city's four-year (2002-2005) capital plan and the board's current five-year (2000-2004) capital plan cover different time periods. Although the board's plan was just amended in December 2001, the city's February 2002 plan will force further changes in the scope and funding of school capital projects. When the board amended its five-year (2000-2004) capital plan in December 2001 to address a $2.4 billion shortfall that emerged in its capital budget, it approved the construction of 18,928 new student seats and deferred 11,072 seats. The cutback in the city's Capital Commitment Plan places at risk delivery of the full 18,928 seats.

Based on the city's February commitment plan, funding for the remaining three years (2002-2004) of the board's five-year plan has been reduced to $2.79 billion, which is $622 million below the level assumed in the board's December 2001 capital plan amendment. The city's February plan includes a total of $2.94 billion for 2002-2004, but $151 million of those funds have not yet been recognized by the board because some critical project information still needs to be determined. Because the city's latest commitment plan reduces funding and postpones projects, under state law the Chancellor must submit another amendment to the five-year capital plan to the seven-member board for their approval.

The deferral of additional capacity projects comes at a time when the school system faces daunting capital needs. The majority of BOE students attend overcrowded schools and most of its buildings were constructed prior to 1950. Enrollment currently exceeds capacity in District 6 in Manhattan, Districts 10 and 11 in the Bronx, Districts 20 and 22 in Brooklyn, and Districts 24, 27, 29, and 30 in Queens, as well as in the BASIS (Brooklyn and Staten Island), Bronx, Brooklyn, and Queens high school superintendencies.

Although enrollment growth has apparently stopped for the moment, other developments have added to the pressure on the board's facilities. These include the initiatives to reduce early grade class size and expand prekindergarten; modifications needed for compliance with the building access requirements of the federal Americans with Disabilities Act, as well as the cumulative impact of insufficient spending on building maintenance. Other factors include the decision to integrate District 75 special education students into neighborhood schools, the objective of creating schools with smaller numbers of students, Regents' laboratory science requirements, and summer school expansion.

END NOTES

[1] For more information about the ESEA, see "Education Issues: No Child Left Behind Act of 2001, H.R. 1," U.S. House of Representatives Committee of Education and the Workforce. <http://edworkforce.house.gov/issues/107th/education/nclb/nclb.htm>

[2] The UFT contends that the city's contract offer presented to PERB is less generous than the pattern settlement because UFT members are not eligible to benefit from a 1 percent decrease in employee pension contributions received by qualifying members of DC 37 and other civilian unions. Take-home pay of some civilian employees has increased by one percent due to the lowering of the employee-contribution rate from 2.85 percent to 1.85 percent for Chapter 96 pension participants.

[3] The City Comptroller has recorded additional state receivables for reimbursable education expenditures such as contracted services for preschool handicapped children. These reimbursable programs are not funded out of appropriations for general support of the public schools.

City University of New York (CUNY)

PRELIMINARY BUDGET OVERVIEW

The proposed 2003 budget for the City University of New York is about $12 million less than anticipated in the June 2001 Adopted Budget. The Preliminary Budget reduces city support for the university next year by $12.9 million, which is slightly offset by the recognition of $700,000 in federal disaster relief funds. Highlights of the Preliminary Budget proposals include the following:

- Eliminate $7 million worth of Peter F. Vallone Academic Scholarships, which would end a student aid program introduced by the City Council in 1999.
- Terminate three other City Council initiatives supporting specialized academic and vocational programs for a savings of $1.6 million.
- Cut $3.9 million from the city's general support of the community colleges but provide enough funding for the city to satisfy the state's maintenance of effort requirement; and
- Reduce the city contribution to the Hunter Campus elementary and secondary schools by $437,000 (5 percent).

2003 Budget Summary

Dollars in millions; data pertains only to the city's accounts

Expense Budget	
Adopted Budget	$444
Federal disaster relief	1
Program cuts	(13)
February Plan	$432
IBO technical adjustment	(35)
IBO Repricing (see text)	5
IBO Reestimate	$402
Headcount	
Adopted Financial Plan	3,687
February Plan	3,687
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$103
February Plan	$91

NOTES: The city's accounts include community college funding, plus city support for associate degree programs at senior colleges as well as city and state funding for the Hunter Campus schools. Technical adjustment removes state funds for senior colleges annually budgeted but by design never spent.

EFFECTS OF BUDGET PROPOSALS

Budget Overview. The City University of New York is the nation's largest municipal university system enrolling nearly 200,000 degree and for-credit students. CUNY receives roughly three-fifths of its $1.4 billion operating budget from the city and the state, with tuition and fees accounting for the remaining two-fifths. Compared to most universities and colleges—public and private—CUNY receives relatively little philanthropic support. The 2003 Preliminary Budget proposes a city subsidy to the university of $119 million (excluding pension contributions and intra-city sales).

The city and state have different areas of financial responsibility within the CUNY system, therefore, only a portion of the total university budget is included in the city's budget. The state funds the four-year degree programs, plus the graduate, law, and medical schools. Both the city and state contribute funds to the community colleges and the associate degree programs in four senior colleges. The state and federal governments further subsidize tuition for low- to moderate-income students through grants, loans, and tax credits. This analysis only concerns CUNY spending recorded in the city's accounts.

IBO estimates that the Preliminary Budget would result in spending of $402 million in 2003 compared with $427 million estimated for 2002. The $25 million difference is due to extraordinary one-time expenses in the current fiscal year stemming from the attacks on the World Trade Center, which displaced the Borough of Manhattan Community College (BMCC). Beginning in 2004, spending would slowly rise and would reach $420 million in 2006.

IBO's projection for 2003 includes the spending of $8 million in miscellaneous revenue not yet recognized in the city's Financial Plan, primarily from technology fees. The CUNY trustees recently approved a new technology fee to be paid by all university students, effective September 2002. Full-time students will pay $75 per semester and part-timers will pay $37.50. This fee supplements community college tuition, which has remained $2,500 per year since 1996 for New York State residents. The revenue primarily will fund improvements in student access to computers. The trustees also have asked the colleges to boost revenue through increased enrollment in summer and winter break courses.

For the past decade, annual state budget legislation has contained maintenance of effort (MOE) provisions compelling the city to provide the community colleges with at least the same subsidy as the previous year. The Preliminary Budget proposal satisfies the MOE requirement. The city is not obligated to provide sufficient funding to maintain current services when costs rise.

Collective Bargaining Needs. The city will not fund salary increases included in collective bargaining settlements for community college staff. The university is still obligated to pay the raises to its unionized employees, however, using resources from elsewhere in its budget. The 2001 District Council 37 (DC 37) settlement, for example, has raised community college personnel costs by $5 million per year. Earlier this month, the city, state, and CUNY reached a tentative agreement with the Professional Staff Congress patterned after the DC 37 settlement. If the contract is ratified, CUNY estimates that it would cost the community colleges $23 million in 2002 (including money for retroactive pay increases) and $18 million in 2003.

Terminated City Council Initiatives. The Preliminary Budget for higher education would terminate four City Council initiatives, including the Peter F. Vallone Academic Scholars program. The Vallone scholarships provide $7 million to CUNY students who are recent graduates of New York City high schools, public or private. To qualify for annual awards of $1,450, a student must graduate high school with a B average and maintain a B average in either an associate or baccalaureate degree program. Other Council allocations slated for elimination include $1 million to subsidize a police studies certificate program at John Jay College of Criminal Justice, $300,000 to support job training programs at community colleges, and $250,000 to study whether the city provides sufficient opportunities for minority and women's business enterprises.

Other Budget Cuts. The Preliminary Budget would reduce the city's general support for the six community colleges by a total of $3.9 million with programmatic impact left to the university's discretion. The Preliminary Budget would also cut city support for the Hunter College Campus schools from $8.7 million to $8.3 million. Hunter, a senior college, sponsors elementary and secondary schools for gifted children. Students attending these schools do not pay tuition.

Deferred Priority. Lack of growth in city support conflicts with one of the university's highest priorities: the effort to increase the number of full-time faculty, which is a central component of CUNY's strategy for improving the university. CUNY eliminated roughly 1,400 full-time faculty positions during the 1980s and 1990s. The percentage of courses taught by full-time faculty at the community colleges declined from 54 percent in 1990 to 44 percent in 1999. A goal is to reduce the use of adjunct faculty and have full-time faculty provide 70 percent of instruction. During the current year, the city provided $5.5 million to pay for the hiring of 100 full-time faculty. The net impact on faculty resources in the future is unclear, however, since at least some of that funding increase has been offset by subsequent budget actions.

CAPITAL PLAN

Deferred Capital Investment. The city's latest four-year (2002-2005) capital commitment plan cuts higher education funding by around $12 million compared with the adopted capital plan. During 1998-2001, capital commitments averaged $10 million per year, so the proposed cut would in essence defer more than a year's worth of capital investment.

The city's commitment plan for CUNY contains $73.3 million in capital funding for 2002 compared with a total of $17.6 million in funding for 2003-2005. Most of the 2002 funding reflects a large backlog of capital projects authorized in previous years, repeatedly deferred, and unlikely to be undertaken. Capital commitments during the first six months of 2002 totaled $3.4 million.

The city's capital plan generally includes a small fraction of the total CUNY capital program. Projects financed through the Dormitory Authority of the State of New York (DASNY) are external to the plan. The city and state equally share the responsibility for funding the capital program for the six community colleges and one senior college, Medgar Evers (MEC). In contrast, the state assumes virtually all of the capital funding responsibility for the other 10 CUNY senior colleges, graduate center, law school, and medical school. The city capital budget, therefore, does not fund senior college and graduate school projects, except when earmarked by City Council Members and Borough Presidents.

In 1998, the state pledged DASNY financing for $1 billion worth of CUNY projects over five years. The level of actual state capital commitments appears on course to deliver the $1 billion over six years (state fiscal 1998-1999 through 2003-2004). Roughly 10 percent of these funds were slated for community colleges on the condition that the city would match the state's investment. To fully access DASNY financing for the community colleges, the city must commit to paying half the debt service on $219 million worth of community college projects. During the first four years of the approved program, the city has agreed to reimburse DASNY for half the debt service on $50 million worth of projects.[1] DASNY will not finance the remaining $169 million of community college projects unless the city agrees to pay half the debt service. Therefore, CUNY is at risk of losing up to $85 million in state capital funds.

Medgar Evers Status Unresolved. MEC has a unique status that has impeded capital financing for construction on its campus. When MEC became a four-year-degree institution in 1994, state lawmakers did not change the school's capital funding status from that of a two-year college. Legislation has been introduced to classify MEC the same as all other CUNY senior colleges, so that the state would pay 100 percent of its capital costs.

Rebuilding BMCC. CUNY's capital needs include the replacement of Fiterman Hall, which housed BMCC classrooms and the systemwide research foundation. The skyscraper located at 30 West Broadway was severely damaged in the trade center attacks. CUNY estimates that it will cost $278 million to replace the building and its equipment. CUNY expects the entire cost to be recovered through insurance payments and federal disaster relief.

END NOTES

[1]The $50 million total includes only financing within the state's $1 billion approved program. During state fiscal year 1998-1999, the city agreed to reimburse DASNY for half the debt service for a project financed with $9 million from a separate state allocation.

Administration for Children's Services (ACS)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2003 for the Administration for Children's Services proposes total agency spending of $2.3 billion, a decrease of $128 million, or 5.2 percent, from the Adopted Budget. The decrease results from $154 million in proposed reductions, of which $128 million are city funds. The budget also proposes $35 million in funding for new needs, including $25 million in city funds.
Key budget actions include:

- An $80 million reduction in city funds for subsidized child care. This would eliminate most, if not all, funding for an anticipated expansion of child care slots.
- A $22 million reduction in foster care funds, including $7 million in city funds, based on lower projected caseloads for both contracted and city-run foster care programs.
- A replacement of $13 million in city funds with an equivalent amount of expected federal funds for administrative costs and substance abuse services related to the foster care program.
- An increase of $12 million in city funds to pay the city share of rate increases for foster care providers.
- An increase of $5 million in city funds to help pay for anticipated costs of expanding the Persons in Need of Supervision Program.

2003 Budget Summary
Dollars in millions

Expense	
Adopted	$2,465
Reestimates	(22)
Other PEGS	(132)
New Needs	35
All Other Changes, Net	(9)
February Plan	$2,337
Headcount	
Adopted	7,750
February	7,613
Revenue PEGS	$2
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$150
February 2002 Plan	$115

EFFECTS OF BUDGET PROPOSALS

Reduction of City Funds for Subsidized Child Care. The budget proposes eliminating $80 million in city child care funds in 2003, with somewhat smaller amounts in later years, and replacing them with state Child Care Block Grant (CCBG) funds. The $80 million is needed to fund existing child care slots, while the CCBG funds had been expected to subsidize an increase in child care slots. Thus, while the proposed funding shift will not reduce the number of existing child care slots, it will prevent the expansion of slots that had been anticipated and curtail the agency's ability to expand child care services in the future. The Preliminary Budget does not include an estimate of how many new child care slots the $80 million could have funded; however, based on the current mix of the types of child care services funded by the agency, IBO projects that the CCBG funds would have provided annual operating subsidies for an estimated 10,000 slots.

The service impact of these reductions would fall most heavily on low-income working families who, unlike public assistance recipients engaged in work programs, are not guaranteed subsidized child care even if they qualify for it on the basis of income. The agency routinely reports a child care waiting list of tens of thousands of families. The proposed reduction would eliminate an opportunity to bring the supply of subsidized child care somewhat closer to demand. This shortfall could be greatly exacerbated if—as proposed by the President—work requirements for public assistance recipients are made more stringent when the federal welfare reform law comes up for renewal later this year.

The proposed reduction in city funds also comes at a time when federal funding for child care may be in jeopardy. The CCBG is composed of a combination of state and federal funding streams including Temporary Assistance for Needy Families (TANF) block grant funds. In recent years the CCBG has been significantly expanded largely by redirecting surplus TANF funds. At present more than half of all CCBG subsidy funds ultimately come from TANF. Some members of Congress have proposed cutting the TANF block grant as part of the reauthorization of the federal welfare reform law later this year. Depending on its size, such a reduction could result in a significant decrease in the city's CCBG allocation in future years.

Finally, a recent hearing of the City Council's General Welfare Committee raised the issue of whether CCBG funds can legally be used to replace local child care funds. Federal law and state regulations forbid the use of federal child care funds to supplant state or local funds used for child care services. Since the state's CCBG is composed primarily of federal funds, the Administration's proposal may be subject to legal challenge.

CAPITAL PLAN

ACS's four-year capital commitment plan has been reduced to \$115 million from \$150 million in the 2002 Adopted Budget, a 24 percent reduction. Planned commitments for 2002 have been reduced from \$80 million to \$62 million. The February Plan preserves projects intended to upgrade agency computer and telecommunications systems and develop high priority day care centers. Other day care construction and renovation projects have been delayed. Highlights of the plan include:

- Construction of child care facilities, including the Williamsburg Day Care Center in Brooklyn and the Seabury Day Care Center in the Bronx. While these projects will remain largely on schedule, the overall four-year commitments for day care have been reduced from \$45 million to \$19 million. This was accomplished by delaying several unspecified child care construction and renovation projects until later years.
- Continued upgrading of computer and telecommunications systems, including development of the Integrated Case Management System, an automated legal tracking system, and a document imaging system for paperless retention of required financial and child welfare information. Overall four-year commitments for agency equipment remain at \$54 million.

Department for the Aging (DFTA)

PRELIMINARY BUDGET OVERVIEW

The agency's proposed budget for 2003 is $203.8 million, $26.3 million less than the projected 2003 budget in the June 2001 Adopted Financial Plan. IBO projections of federal and state funding for the agency in 2003 are greater than OMB's by $2.4 million, raising our estimate of the agency's budget to $206.3 million. Federal and state funding are expected to make up 22 percent and 10 percent of the agency's operating budget for 2003, respectively. DFTA's projected full-time headcount for 2003 is 366, with 130 positions funded by the city. The Mayor's Preliminary Budget proposes cuts of $26.3 million or 11.4 percent in 2003 and each subsequent year through 2006 to DFTA. These include:

- Close seven underutilized senior centers and cancel the establishment of four new centers that had been scheduled to open in 2003.
- Eliminate pay-as-you-go capital spending to finance capital improvements of senior centers located in privately owned building, saving the agency $3.0 million.
- Eliminate the take-home weekend meal program and encourage seniors to increase their contribution for meals, saving the agency $7.3 million.
- Reduce senior counseling and other senior center services, saving the agency $5.9 million.
- Reduce information and referral services, saving the agency $2.4 million.
- Reduce agency staff, saving the agency $1.4 million.
- Reduce the city-funded portion of four senior employment contracts, saving the agency $500,000.
- Eliminate discretionary funding allocated by the City Council and Borough Presidents for senior programs and services, saving the agency $3.5 million.

2003 Budget Summary

Dollars in Millions

Expense Budget	
Adopted Financial Plan	**$230.1**
Program Cuts	($21.9)
All Other Changes, Net	($4.4)
February 2002 Plan	$203.8
IBO Repricing (see text)	$2.4
IBO Reestimate	$206.3
Headcount	
Adopted Financial Plan	385
February Plan	366
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$47.33
February 2002 Plan	$34.69

EFFECTS OF BUDGET PROPOSALS

Senior Centers. The Mayor's Preliminary Budget proposes closing 7 of the city's 333 senior centers in 2003—three in Brooklyn, two in Manhattan, one in Queens and one in the Bronx. The Administration claims that seniors currently served at the centers to be closed can be served at other nearby sites without requiring significant travel. According to DFTA, the closure of the seven centers will affect approximately 1,000 seniors. In addition, four new senior centers in underserved areas will not be established in 2003—three in Brooklyn and one in Queens. Finally, pay-as-you-go capital spending for capital improvements in senior centers located in non-city-owned buildings will be eliminated in 2003. While capital improvements currently underway for 18 senior centers in non-city-owned sites will continue to be funded, the Administration has proposed eliminating $5.0 million in pay-as-you-go projects scheduled for 2002 but not yet underway.

Nutrition Services. The proposed budget would save $7.3 million by eliminating the take-home weekend meal program first implemented in 2001. Under the Adopted Budget for 2002, $86.5 million was appropriated to DFTA for nutrition services, of which $11.5 million was budgeted for weekend and holiday meals. During the program's first year, approximately 624,000 meals were provided to senior center participants. The Administration has also proposed encouraging seniors to increase their voluntary contributions for meals by an average of 10 cents, thereby allowing the city to reduce its funding for senior meals by $1.3 million.

Counseling & Other Senior Center Services. The Administration proposes eliminating funding for 51 social workers in senior centers in 2003. Social workers conduct group and individual counseling and offer crisis intervention at senior centers on an as-needed basis. In 2002, the City Council added $1.0 million to enhance these services, however the Administration has proposed reducing the total funding for social workers by $2.8 million, from $3.5 million to $750,000 during the current year. In addition, the Administration has proposed a 2 percent reduction in contracts for other services provided at senior centers in 2003.

Information & Referral Services. The Mayor's Preliminary Budget proposes a 50 percent reduction in 2003 information and referral services for a savings of $2.4 million. DFTA's total budget for these services at the start of 2002 was $4.7 million. The agency's Information and Referral Unit provides telephone and walk-in assistance for seniors and produces brochures describing programs and services that are available.

Administrative Changes. The proposed budget includes a 5 percent reduction in the agency's administrative budget, resulting in a savings of $1.2 million starting in 2003. A portion of these savings would come from the elimination of 16 currently vacant positions. In addition, beginning in 2002 the Administration would also transfer three agency positions to the mayoralty, saving the agency $69,000 in 2002 and $163,000 in 2003.

Employment Services. The Mayor's Preliminary Budget has proposed eliminating the city's share of funding for four senior employment contracts in 2003, saving the agency $500,000. DFTA's employment services include individualized case management and specialized training geared towards senior workers. The employment contracts to be reduced in 2003 include: the AgeWorks Computer Training Center, which trains seniors in computer and office technology; the Riese Restaurant Training Center, which provides training in fast food restaurant services; the Food Emporium Training Center, which provides training in supermarket and customer-related industries; and the Senior Community Work Experience Program, which places seniors in subsidized part-time employment to gain work experience.

Miscellaneous Contracts. The Administration has proposed eliminating funding for several programs adopted in 2002 at the initiative of the City Council. Initiatives that would be cut for 2003 include: a program providing low-cost transportation to seniors attending medical appointments ($585,000); a program assisting seniors with minor home repairs ($500,000); a program offering ESL classes for elderly immigrants ($350,000); a program providing health care professionals with geriatric training ($250,000); and a program which offers hearing screenings and trains senior center staff to identify and provide services for seniors with hearing loss ($133,000). In addition, the proposed budget also eliminates $1.8 million in discretionary funding provided by the City Council and Borough Presidents for senior centers and other services for seniors.

Prescription Drug Coverage. The Administration has proposed reducing funding for PROMISE by 90 percent (from $5.0 million to $450,000) beginning in 2002. PROMISE (Prescription Reimbursement of Moderate Income Senior Expenses) is a City Council initiative in its first year of implementation, which partially reimburses seniors for their deductible pharmaceutical costs. It is unclear whether this program will be continued in 2003. To be eligible for PROMISE, seniors must be participating in the state's EPIC (Elderly Pharmaceutical Insurance Coverage) program. The City Council had expected the program to eventually serve 15,000 seniors.

CAPITAL PLAN

DFTA's four-year (2002-2005) capital plan was cut 27 percent compared to the June 2001 adopted plan, and is now funded at $34.7 million. Numerous planned purchases of vans and computers for senior centers were reduced or delayed. While most renovations of senior center buildings were not cut, some projects were delayed, such as the Sunnyside Senior Center in Queens. Several major City Council-supported reconstruction projects, such as the Gun Hill, Woodside, and Lenox Hill centers, were not affected.

Department of Homeless Services (DHS)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2003 DHS budget is $556.8 million, an increase of 8 percent over the projected 2003 budget in the adopted Financial Plan of $514.7 million.

- Under the Preliminary Budget, the city would spend $59.7 million in combined city, state, and federal funds for new adult and family shelter capacity in 2003.
- The city has proposed cutting adult and family shelter contracts by a combined $17.5 million in 2003—without reducing the number of available spaces.
- The city will eliminate the Family Rental Assistance Program (FRAP) beginning in 2003, for an annual savings of $1.5 million.
- Due to a rise in the number of non-Temporary Assistance for Needy Families (TANF) eligible families, the city will have to use an additional $25.5 million in city tax-levy funds in 2002, and $29.8 million in 2003, to replace federal and state money that the agency will no longer be eligible to receive. This will have no net impact on total agency spending.
- Beginning in 2003, the city has proposed using New York City police officers to provide security in shelters, saving DHS $5 million per year.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$514.7
Program Cuts	(29.6)
New Needs	59.7
Other Changes, Net	12.0
February Plan	$556.8
Headcount	
Adopted Financial Plan	1,570
February Plan	1,570
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$139.5
February 2002 Plan	$109.4

EFFECTS OF BUDGET PROPOSALS

New York is legally obligated to provide shelter to anyone who requests it and who has no other place to go. This legal mandate means that as the number of homeless people increases, the city must increase its spending on shelter.

Emergency Shelter. As of January 2002, there were more than 31,000 people in the New York City shelter system, an all-time high. The DHS budget modifications for 2002 and Preliminary Budget for 2003 add emergency shelter beds for both adults and families in an attempt to keep up with rising demand. DHS will add 2,274 new family shelter units in 2002 and 2003, at a cost of $56.3 million in 2003. This total includes city tax-levy funds, and state and federal money. DHS will also add 280 shelter beds and 75 drop-in center placements for single adults in 2003, at a total cost of $3.3 million.

At the same time, DHS proposes cutting spending on existing contracts with nonprofit providers of emergency shelter. How these cuts would be implemented has yet to be determined—the agency will negotiate with each nonprofit contractor in order to implement this cut. The proposed reduction in spending—$6.5 million on the adult side, and $10.9 million on the family side in 2003—is not expected to reduce the number of shelter beds available, although social service delivery may be affected.

Lower State and Federal Reimbursements Mean Higher City Costs. In 2003, the city has budgeted an additional $29.8 million in tax-levy funds to compensate for reduced state and federal reimbursements. DHS receives partial reimbursement for family shelter costs from the federal and state governments based on each family's public assistance eligibility. DHS estimates that 25 percent of families in the shelter system are not currently eligible for public assistance, either because they have reached their TANF time limits, or due to technical difficulties—a higher proportion than previously estimated. As a result, the city will receive fewer reimbursements from the federal and state governments than it originally budgeted for, and must substitute city funds.

However, DHS and the Human Resources Administration (HRA) will work together to enroll more people in TANF, which DHS estimates will bring in $3.7 million in state and federal funds by 2003.

On the adult side, the state pays for a share of adult shelter costs up to an annual maximum of $72 million (plus some administrative costs). The state will allow reimbursement requests above the shelter cap for single adults enrolled in the Safety Net Assistance program, which is expected to bring in another $4 million above the state shelter cap of $72 million. Half of the increase would offset city spending, however, so the net effect of this change in reimbursement policy would be to increase total spending by $2 million in 2003.

Family Rental Assistance Program. The program provides employed homeless families with two years' worth of rental vouchers. The program was first started in 2001, and served only eight families. FRAP was eliminated in the December modifications to the 2002 budget, saving $1.5 million a year beginning in 2003.

Shelter Security. DHS currently spends about $20 million annually on security for shelters. The Preliminary Budget proposes using New York Police Department officers to provide security at some shelters, at a cost to DHS of $5 million. In addition, the city expects that DHS will save $5 million in security costs overall because the police department will be able to provide security more efficiently than the existing security contracts.

Medical Services. State regulations used to mandate two medical screening exams for families in the shelter system: one at intake, and another when the family was placed in a transitional unit. The state no longer requires the second exam, and DHS estimates that this will save $845,000 in city funds in 2002, rising to $1.7 million in 2003. In addition, DHS is consolidating the medical services available at adult intake facilities, resulting in savings of $600,000 in 2002, and $1.2 million in 2003.

CAPITAL PLAN

The DHS four-year capital plan was cut by $30.1 million, or 22 percent, compared to the adopted capital plan. The total four-year capital plan is now $109.4 million, virtually all of which will be used to repair and maintain city-owned shelters. Almost the entire cut to the four-year capital budget—$26.8 million—is from planned renovations of adult shelters.

Department of Public Health (DPH)

In November 2001, voters approved the amendment of the New York City Charter to merge the Department of Health with the Department of Mental Health, Mental Retardation, and Alcoholism Services to form the Department of Public Health, effective July 1, 2002. The Charter also calls for the coordination of mental retardation and developmental disabilities program services within the Mayor's Office of Operations to improve service coordination among city agencies and nongovernmental providers.

The tasks of the new department include monitoring the health status of the city's population; investigating health problems; informing and educating citizens; mobilizing partnerships with community based organizations to support services such as case management and asthma education in high-risk neighborhoods; developing policies and plans to support health; enforcing laws and regulations; and ensuring access to health care. The newly created department will also provide planning, funding and oversight for the provision of mental health, mental retardation and alcoholism services for New York City residents.

PRELIMINARY BUDGET OVERVIEW

In introducing the Department of Public Health into the Preliminary Budget, the budgets of the two former departments were reorganized and consolidated. In 2003, total expenditures for the combined department are estimated at $1.14 billion. DPH is slated for $55 million in program cuts for 2003.

Key budget actions include:

- Agencywide savings of $5.3 million in 2003 through the elimination of 100 vacant positions, anticipated accruals, and other administrative actions.
- Elimination of the Tobacco Control Program would save $13 million in 2003 and beyond.
- Service reductions and revenue increases for mental hygiene programs would save $14.3 million.
- In 2003, elimination of $2.1 million in subsidies to the Health and Hospitals Corporation (HHC) for Family Health Services clinics, and a $3.4 million reduction in the contract for services would result in reassignment of staff from clinics with lower patient volume.
- Expenditures for the Early Intervention Program have been reestimated on the basis of higher than anticipated program referrals, adding $30 million in 2003, and rising to $61.3 million in 2006.
- The School Health Program would not fill its many vacancies, saving $6.2 million.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$1,112.2
Program Cuts	(55.3)
Reestimates	
Early Intervention City	30.0
Early Intervention State	45.6
Other Reestimates	(2.0)
All Other Changes, Net	10.8
February Plan	$1,141.3
Headcount	
Adopted Financial Plan	3,502
February Plan	3,395
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$169.7
February 2002 Plan	$154.7

EFFECTS OF BUDGET PROPOSALS

Reductions to Mental Health Programs. Mental health programs would be reduced by $8.1 million by eliminating 11 City Council initiatives in such areas as violence prevention services in schools, family support services, school-based mental health services, forensic mental health services, alcoholism services, and the La Bodega substance abuse services program. An additional $6.2 million in city funds would be saved through revenue enhancements and replacing city funds with alternative funding sources.

Elimination of the Tobacco Control Program. The Tobacco Control Program would be eliminated, saving $13 million in 2003. Through a contract with HHC and community-based organizations, the program funded classes helping smokers to quit and anti-smoking activities aimed at youth. The "Quit Yet?" media campaign was budgeted at $2.2 million. The Department of Public Health's newly created Chronic Disease Prevention Program—initially funded at $3.0 million ($1.9 million of which is city funds)—will include an anti-smoking component to replace some of the eliminated functions. Current city staff will move to the new program.

Leaving Vacant Nursing Slots Unfilled. Currently, 300 vacancies exist for nurses and public health advisors in school health programs, of which temporary nurses provide coverage for 180 slots. Under the Preliminary Budget, vacant positions would not be filled due, in part, to the difficulty of recruiting nurses. Savings of $6.2 million are anticipated by maintaining current staffing levels. No school would lose a nurse, although the problem of schools without a nurse would be partially solved by some nurses splitting their days between two schools.

Cuts to Family Health Clinics. Under the proposal, $2.1 million in subsidies would be eliminated for clinics run by HHC through a contract with the Department of Public Health. In addition, the contract budget of $28 million would be reduced by $3.4 million. HHC would reallocate staff to other family health clinics or to the overall workforce based on the level of patient demand at individual clinics and possible efficiencies in operations.

Increased Expenditures for Early Intervention Services. The Early Intervention program provides contracted services to developmentally delayed children under three years of age. The program, which served 35,000 children in 2001, has been growing in recent years. An additional 20,000 referrals to the program are projected for 2002. City-funded spending is projected to rise $30 million in 2003 and $45 million in 2004, while state funding is projected to increase by $45.6 million in 2003.

Other Cuts in Programs. Several agency programs would be cut or eliminated under the proposed budget. Approximately $15 million would be saved by cuts in the department's research grant program, animal control service hours, termination of contracts with the Community Health Network and the Institute for Urban and Global Health, and elimination of funding for outpatient medications for the uninsured, among others.

CAPITAL PLAN

The Department of Public Health's capital plan provides funds for the construction, rehabilitation, and modernization of departmental buildings, and the purchase of equipment. The 2002 Adopted Capital Commitment Plan provided a total of $169.7 million through 2005. The new commitment plan calls for a reduction in spending through 2005 of $15 million, or 8.8 percent. The bulk of the difference is due to rescheduling commitments beyond 2005 to the out-years. Some of the delayed projects include construction of a new cancer center at Maimonides Hospital, purchase of equipment for Beth Israel/Kings Highway Medical Center, and purchase of equipment for the Staten Island Alzheimer Association.

Department of Youth and Community Development (DYCD)

PRELIMINARY BUDGET OVERVIEW

DYCD's proposed budget for 2003 is $119.2 million, $40.9 million less than the current year's budget. IBO projections of federal and state funding for the agency in 2003 are greater than the Mayor's by $3.0 million, increasing the agency's budget to $122.2 million. Federal and state funding are expected to make up 32 percent and 12 percent, respectively, of the agency's operating budget for 2003. The agency's proposed full-time headcount for 2003 is 285, with 161 positions funded by the city.

In 2001, the agency spent $98.6 million for youth programs (71.2 percent of its total budget) and another $39.8 million for community development programs. This year, the agency is expected to spend similar proportions of its budget on the two program areas. The Mayor's Preliminary Budget proposes cutting the agency's budget by $16.2 million or 12 percent in 2003 and each year through 2006, with most of the reductions coming in from the youth program area of the budget. These reductions include:

- Eliminating city funds for the After-Three Initiative, saving the department $10.5 million in 2003.
- Reducing the number of youth contracts, saving the agency $6.0 million in 2003.
- Reducing the agency's headcount in 2002, saving the agency $117,000 in 2002 and $234,000 in 2003.

2003 Budget Summary

Dollars in millions.

Expense Budget	
Adopted Budget	$135.43
Program Cuts	($16.55)
All Other Changes, Net	$0.31
February Plan	$119.19
IBO Repricing	$3.00
IBO Reestimate (see text)	$122.19
Headcount	
Adopted Budget	294
February Plan	285

EFFECTS OF BUDGET PROPOSALS

Eliminating All City Funding for the After-Three Program. The budget proposes to eliminate city funding for the After-Three program starting in 2003. A public-private partnership, the program is administered by The After-School Corporation (TASC), which operates statewide. In 2002, $10.5 million in city funds helped support 87 after-school programs in the city, serving a total of 23,315 students.

Funding for the program is complicated. The Open Society Institute (OSI) provides TASC up to $25 million for after-school programs statewide, but imposes a 3-to-1 matching requirement on TASC (not the city) in order to receive the grant funds. City funds represent about 15 percent of TASC's required match. In addition, the community groups operating the programs are required to contribute at least 30 percent to each after-school program's total operating budget. With fixed funding demands on TASC, loss of city funds may affect TASC's ability (or willingness) to support after-three programs currently operating in the city.

Reducing Number of Youth Contracts. The Preliminary Budget proposes eliminating $5.6 million in youth and community service contracts in 2003—primarily one-year contracts recommended by the City Council and Borough Presidents. The proposed budget will also eliminate one Beacon program starting in 2002 for an annual savings of $400,000. There are currently 80 Beacon programs, serving approximately 148,000 participants. Beacons are school-based community centers offering youth and their families a mix of social, educational, vocational, and recreational activities.

Administrative Changes. The Administration has proposed transferring six agency positions to the mayoralty in 2002, saving the agency $117,000 in 2002 and $234,000 in 2003 and each subsequent year through 2006.

Immigrant Initiative. The Preliminary Budget does not include funding to continue a $2.5 million initiative to aid recent immigrants. The City Council created this initiative last year, but the funding was not "baselined," so it does not appear as a cut from the Preliminary Budget. The initiative provided about $2 million to increase the number of seats in programs teaching English to newcomers and $500,000 to community organizations offering legal service to recent immigrants.

Health and Hospitals Corporation (HHC)

PRELIMINARY BUDGET OVERVIEW

The New York City Health and Hospitals Corporation projects expenditures in 2003 totaling $4.06 billion, while revenues are expected to total only $3.78 billion, leaving a gap of $280 million. According to HHC, an expected positive opening cash balance in 2003 would allow the corporation to avoid a deficit for the year.

The Preliminary Budget would provide a lump sum payment for 2003 of $847.5 million in city funds to HHC, which includes $730 million as the city's share of Medicaid-reimbursable costs at HHC facilities. This is $3 million less than was anticipated in last June's Financial Plan. HHC third-party payments, which include the city's Medicaid share, are projected to total $3.42 billion in 2003, including total Medicaid payments ($2.01 billion), Bad Debt and Charity Care Pools ($596 million), Medicare ($468 million), private insurance ($309 million), and Community Health Partnership Funds ($44 million). The latter are slated to be exhausted in 2004.

Key Preliminary Budget actions include:

- Elimination of $1.1 million in city funds to offset recurring deficits at the Coney Island Community Health Center and another $2.6 million of city funds covering deficits at six diagnostic and treatment centers.
- $50 million in savings in 2003 and $100 million in 2004 by eliminating 1,000 jobs annually that do not provide direct care to patients.
- Loss of $67 million previously reimbursed through the HHC Plus program and funded by switching welfare and city funds to cover the health care costs incurred by some low-income uninsured adults ineligible for Medicaid.
- $19 million reduction in city contracts with HHC to provide services on behalf of the Department of Public Health (including mental health programs), the Department of Homeless Services, and other agencies.

2003 Budget Summary
Dollars in millions; city funds

Expense Budget	
Adopted Budget	$850.5
City Medicaid Payment Reestimate	6.2
Program Cuts	(4.5)
Funding Swaps	(1.0)
Other Savings	(3.7)
February Plan	$847.5
Headcount	
June 2000	32,385
June 2001	31,544
Capital Commitments	
Totals, 2002-2005	
Adopted Plan	$703.9
February 2002 Plan	$682.8

EFFECTS OF BUDGET PROPOSALS

The city reimburses HHC for debt service costs and for providing health services to city prisoners, uniformed personnel, and a number of city agencies. In addition to the $730 million direct Medicaid payment, HHC projects other payments from the city in 2003 to total $354.4 million. This funding includes $72.5 million in intra-city payments (reduced from the Adopted Budget plan by $67 million in HHC Plus funding), the $117.5 million balance of the lump sum payment, and $164.4 million in payments for contracted services not included in HHC's city agency budget. Cuts in programs funded through intra-city transfers and contracts are reflected as savings in the budgets of the other agencies, although they do affect HHC's operations.

Reduced Lump Sum Payments. The Preliminary Budget shows a $3 million net reduction in the city's 2003 lump sum payment to HHC. A projected increase in city-funded Medicaid payments of $6.2 million to HHC partially offset reductions in program spending ($4.5 million), funding shifts ($1 million), and other savings ($3.7 million). Most of the program cuts are in City Council initiatives, including subsidies for recurring deficits in community health centers and diagnostic and treatment centers, an acupuncture program, and a prescription drug program for uninsured patients.

Reduced Contracts with Other City Agencies. Budget cuts in other agencies having contracts with HHC to provide medical services also affect spending at HHC. However, because the savings are shown as savings in the contracting agency's budget, they are omitted as savings in HHC's budget to avoid double-counting. The Preliminary Budget proposes reductions in a number of contracts with the newly created Department of Public Health, including $6.5 million for tobacco/smoking cessation programs, $3.4 million for family health services, and $1 million from various mental health and alcohol programs. Contracts with the Department of Homeless Services for services provided at HHC facilities would also be cut by $4.1 million.

Medicaid and the Uninsured. HHC's financial stability is highly dependent on efforts to increase enrollment in Medicaid, Family Health Plus, and Child Health Plus to reduce ongoing large losses from uncompensated care. An estimated 10 percent of inpatients and 30 percent of clinic patients at HHC facilities are uninsured. Although HHC receives payments from the state's Bad Debt and Charity Care Pool, the payments are insufficient to fully cover the corporation's losses. In 2000, losses from uninsured patients totaled $421 million. Moreover, one source of recent funding for the uninsured will be eliminated in 2003. The corporation's insurance plan for low-income adults—HHC Plus—will lose $67 million in funding for uninsured patients that had been provided in prior years through a swap of Temporary Assistance for Needy Families funds. This may be mitigated somewhat through aggressive efforts to enroll eligible patients in Family Health Plus, the new Medicaid program for low-income uninsured adults.

Recent New York State legislation extended Medicaid coverage to many formerly ineligible recent legal immigrants and provides an opportunity to enroll this sizable HHC patient population. The corporation also hopes to enroll as many uninsured patients as possible in its own health plan, MetroPlus, thereby maximizing revenues by increasing paying patients and retaining insured patients who have the option to seek care from other providers. Despite ongoing, concerted efforts it has proven difficult to enroll and retain all those eligible for government insurance programs (one exception is the Disaster Relief Medicaid program introduced in the aftermath of the World Trade Center attack). Even with Medicaid reimbursements, HHC must subsidize $58 for each hospital-based clinic visit, $176 for each emergency department visit, and $104 for each visit to a diagnostic and treatment center. It will remain difficult for HHC to successfully counteract the budgetary pressures exerted on its bottom line by Medicaid's low reimbursement rates and the unfunded costs of providing health care for the city's uninsured and underinsured residents.

Funding Swaps and Other Savings. The Preliminary Budget would transfer $1 million in funding for equipment and physical plant improvements at Bellevue Hospital to HHC's capital budget. Other savings would be realized through a $2.4 million reduction in debt service costs through refinancing, $1 million in retroactive Medicaid savings, and the elimination of $338,000 in payments to the Department of Citywide Services for supplies. HHC adjusted its projected workforce reduction targets from 3,500 over the 2002-2005 period to 2,000 non-patient care positions in 2003-2004. This will be accomplished through attrition and a hiring freeze. Projected savings of $50 million in 2003 and $100 million in 2004 from these reductions are part of HHC's corporate financial plan, but are not reflected in Adopted Budget expense cuts.

Debt Service-Medical Malpractice Exchange. The 2002 Adopted Budget included a swap of debt service costs and medical malpractice costs between the city and HHC. The Preliminary Budget assumes that the swap will go forward, although the Memorandum of Agreement implementing the swap is still being negotiated by HHC and the city. If the swap proceeds as envisioned, the city will take over all of HHC's existing debt service and HHC will pay its own malpractice costs, which the corporation believes it can better contain. The plan would relieve HHC of large debt service costs while providing incentives to hold down malpractice costs. HHC has already hired a private claims organization and risk managers to enhance risk management practices. The swap is expected to provide HHC with increased revenues of $20 million in 2002 and holds out the possibility of even greater revenues in future years, although such savings are not guaranteed.

Cost Cuts and Quality Care. HHC has improved its fiscal situation in recent years by reducing costs and by accumulating funds through one-time Medicare and Medicaid rate appeal settlements and retroactive rate adjustments totaling $900 million over five years. Reductions in city funding in the Preliminary Budget, in conjunction with actions by HHC and legislative initiatives, will interact—and at times conflict—with the corporation's goals of reigning in costs, maximizing revenues, and delivering high quality health care in 2003 and beyond.

CAPITAL PLAN

HHC is in the midst of a five-year, $1 billion capital program to modernize many of its hospitals and clinics. With the corporation anticipating shortfalls in its capital plan, it is in the process of transforming the five-year plan into a seven-year plan. The city's new Capital Commitment Plan has reduced the city's total contribution to the HHC capital program for 2002 through 2005 by $21 million (3 percent) from the level in the Adopted Budget commitment plan. A large portion of the reduction is achieved by delaying $14 million in ambulance purchases until after 2005. The capital plan currently retains all major reconstruction projects, including:

- Kings County Hospital Phase I, a 338-bed acute-care facility being completed this year, and Phase II, a diagnostic and treatment center, emergency department, and ambulatory care facility
- a 200-bed acute-care facility being completed in 2002 at Queens County Hospital
- construction of an ambulatory care center, renovations to current inpatient areas, and upgrading of mechanical systems at Bellevue Hospital Center
- a new acute-care facility and renovated emergency and diagnostic floors for Jacobi Medical Center
- a new seven-story acute-care facility and renovation of ambulatory care facilities at Coney Island Hospital
- and a number of smaller renovation projects throughout the city.

Negotiations for the proposed debt service-medical malpractice exchange are on track for the city to take over HHC's current debt service. Whether the City will also take responsibility for debt service arising from the issuance of bonds for future projects at HHC remains to be decided. The final decision will affect HHC's ability to continue to upgrade its facilities as a major component of its bid for market share, revenues, and fiscal health.

Human Resources Administration (HRA) Public Assistance / Medicaid

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2003 proposes total Human Resources Administration spending of $5.8 billion, an increase of $158 million from the Adopted Budget. The increase results from $204 million in proposed new needs and reestimates, of which $157 million are city funds. The budget also includes gap-closing (PEG) proposals that would reduce city funds by $69 million. These would be offset by $56 million in new federal and state funds, resulting in net PEG reductions of $13 million.

IBO estimates that spending for 2003 will be $6.0 billion, $249 million more than the Preliminary Budget. We project an additional $39 million in Medicaid spending, $147 million in public assistance spending (including $60 million in city funds), and an additional $63 million in federal categorical grants. Key budget actions include:

- A replacement of $20.6 million in city funds with federal funds from a settlement of prior year Emergency Assistance to Families claims.
- A replacement of $10.5 million in city funds with federal Housing Opportunities for People With AIDS (HOPWA) funds for case management for AIDS clients.
- A replacement of $14.3 million in city funds with state funds from a settlement of claims against the state's social services administrative cap.
- A $5.3 million savings in city funds as a result of a reestimate of need for the Immigrant Food Assistance Program.
- An increase of $60 million in city funds due to projected growth in Medicaid expenses resulting in part from recent increases in Medicaid enrollment in the city.
- An increase of $52.4 million in city funds to cover expected increases in Medicaid costs resulting from the recent state health care budget agreement.
- An increase of $28 million in city funds to cover expected increases in Medicaid costs resulting from a court decision and state legislation to cover recent legal immigrants.

2003 Budget Summary
Dollars in millions

Expense	
Adopted	$5,602
PEGS	(13)
Reestimates	85
Other New Needs	119
All Other Changes, Net	(32)
February Plan	$5,760
IBO Repricing (see text)	249
IBO Reestimate	$6,009
Headcount	
Adopted	12,976
February	12,826
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$131
February 2002 Plan	$105

EFFECTS OF BUDGET PROPOSALS

Increased Funding for Public Assistance and Medicaid. The Preliminary Budget includes $5.2 billion in funds for public assistance and Medicaid, or 90 percent of the total agency budget of $5.8 billion. These two entitlement programs also account for 94 percent of all city funds in the agency's budget. The budget acknowledges expected increases in city costs for both programs. For a detailed discussion of these changes, see the public assistance and Medicaid sections that follow.

CAPITAL PLAN

HRA's four-year capital commitment plan has been reduced to $105 million from $131 million in the 2002 Adopted Budget, a 20 percent reduction. Planned commitments for 2002 have been reduced from $74 million to $60 million. The February Plan preserves projects intended to upgrade agency computer and telecommunications systems while some agency construction and renovation projects have been delayed. Highlights of the plan include:

- Continued upgrading of computer and telecommunications systems, including imaging projects to eliminate paper records and streamline agency operations, and the continued development of Local Wide Area Network systems to provide greater connectivity among personnel, contractors and clients.

Overall four-year commitments for computer and telecommunication systems have been increased slightly from $56 million to $58 million.

- Delays in a wide variety of construction and renovation projects intended to improve agency, facilities including the Co-op City Youth Center and the Agudath Israel Service Center. Overall four-year commitments for design, construction, renovation and furniture for agency facilities have been decreased from $72 million to $46 million.

PUBLIC ASSISTANCE

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget projects that the overall number of people receiving public assistance will change little over the years of the Financial Plan. The projections do, however, acknowledge a large shift of families from Temporary Assistance for Needy Families (TANF)-supported Family Assistance (FA) to a new type of Safety Net Assistance (SNA) as they reach their federal five-year limit. The budget includes separate caseload projections for three separate categories of recipients: FA, basic SNA, and the new SNA-5-Year.

Mayor's Projections. In December 2001, 82,000 recipients (including adults and children) reached their five-year federal limit and were shifted from FA to SNA-5-Year. The budget projects that the number served by the SNA-5-Year program will grow to 130,000 by June 2002 and then level off. The combined number of recipients on either FA or SNA-5-Year is projected to decrease slightly to 369,000 by June 2002 and remain flat after that point. Similarly, the number of people on basic SNA is projected by the Administration to hold at 83,000 throughout the plan years.

Based on these caseload projections, the Administration expects federal, state, and city expenditures for public assistance grants to reach $1.1 billion in 2002 and remain largely unchanged in 2003 and beyond. The city's share of welfare spending is forecast to rise from $379 million in 2002 to $385 million in 2003 and $406 million in later years. This increase largely reflects the greater city costs that result from moving families from FA to SNA-5-Year as they reach their time limit.

IBO Projections. IBO projects higher public assistance caseloads in the short run as a result of the current economic downturn and resulting job losses. Because of these caseload increases we expect total expenditures for public assistance to rise from $1.1 billion in 2002 to $1.2 billion in 2003, and then drop back to $1.1 billion in the remaining years. The combination of caseload increases and the shift to SNA-5-Year will cause city spending to increase from $386 million in 2002 to $444 million in 2003 before falling to $417 million in 2004 and $398 million in 2005 and 2006. Our city expenditure projections exceed the Administration's forecast by $7 million in 2002, $60 million in 2003 and $11 million in 2004, and are slightly lower than the Administration's for the final two years.

IBO's Public Assistance Caseload Projections

Caseloads as of 6/30/02	
Total	480,000
Family Assistance	255,000
Safety Net Assistance	98,000
Safety Net Assistance (5-Year)	127,000
Caseloads as of 6/30/03	
Total	512,000
Family Assistance	273,000
Safety Net Assistance	91,000
Safety Net Assistance (5-Year)	148,000

CASELOAD PROJECTIONS

The number of people receiving public assistance in the city has been declining steadily since March 1995. The start of the downward trend coincided with the implementation of new local welfare policies and has continued during a period of strong economic growth in the city—particularly in local employment. From March 1995 through September 2001, the number of public assistance recipients decreased from 1,161,000 to 464,000, a reduction of 60 percent. Initiatives such as intensive screening of new applicants, work requirements, and the use of job placement firms to aggressively push recipients into the paid workforce were critical pieces of the city's welfare reforms. Combined with changes in state and federal welfare policies, they played a major role in the caseload reduction over the last several years.

The strong local economy also contributed to the decline in the caseload. From the early part of calendar year 1995 through early 2001, there was a net increase of more than

400,000 jobs in New York City. With firms competing to fill job vacancies, the pool of individuals unable to find work and in need of government assistance declined, reducing the number of new cases. In addition, it became easier for public assistance recipients to find jobs and leave the rolls, either through their own efforts or through the city's job placement programs.

Impact of the Local Economic Downturn. The recent economic downturn, however, could provide a more difficult challenge for the city's welfare reform policies. Since early last year the city has been experiencing a significant economic contraction, and September 11 delivered an additional shock. The latest data indicate that the city lost 132,000 jobs between December 2000 and December 2001. IBO's economic forecast calls for slow job growth for most of calendar year 2002.

To estimate how the current downturn will affect the welfare rolls, IBO looked back at what happened to the city during the recession in the early 1990s. Between 1989 and 1993, the city suffered a net loss of about 350,000 jobs, nearly 10 percent of total employment at the beginning of the period. Over this same time frame the number of individuals receiving public assistance increased by 274,000. Overall, for every 10 jobs lost in the city, about eight individuals were added to the welfare rolls. It is likely that the relationship between lost jobs and caseload growth during the current recession will differ from the last recession, which occurred during a period of easier access to public assistance. Welfare reform policies implemented in the intervening years make it more difficult to move onto and remain on the welfare rolls. Because of this IBO assumes that in the current period, for every 10 jobs lost in the city, five individuals will be added to the welfare rolls.

The historical evidence also suggests that job losses will more rapidly lead to public assistance caseload increases among single adults than among families. This may indicate that the former have fewer resources to draw on after a job loss and must more quickly turn to government assistance. In contrast, during the last recession caseload increases among families with minor children started later but then continued longer than the increases in the single adult program

The available evidence suggests that the economic downturn is already leading to increases in the basic SNA caseload, which reached 83,000 people in January compared with 81,000 in December and 76,000 at its low point in September. IBO projects that the basic SNA caseload will peak at 106,000 people in September 2002—an increase of 30,000 recipients. After this point we expect job growth to lead caseloads to resume their long-term decline, with the number of basic SNA recipients bottoming out at 76,000 in December 2003. We project that the family caseload will begin to increase in the spring of 2002, with the combined number of people on FA and SNA-5-Year rising from 376,000 in March 2002 to a peak of 421,000 by March 2003—a rise of 45,000 recipients. As with basic SNA we expect that job growth will then enable the family caseload to once again decline, reaching 376,000 recipients by June 2004.

The Effect of Federal Time Limits. Under the 1996 federal welfare act, there is a five-year limit on recipients' eligibility for federally supported public assistance. In December 2001 the first cohort of FA recipients reached their five-year limit, shifting 82,000 persons from FA into New York's SNA-5-Year program. It appears that several thousand others reached the time limit but did not immediately transfer to the new program. (Families reaching the limit are not automatically transferred; instead they must complete an application process to have their eligibility for the SNA-5-Year program approved.) IBO expects that some portion of those who dropped off of the FA rolls without immediately switching to SNA-5-Year will eventually be able to transfer to the SNA-5-Year rolls.

In January 2002, a net of 21,000 additional recipients reached their time limit and transferred, meaning that a cumulative total of 103,000 persons had made the switch from FA to SNA-5-Year in the first two months of the conversion period. Based on information provided by the city, IBO expects that this conversion rate will quickly decline, with far fewer families reaching their five-year limit each month. We project that the cumulative number of persons on SNA-5-Year will peak at 148,000 in the fall of 2002 and then remain steady.

Taken by itself, the shift from FA to SNA-5-Year has significant budget implications for New York City, due to the difference in the way that the two programs are funded. For SNA-5-Year the state and city are responsible for the entire cost of the program, with a city share of 50 percent. For FA the federal government covers half of the costs, with a city share of 25 percent. For this reason any shift of recipients from FA to SNA-5-Year will require additional city expenditures. IBO estimates that the net incremental cost to the city of shifting up to 148,000 persons from FA to SNA-5-Year will amount to $31 million in 2002, and rise to $68 million in 2003.

Federal Spending Requirements. Putting an actual price tag on this shift between public assistance programs, however, is complicated by the federal maintenance of effort (MOE) requirement. Under the 1996 federal welfare law, New York's state and local governments together must spend at least 75 percent of what they spent on needy families in federal fiscal year 1995, an annual MOE of about $1.7 billion. As the FA caseload and grant expenditures have steadily decreased, the state and the city have chosen not to spend all of the resulting savings on other programs for low-income individuals and families.

In the last few years New York State officials have projected MOE spending shortfalls and have attempted to reach the MOE level by forcing increased welfare spending by the state and local governments. For state fiscal year 2000-2001, state officials projected a statewide MOE spending shortfall of $225 million. In order to bring spending up to the MOE level, they increased the state's share of spending on Family Assistance, and assessed a "surcharge" on local governments. The local government surcharges were withheld from their federal reimbursement for grant expenditures, forcing the localities to bear more than their usual 25 percent of the FA cost using locally generated funds. The city's surcharge for that year was about $78 million.

The shift of families from FA to SNA-5-Year, however, significantly increases state and local spending, thereby making it easier for the state and city to meet the MOE target because under federal rules each additional dollar spent in shifting families to SNA-5-Year counts towards the MOE. The city will still be responsible for satisfying its share of the MOE, whether it accomplishes this by paying a surcharge or through higher grant costs from shifting recipients from one program to another.

As a result, at least under the current circumstances, the additional costs of shifting recipients to the SNA-5-Year program are not expected to change the city's overall liability. In fact, the increased city spending due to increasing caseloads and the shift of families from FA to SNA-5-Year should eliminate the need for any MOE surcharge against the city over the next few years.

The Impact on Recipients. While shifting recipients from FA to SNA-5-Year may have little impact on the city budget in the near term because of the offsetting credit towards the MOE, it does have an impact on recipients. Once they are shifted to SNA-5-Year, most of their benefits will be distributed in the form of vouchers, and eventually through debit cards, rather than as cash. (Although SNA recipients generally receive cash benefits during their first two years on the program before being shifted to a voucher arrangement, the state plans to treat those recipients shifting from FA to SNA-5-Year as having exhausted their cash benefit period.) Vouchers and debit cards cannot be as widely used as cash, which may help reduce problems with benefits being used inappropriately. On the other hand, they may limit the possibilities for recipients to stretch benefits by shopping at tag sales and other informal markets.

THE "TANF SURPLUS"

An issue of extreme importance to both the state and city is reauthorization of the federal welfare system, which must be completed by this coming September. Under the 1996 law, Temporary Assistance for Needy Families funds are distributed to each state as a block grant based on the state's welfare spending in federal fiscal years 1992 through 1995. Because caseload levels in New York State have declined significantly relative to those base years, New York—and many other states—have been receiving more TANF dollars than are required to maintain the programs that were incorporated into the block grant. The excess amount is often referred to as the "TANF surplus."

Over the last few years the city has made increasing use of these surplus funds allocated by the state to support ongoing child welfare programs such as foster care and preventive services, as well as expansions of its welfare-to-work initiatives including employment programs, child care, and transitional services. IBO estimates that in the last state fiscal year, the city was allocated about $470 million in TANF surplus funds for these purposes.

When TANF was originally authorized, few people anticipated the magnitude of the caseload reductions that have since occurred. There was no intent to create large TANF surpluses in the states. Since TANF funds compete with other federal spending needs, some in Congress are pushing for significant reductions in the block grants to states. Depending on the size of any reduction, a decrease in New York State's grant could result in the reduction or elimination of the flow of TANF surplus funds to the city. Given the city's growing dependence on these funds, a significant reduction could have a major fiscal impact, and force city officials to make difficult choices between increased city funding for social programs and program cuts.

Even if the TANF block grant is reauthorized at its current level, it may prove difficult to maintain the present flow of TANF surplus funds to the city. Faced with a growing state budget gap, the Governor's Executive Budget for the state fiscal year beginning April 1, 2002 proposes spending nearly $1 billion of TANF surplus funds on fiscal relief. Of this amount, only $85 million would go to help local governments by replacing local funds. The balance would be used to replace state funds. In order to achieve this, the Governor's plan would exhaust a $662 million contingency fund accumulated prior-year surpluses. This creates future risks. Unless Congress increases the size of the TANF block grant or Family Assistance caseloads drop significantly, the available surplus will be much smaller the following year and there would be no contingency fund to soften the blow. Maintaining programs that were created or expanded with TANF surplus funds would therefore require other state and local funds.

MEDICAID

PRELIMINARY BUDGET OVERVIEW

Medicaid is a joint federal-state program providing medical assistance to the poor. The program allows states considerable leeway within federal guidelines to design Medicaid to fit the particular needs of their state. In New York State, the federal government pays 50 percent of Medicaid costs (the lowest percentage in the nation), leaving the state responsible for the remainder. In turn, New York State requires localities to contribute a portion of Medicaid costs. New York City's contribution is about 20 percent of the overall cost of care provided to the city's Medicaid beneficiaries.

The Preliminary Budget forecast of city-funded Medicaid expenditures has grown significantly since last June. These changes have added $205 million to the forecast for 2003, $284 million for 2004, $328 million for 2005, and $448 million for 2006.

With these large reestimates, the Preliminary Budget forecast for city-funded Medicaid expenditures within the Human Resources Administration is $3.05 billion in 2003, 6.1 percent above the Administration's projection for 2002. The Administration expects city-funded expenditures to continue increasing after 2003, although at a somewhat slower rate. Expenditure growth from 2003 to 2006 is expected to average 5 percent annually.

IBO's forecast for city-funded Medicaid spending in 2003 is slightly higher than the Administration's at $3.1 billion. We also expect costs to grow at a somewhat faster pace, averaging 5.7 percent annually from 2003 through 2006.

2003 Medicaid Budget Summary
Dollars in millions

Expense (City funded)	
Adopted	$2,781
Reestimates	$164
All Other Changes, Net	$102
February Plan	$3,047
IBO Repricing (see text)	39
IBO Reestimate	$3,086

INCREASES IN MEDICAID ENROLLMENT

After many years of declining enrollment, the number of individuals participating in the Medicaid program has increased over the past year, due in part to increased efforts by the city to enroll families and children who are not receiving public assistance in public health insurance. Temporary changes to the application process for Medicaid following the September 11 attacks and a new policy regarding eligibility of recently arrived legal immigrants have also added to the number of enrollees. Finally, Family Health Plus, the program for adults with incomes too high to qualify for regular Medicaid, began taking applications in New York City in early 2002 and is projected to add to total Medicaid enrollment.

Disaster Relief Medicaid. In September 2001, Disaster Relief Medicaid was created in response to the interruption of the city's Medicaid computer system by the World Trade Center disaster. The Medicaid application was reduced to one page and the documentation requirements were minimized. Between September and December 2001, Medicaid enrollment rose by 13 percent (244,000), and preliminary evidence is that the increase continued in January. A plan to transition Disaster Relief Medicaid recipients into regular Medicaid and Family Health Plus is now underway. The city expects that by the end of October 2002, many Disaster Relief Medicaid recipients will have successfully enrolled in these programs.

Expansion of Coverage to Legal Immigrants. The 1996 federal welfare reform legislation (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996) withdrew the federal government's contribution to Medicaid coverage, except in emergencies, for most legal immigrants entering the country after August 1996. New York State did not elect to provide Medicaid for these immigrants, but the New York State Court of Appeals ruled in June 2001 in the case of *Aliessa v. Novello* that New York State's policy denying state-funded Medicaid to certain legal immigrants violated both the U.S. and New York State constitutions. The State subsequently passed legislation providing state-funded public health coverage for these immigrants. The Preliminary Budget estimates the cost to the city for coverage of immigrants newly eligible for Medicaid and Family Health Plus at $12 million in 2002, rising to $28 million in 2003, and $52 million in 2004 and later years. Medicaid enrollment of post-1996 legal immigrants in New York City is projected to reach 37,000 in 2004.

HEALTH CARE WORKFORCE LEGISLATION

In January 2002, the state legislature passed and the Governor signed legislation providing significant new funding for hospitals, nursing homes, and other providers to help recruit and retain health care workers. Some of the new funding will come from increased Medicaid payment rates, which translates into higher costs to the city-funded portion of Medicaid. The Preliminary Budget estimates that the health care workforce legislation will increase city Medicaid costs by $22 million in 2002, $52 million in 2003, and rising to $91 million in 2006.

There is a risk that New York State will be forced to raise Medicaid rates further because two important revenue sources earmarked to fund the legislation's initiatives are problematic. The legislation relies on a one-time payment of $1 billion from the conversion of Empire Blue Cross and Blue Shield to a private, for-profit company that will be depleted within three years. The legislation also assumes an increase in the federal government's share of New York's Medicaid payments from 50 to 53 percent. The Bush Administration has said that it will not endorse this increase and support in Congress appears to be weak.

Department of Buildings (DOB)

PRELIMINARY BUDGET OVERVIEW

The preliminary DOB budget for fiscal year 2003 is $44.8 million, more than double the $22.3 million projected for 2003 in the 2002 adopted Financial Plan. This is because functions and personnel temporarily transferred to the New York Fire Department by the Giuliani Administration are returned to the buildings department.

- Virtually the entire increase in the DOB budget—$20.9 million—is due to the transfer of building inspectors from the fire department.
- No program cuts are proposed for DOB.
- The agency is planning to spend an additional $250,000 on several initiatives designed to improve permit and inspection fee collection. These initiatives are expected to result in net revenue gains of $4.3 million.
- DOB will receive an additional $4.3 million in 2002 to convert records at the Queens office to microfilm.

2003 Budget Summary
Dollars in millions

Expense	
Adopted	$22.3
New Needs	0.4
Transfer from FDNY	20.9
Other Changes, Net	1.1
February Plan	$44.8
Headcount	
Adopted	377
February	770
Revenue PEGs	**$6.5**
Capital Commitments	
Total, 2002-2005	
Adopted Plan	1.3
February 2002 Plan	1.3

EFFECTS OF BUDGET PROPOSALS

Inspectors. The Department of Buildings has been plagued with management problems, charges of gross inefficiency, and corruption scandals. In an attempt to address these issues, Mayor Giuliani shifted all buildings inspectors to the fire department in the 2002 Adopted Budget. The December 2001 modifications to the fiscal year 2002 budget moved the majority of the inspectors back to DOB. This shift is completed in the preliminary 2003 budget. As a result, the 2003 headcount and total budget are now at roughly fiscal year 2001 levels. The inspectors were never physically relocated during this process, so neither funding shift should have any programmatic effect. The Bloomberg Administration has not yet proposed any initiatives to address the long-standing complaints about the department's operations.

Programs to Raise Revenue. DOB has several initiatives that are designed to raise revenue, including:

- *Elimination of Bureau of Electrical Control (BEC) accounts*. In the past, building owners maintained running accounts with the BEC, and were billed periodically. DOB will now bill owners at the time a building is inspected, thus raising their collection rate. In 2003, the city expects to spend an additional $100,000 on billing, but will raise $880,000 in revenue.
- *BEC pre-filing*. Current practice allows applicants for BEC permits to estimate their fees in advance. Inspectors then review the estimates, and try to collect any difference in fees after issuing the permit. The agency is not always successful in collecting this additional fee revenue. This initiative would allow the agency to levy fees before the permits are issued, thus increasing revenue. The agency expects to spend $50,000 in 2003, and to collect $679,000.
- *Pre-filing and plan examination training and audits*. DOB plans to redeploy staff to minimize the underestimation of fees on alteration applications. This initiative is expected to cost $100,000 in 2003, but would generate $3 million in revenue.
- *Standardization of collection procedures*. The agency also plans to raise an additional $1 million annually by standardizing collection procedures across all borough offices. Currently, borough offices act independently to collect fees. In some cases, offices apply collection rules incorrectly, and therefore fail to collect some funds. By educating borough offices on the correct procedures, the city will be able to collect more revenue. This initiative will not require additional spending by DOB.

Microfilm. DOB is spending $4.3 million this year to put records at the Queens borough office on microfilm, part of the agency's effort to improve record-keeping and accessibility to the public. The agency has already completed the conversion of Manhattan records; the schedule and cost for the other boroughs are still to be determined.

CAPITAL PLAN

The Department of Buildings plans to spend $1.3 million in capital funds in 2002 to improve the agency's technological capabilities, including developing an interactive voice response system; developing a computer-aided design and drafting filing system; adding kiosk Web terminals to DOB offices; and Web-enabling the DOB building information system. There were no changes to the DOB capital plan between adoption and the February update, and DOB has no planned spending for 2003 or beyond.

Department of Environmental Protection (DEP)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2003 Department of Environmental Protection budget is $683.1 million, an increase of 0.1 percent over the 2003 budget as projected in the Adopted Budget.

- The Environmental Control Board will generate an additional $2 million in revenue by increasing the number of violations issued. The revenue will be partially offset by $900,000 in annual administrative costs, for a net increase of $1.1 million.
- DEP proposes to raise fines for certain asbestos and lead violations by 10 percent, producing an additional $200,000 in revenue in 2003. These fines have not been increased in over 10 years.
- DEP proposes increasing funding for filtration avoidance projects in the upstate watershed by $92 million for 2003 through 2005.

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted Budget	$681.9
Technical Adjustments	0.9
February Plan	$682.8
IBO Repricing*	0.4
IBO Reestimate	$683.1
Headcount	
Adopted Financial Plan	6,064
February Plan	6,064
Revenue PEGs	$1.3
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$7,840
February 2002 Plan	$7,329

NOTE: *IBO repricing recognizes anticipated state aid.

EFFECTS OF BUDGET PROPOSALS

Unlike many agencies across the city, DEP's expense budget was not cut for 2003. Most of DEP's work is mandated by federal laws regarding discharges, wastewater control and overall water quality—there are not many discretionary programs within DEP. In addition, DEP's capital budget is funded through water and sewer charges for system users, and thus is not dependent on city tax dollars. Water and sewer charges are projected to produce revenue of $1.69 billion in 2003. From this revenue, $782.6 million will pay for water board and water authority expenses and debt service in 2003. In addition, the water board will pay the city $841 million—$727 million for system operations, and $114 million for the lease payment. The remaining revenue funds reserve accounts. Other revenue comes from environmental quality permits (industrial air emissions permits, for example), the sale of hydro-energy to upstate power utilities, property rentals, and the collection of fines by the Environmental Control Board.

CAPITAL PLAN

For 2002 through 2005, DEP's capital plan totals $7.3 billion, a slight decrease (6.5 percent) from the adopted plan. Nearly 50 percent of the capital plan is devoted to water pollution control projects ($3.5 billion). Water supply and distribution projects (including trunk and main replacements and water quality preservation) make up the next largest category of spending ($2.5 billion, or roughly 34 percent). The remainder of the capital budget is allocated to citywide sewer replacements and upgrades and general equipment needs.

Ninety-nine percent of DEP's capital budget is funded through the proceeds of bond sales (and other forms of indebtedness) by the Municipal Water Finance Authority (MWFA). Currently, the MWFA has $11.1 billion in outstanding debt and is projecting an annual issuance of $1.42 billion in new debt for 2002-2005. All the debt issued by the MWFA is in the form of bonds backed by user payments collected from in-city and upstate system customers. The New York City Water Board sets water and sewer rates each year at the level necessary to cover debt service and operating costs. DEP is responsible for the operation of the system. The infrastructure itself is owned by the city and leased to the board. Since DEP's capital budget is funded through bonds not issued by the city, changes in DEP's capital budget do not affect the city's capital budget funding requirements or expense budget debt service.

Due to the events of September 11th, the capital plan increases funding for security systems at upstate reservoirs—from $6.0 million at adoption to $39.6 million, for 2002 through 2005.

Funding for Stage 2 of City Tunnel #3—serving the lower west side of Manhattan and sections of Brooklyn, Queens and Staten Island—was increased from $527 million to $566 million for 2002-2005. This is due to the decision to expedite the project's construction schedule, specifically for sections in Manhattan.

Several other components of the capital program were delayed:

- Construction of a cover for the Hillview Reservoir has been delayed until 2007.
- Construction of the Croton Filtration Plant has also been delayed until 2006-2007, due to site acquisition problems.
- Repair of the Delaware Aqueduct has been delayed from 2003 to 2004, pending an evaluation of the extent of necessary work.
- Citywide, combined sewer overflow (CSO) projects have been delayed. Funding was decreased for CSO projects in Paerdegat Basin (Brooklyn) and Alley Creek (Queens).

Filtration avoidance. The capital plan increases funding for filtration avoidance projects in the upstate watershed by $92 million, to $799.6 million. These projects are undertaken as part of an agreement in order to avoid a mandate by the federal Environmental Protection Agency (EPA) that the city construct a costly filtration plan for Catskill/Delaware system water.

One of the other requirements that the city must meet to avoid filtration is the completion of a final design for a filtration system. EPA has agreed to waive this requirement if the city completes the preliminary design for the facility (completed late last year), sticks to a strict schedule for upgrading sewage treatment plants in the upstate watershed areas, takes additional watershed protection measures, and designs and builds a facility that would disinfect Catskill/ Delaware water using ultraviolet light. The capital plan increases funding for design and construction of the ultraviolet light disinfection facility, from $150 million to $188.4 million.

Department of Housing Preservation and Development (HPD)

PRELIMINARY BUDGET OVERVIEW

The preliminary HPD budget for 2003 is $314 million, down 6.8 percent from the level projected in the adopted Financial Plan. IBO estimates that the 2003 HPD budget will be $404 million, $90 million more than the Mayor's preliminary plan, because the city has not yet recognized significant amounts of Section 8 and other federal revenue. IBO's estimate makes federal assistance to the agency consistent with past years.

- As in previous years, the budget would reduce funding for a variety of City Council initiatives, including anti-eviction legal services and the Neighborhood Preservation Consultants Program, for savings of $4.7 million in 2003.
- New York City's Community Development Block Grant (CDBG) formula grant fell 5 percent, or $10.4 million, in federal fiscal year 2002. HPD will see a $5.2 million reduction in its share of the federal grant in 2002, and a $10.9 million cut in 2003. The reduction in the CDBG grant is not expected to have any impact on services because the city can reallocate funds currently used to maintain and operate the declining stock of city-owned housing.
- HPD will substitute CDBG funds for tax-levy money for demolition, and for printing emergency violation notices. This will save $3.7 million in city funds in 2002, without affecting the services provided, by reallocating CDBG funds already included in the HPD budget.
- HPD's capital program would be cut 18 percent, falling most heavily on homeownership and neighborhood development initiatives.

2003 Budget Summary
Dollars in millions

Expense	
Adopted	$336.6
Program Cuts	(4.7)
Funding Swaps	(3.7)
New Needs	1.1
Other Changes, Net	(15.4)
February Plan	$313.9
IBO Repricing (see text)	90.4
IBO Reestimate	$404.3
Headcount	
Adopted Financial Plan	2,711
February Plan	2,706
Revenue PEGs	$1.0
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$2,106.8
February 2002 Plan	$1,727.1

EFFECTS OF BUDGET PROPOSAL

City Council Initiatives. The only proposed program cuts to the HPD budget are the six City Council initiatives that were reduced or eliminated. In two cases—the Neighborhood Preservation Consultants Program, and the Emergency Repair Bureau—the City Council funds represent relatively small additions to the total program budget. The other four City Council initiatives—the Community Consultant Program, Housing Court Information Services, Anti-Eviction Legal Services, and the Landlord Training Program-are entirely funded by the City Council. The cuts to these programs will effectively eliminate all funding for them. The previous Administration repeatedly proposed reducing or eliminating all of these initiatives, but the Council restored funding each time.

Community Development Block Grant. New York City's CDBG allocation—and HPD's share of the grant—were reduced by $10.4 million in federal fiscal year 2002 as a result of nationwide demographic trends that affected the CDBG formula. It is unlikely that this reduction will have a significant effect on existing programs funded with CDBG, however. HPD typically estimates its future CDBG grants conservatively. Furthermore, HPD uses the majority—almost 75 percent—of its CDBG funds for the maintenance and disposition of *in rem* (tax-foreclosed, city-owned) housing. HPD is rapidly privatizing its in rem housing stock, thus freeing up these funds for other uses.

Revenue. HPD's 2002 budget includes several revenue initiatives. The largest of these is a $10 million settlement with the Dayton Seaside Development in Far Rockaway, Queens. The city had initiated foreclosure proceedings in 1999 against the development, which owed millions of dollars in property taxes. The $10 million in revenue in 2000 represents a restructuring proposal agreed upon by both the city and the building owner.

The city also expects to raise revenue by selling properties and taking in more fees from applications for 421-A property tax exemptions. The city will take in an estimated $7.8 million in 2002 and $1 million in 2003 as a result. To date, these assorted sales and fees are the only new revenue initiatives for 2003.

CAPITAL PLAN

HPD's capital plan faces much more significant reductions than its expense budget. The agency's Capital Commitment Plan was cut by $380 million over four years, a reduction of 18 percent.

In Rem Disposition. Total funds for privatization of occupied *in rem* buildings were not cut, but HPD shifted $15 million out of both the Neighborhood Entrepreneurs Program and the Neighborhood Redevelopment Program and increased the planned funding for the Tenant Interim Lease Program by a corresponding $30 million over four years.

Planned commitments for privatization of vacant *in rem* buildings were cut by $36.4 million, or about 69 percent. The bulk of this cut—$25 million—is to the Vacant Buildings Program, which sells vacant, city-owned buildings to private developers for renovation. This program, part of Mayor Giuliani's January 2001 housing initiative, is now funded at just $5.5 million in 2005.

HPD Four-Year Capital Program Changes
Dollars in Millions

Program Category	Adopted Plan	February Plan	Change	Percent Change
In Rem Maintenance	29.6	27.6	(2.0)	-6.8%
In Rem Privatization (Occupied)	830.6	830.6	-	0.0%
In Rem Privatization (Vacant)	52.7	16.3	(36.4)	-69.1%
Homeownership Programs	159.5	87.1	(72.4)	-45.4%
Neighborhood Development	281.7	108.5	(173.1)	-61.5%
Housing Preservation Programs	574.0	492.7	(81.3)	-14.2%
Supportive Housing	138.4	137.9	(0.5)	-0.3%
All Other HPD	40.4	26.4	(14.0)	-34.7%
Total	**2,106.8**	**1,727.1**	**(379.7)**	**-18.0%**

SOURCES: IBO; Capital Commitment Plans

Funds for *in rem* maintenance were cut by $2 million, to $27.6 million.

Housing Preservation. Overall, housing preservation programs were cut by $81.3 million—14 percent—affecting a number of individual programs both small and large, including the Third Party Transfer program, the Article 8A loan program, the Participation Loan Program, Small Homes Reconstruction Loans, and lead paint hazard reduction.

Changes in Funding for Housing Preservation Programs, Total 2002-2005
Dollars in millions

	Adoption	February	Difference	Percent Change
Third Party Transfer	278.3	265.9	(12.5)	-4.5%
Participation Loan Program	106.3	70.2	(36.1)	-33.9
Article 8A Loan Program	88.3	84.6	(3.7)	-4.2
Small Homes Reconstruction Loans	37.7	23.3	(14.4)	-38.2
Lead Paint Abatement Program	27.3	24.8	(2.5)	-9.2
7A Loan Program	24.9	19.9	(5.0)	-20.1
Demolition of Unsafe Buildings	10.2	3.5	(6.7)	-65.9
Senior Citizen Home Improvement Loan	1.1	0.6	(0.5)	-44.1
Total	**$574.1**	**$492.8**	**$(81.3)**	**-14.2%**

SOURCES: IBO; Capital Commitment Plans

Homeownership and Neighborhood Development. Homeownership programs were cut by $72.4 million, or 45 percent, over the four-year period. Included in this total is a cut of $25.3 million to the Partnership New Homes program. HPD uses city capital funds to provide both a per unit subsidy for partnership homes (about $10,000 for each two-family home) and assistance with site preparation. The funds for unit subsidies have been cut by $10.9 million over four years, the equivalent of about 1,100 homes. It is not clear how many units will be affected by the reduction in site preparation funds, since costs can vary significantly.

Funds for Homeownership Neighborhood Initiatives, which are community-specific development projects such as the Arverne-by-the-Sea and Edgemere sites in Queens, were cut by $48 million, to $14.9 million.

The ANCHOR program was cut by $128.3 million in planned commitments over four years, including $68.8 million in non-city funds. Funding of $166 million for the mixed-use development program that was part of Mayor Giuliani's January 2001 housing plan was eliminated. Funding for existing ANCHOR projects increased by $37.5 million.

Department of Transportation (DOT)

PRELIMINARY BUDGET OVERVIEW

The proposed 2003 expense budget for the Department of Transportation is $423.3 million (net of intracity funds). This is an increase of 1 percent from the projected $418.6 million for 2003 in the 2002 adopted Financial Plan. City funding is virtually unchanged, while projected state funding is down 14.8 percent, and federal funding is up 12.2 percent. Based on past trends, however, actual federal and state funding in 2003 will most likely be greater than currently projected by $46 million, bringing IBO's projected DOT spending to $469.2 million.

- The department will expand its pilot Manhattan commercial vehicle parking program, raising a projected $2.5 million in additional revenues for the city.
- Total capital funding for transportation projects is cut by 16 percent over the four-year capital plan period (2002-2005). Two major capital projects—reconstruction of the Willis Avenue Bridge, and the next round of major scheduled maintenance on the Brooklyn Bridge—will be delayed.
- Among the options the city is considering for closing the out-year gaps are various congestion pricing and EZ-Pass initiatives, most likely including tolling of the East River bridges. These would generate considerable revenues for the city, but have yet to be defined and were not incorporated into the Financial Plan.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Plan	$418.6
Net Program Reductions	(2.9)
New Needs	17.9
Agency Transfers	(7.6)
Other Adjustments	(2.7)
February Plan	$423.3
IBO Repricing	45.9
IBO Reestimate	$469.2
Headcount	
Adopted Financial Plan	3,970
February Plan	3,994
Revenue PEGs	$8.8
Capital Commitments	
Adopted Plan	$5,546
February 2002 Plan	$4,638

EFFECTS OF BUDGET PROPOSALS

Revenue Initiatives. DOT has proposed several initiatives that would raise additional revenue, including: higher rates for advertising on bus stop shelters ($1.5 million); increasing parking rates at high-occupancy city-owned lots ($1.4 million); and conversion to seven-day-a-week operation of parking meters on Manhattan's East Side ($700,000).

DOT also expects to generate $900,000 in additional revenue from doubling fines for Highway Inspection and Quality Assurance violations. These violations occur when utility companies, contractors, other government agencies, or private property owners perform work on or under sidewalks, roadways, or highways in a way that does not comply with DOT rules.

DOT also plans to expand the scope of the red light camera program by attempting to recover revenue from out-of-state violators. Expected revenues of $725,000 would be partially offset by costs of $152,000, for a net gain of $573,000.

Finally, the commercial parking pilot program in Manhattan is continued and expanded, raising $2.5 million. DOT established this pilot program to alleviate the problems caused by commercial vehicles that double park and stand for prolonged periods of time in mid-Manhattan. Under the new commercial vehicle/congestion pricing program, selected areas of on-street parking in midtown are reserved for commercial vehicles only, weekdays between the hours of 7 a.m. and 6 p.m. Parking in these areas is controlled by "muni-meters" similar to those used in municipal parking lots, rather than by individual meters. Vehicles may stand for up to three hours on a given block. As in incentive for vehicles to load and unload quickly, parking rates are structured so that each additional hour is progressively more expensive: $1 for the first hour, $2 for the second hour, and $3 for the third hour. Total revenues from the program are projected to be $4.9 million, less costs of $2.4 million.

Franchise Bus Program. The city faces increased annual insurance costs of $6.95 million for the private bus program (paid through the city's miscellaneous budget). Due to higher than expected tax revenues earmarked for the state Mass

Transit Operating Assistance fund, however, the state expects to give an additional $2.6 million to the subsidized private buses that provide local and express service in New York City, partially offsetting the higher costs.

Savings. The department will achieve savings through various initiatives. DOT is no longer operating two parking garages, one in Jamaica, Queens, and the other in lower Manhattan, resulting in recurring annual savings of $447,000. Light-emitting diode, or LED, traffic signals installed in Queens and Staten Island use less electricity than the signals they replaced, resulting in estimated annual energy savings of $997,000. (These savings can only be realized if the city can reduce its contractual payment to Con Edison accordingly.) Reconstruction of the Whitehall Ferry Terminal is underway, and thus far no emergency repairs have been necessary, saving $500,000 previously budgeted for this purpose.

Due to delays in finding suitable space for a Bridge Preventive Maintenance Facility, $688,000 that was budgeted in 2003 will not be needed.

Finally, additional state Consolidated Highway Improvement Program funding will allow a reduction of $5.8 million in city spending on maintenance, repairs, painting, and engineering work (with no net impact on total spending).

WTC-Related Expenses. DOT will seek Federal Emergency Management Administration reimbursement for almost $4.9 million in "hazard mitigation" expenses spurred by the terrorist attacks on the World Trade Center. However, the total amount available for hazard mitigation will be limited, and DOT will be competing with other city and state agencies for a share of these limited funds.

Future Initiatives. The city has proposed unspecified congestion pricing and EZ-Pass initiatives beginning in 2004 that would raise considerable revenues. No detailed information is currently available on these initiatives, although a key element of the plan is expected to be tolling the East River bridges. The city projects net revenues from these initiatives of $100 million in 2004, $500 million in 2005, and $800 million in 2006. The proposed initiatives are likely to generate broad public debate.

CAPITAL PLAN

DOT's February 2002 Capital Commitment Plan for 2002-2005 totals $4.6 billion, a decline of 16 percent compared with the $5.5 billion in commitments contained in the adopted Capital Commitment Plan. Over 80 percent of the latest plan is city funded. City-funded commitments have declined 21 percent since the adopted plan, while non-city funded commitments have increased 15 percent. As was the case with the adopted plan, the largest share of commitments in the February 2002 plan corresponds to waterway and highway bridges ($670 million and $1.8 billion, respectively, for a total of over $2.5 billion). The highway program is the next largest component of the plan, at $1.3 billion. Together, bridges and highways make up 83 percent of the total commitments.

While the waterway bridges program is still large, it has been reduced sharply since the 2002 adopted plan. Planned commitments for 2002-2005 have dropped 42 percent, from $1.16 billion to $670 million. Most work on the Brooklyn Bridge, and virtually all work on the Willis Avenue Bridge, has been delayed to after 2005. Projected funding for work on the Manhattan, Williamsburg, and Queensborough Bridges remains close to the levels contained in the 2002 adopted plan.

DOT Capital Commitment Plan, 2002-2005
Dollars in millions

Programmatic Area	Adopted Plan	February Plan	Difference
Waterway Bridges	$1,162	$670	$(492)
Highway Bridges	2,019	1,843	(176)
Highways	1,500	1,300	(200)
Ferries and Aviation	272	277	5
Traffic	267	253	(14)
Franchise Transportation	257	226	(31)
Transportation Equipment	69	69	0
Total	**$5,546**	**$4,638**	**$(908)**

SOURCES: IBO; Capital Commitment Plans

MTA New York City Transit (NYC Transit)

PRELIMINARY BUDGET OVERVIEW

The approved operating budget of NYC Transit for calendar year 2002, including debt service, is $4.21 billion. This represents an increase of 5.5 percent over 2001. The city's direct contributions in its fiscal year 2003 budget to NYC Transit's operating budget include a $158 million operating grant, $45 million in reimbursement for transportation of school children, $14 million in reimbursement for the senior discount fare, and a subsidy for paratransit that is projected to be around $17 million. (NYC Transit is a subsidiary of the Metropolitan Transportation Authority, or MTA.)

- The MTA budget for 2002 will be balanced in part by $250 million in increased state aid. Most of this increase involves a "spin-up," or acceleration, of state aid payments.
- Fare revenues are expected to remain flat in 2002. Two other major funding sources, tax-supported subsidies and a portion of surplus tolls from MTA bridges and tunnels, are expected to decline.
- As the operating budgets of its constituent agencies come under increased fiscal pressure, the MTA board has approved several measures to avoid negative cash positions in 2002.

NYC Transit Budget Overview
Dollars in millions

	2001 (prelim. Actual)	2002 (projected)
Operating Budget		
Expenses[1]	$3,989	$4,207
Farebox and miscellaneous revenue	$2,337	$2,340
Grants, tax-supported subsidies, surplus bridge and tunnel tolls	$1,384	$1,645
Total revenues and subsidies	$3,721	$3,985
Operating budget balance	($267)	($222)
Adjustments to reflect actual cash flows	$270	$216
Opening cash balance	$23	$26
Closing cash balance	$26	$20
Capital Program		
Annual capital commitments (excluding network expansion)[2]	$2,315	$3,678
Total 2000-2004 capital program (including network expansion)	$11,990	$12,152

NOTE: [1]Includes debt service, but excludes certain expenses (primarily capital expenditures) reimbursed through the MTA budget. [2]The MTA does not report network expansion commitments and expenditures separately for NYC Transit and commuter railroads.

EFFECTS OF BUDGET PROPOSALS

Service Initiatives. NYC Transit is spending $16.7 million on service initiatives related to the attacks on the World Trade Center. Some of these initiatives have been underway since shortly after the attacks, including the reconfiguration of the 1/2/3/9 subway lines and increased bus service in lower Manhattan. Additional measures include increased service on the A subway line, and greater resources devoted to dispatching and supervision.

Increased Maintenance Spending. Expenditures of $40.9 million to enhance subway and bus reliability are planned. NYC Transit plans to increase maintenance in a number of areas, including subway track, cars, and signals; subway station elevators and escalators; and buses. Also reflected in the total are the increased costs of maintaining Compressed Natural Gas (CNG) and hybrid (diesel/CNG) buses, compared to conventional diesel buses.

Cost Savings. NYC Transit projects savings of $102.4 million through productivity initiatives ($28.1 million), a reduction in scheduled cyclical subway car maintenance due to the timing of the program ($20.8 million), a reduction in expenses due to the completion of several subway and information technology projects in 2001 ($35 million), and administrative reductions ($18.5 million).

Labor Costs. Spending on salaries and wages is projected to increase 2.4 percent over 2001 levels, from $2.34 billion to $2.40 billion. Spending on fringe benefits is projected to increase 7.0 percent, from $697 million to $746 million. The increase is due to service and maintenance initiatives, as well as previously negotiated wage and benefit increases. The existing labor agreements of most NYC Transit workers expire in December 2002.

Paratransit. The paratransit program has expanded rapidly in recent years. The cost of the program is expected to be $144 million in 2002, an increase of 13.2 percent over the 2001 cost of $109 million. The number of trips made on paratransit is expected to increase from just over two million in 2001, to over 2.5 million in 2002.

CAPITAL PLAN

In Febuary 2002, the MTA board approved a revised 2000-2004 capital plan valued at $17.2 billion. Approximately $12.2 billion of the total is earmarked for NYC Transit, including $1.8 billion for preliminary network expansion work, such as the design and engineering work for a Second Avenue subway. The revised plan adds $162 million in spending, to be reimbursed by insurance, to the previously approved plan. The additional spending is for repair work on the 1 and 9 subway lines, which were damaged in the September 11 attacks. The MTA expects to have the tunnels and tracks repaired by November 2002, but the Cortlandt Street station itself will remain closed. The MTA will make further revisions to its capital plan as additional repairs and security enhancements are programmed.

Laying the Groundwork for Network Expansion. Most of the planned spending in NYC Transit's 2000-2004 capital program is for replacement or rehabilitation of existing infrastructure. Of roughly $1.8 billion in funding earmarked for network expansion, most is for environmental studies or design and engineering work rather than actual construction. The bulk of construction costs for projects such as the Second Avenue subway and East Side Access (Long Island Rail Road connection with Grand Central Terminal) will have to be financed in future capital programs.

Financing. At the end of February 2002 the MTA received legislative approval for the new bond resolutions that will allow the agency to go ahead with its long-planned debt restructuring. Under this restructuring, the MTA will pay off most of its existing debt with new bonds. The agency expects to realize interest rate savings, and to create additional debt issuing capacity by reducing the annual payments on its existing debt in the short run. In addition, the new bond covenants will allow the MTA to issue bonds without reserve funds, and to use the money in existing reserve funds for capital expenditures. The MTA originally expected to obtain $3 billion in additional funds through its debt restructuring, but due to more favorable market conditions, the authority now believes that the restructuring can generate close to $4.5 billion. The augmented debt restructuring thus closes almost all of the $1.6 billion funding gap in the MTA capital program created when the Transportation Infrastructure Bond Act failed to pass in November 2000. Nevertheless, the concern remains that in future years the restructuring will contribute to a large increase in debt service, paid out of the transit agencies' operating budgets, and restricting its future debt-issuing capacity.

Civilian Complaint Review Board (CCRB)

PRELIMINARY BUDGET OVERVIEW

The preliminary CCRB budget for 2003 is $10.6 million, down $252,000 (or 2.3 percent) from the amount projected in the adopted Financial Plan. Key changes include:

- The CCRB budget for 2003 includes $1.4 million to allow the board to assume responsibility for the prosecution of police officers.
- CCRB will eliminate six administrative positions, saving $192,000.

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted Financial Plan	$10.9
Program Savings	(0.3)
February Plan	$10.6
Headcount	
Adopted Financial Plan	209
February Plan	203

EFFECTS OF BUDGET PROPOSALS

Transfer of Prosecutors to CCRB. The CCRB's preliminary budget of $10.6 million for 2003 includes $1.4 million to shift 20 staff positions from the New York City Police Department (NYPD), which would allow CCRB to assume responsibility for prosecuting NYPD personnel before administrative law judges. Existing protocol calls for such cases involving police officers facing substantiated CCRB complaint charges to be prosecuted by NYPD personnel.

The shift has been at least temporarily halted from going forward, however, as the result of litigation filed by unions representing uniformed police personnel. The unions argue that prosecutions should remain the responsibility of the NYPD.

Others have welcomed the proposed shift in prosecutorial responsibilities to the review board, while expressing concern that the police commissioner would retain sole discretion over discipline of NYPD personnel found by the CCRB to have committed acts of misconduct.

Savings. Six administrative positions would be eliminated in 2003 under the Preliminary Budget plan, saving $192,000. In addition, accrued savings from staffing vacancies in this year's (2002) budget are to be used to prepay $60,000 in non-personnel expenditures for next year (2003). Together, these cuts are not expected to reduce the board's ability to carry out its functions in the coming year.

Department of Correction (DOC)

PRELIMINARY BUDGET OVERVIEW

The preliminary Department of Correction budget for 2003 is $930.7 million, up $30 million (or 3.3 percent) from the projected 2003 level included in the adopted Financial Plan. The increase is due to the transfer of $72.5 million from the city's labor reserve to the department to fund the collective bargaining settlement reached with the correction officers union, partially offset by $42.7 million in savings arising from a declining inmate population.

- The Mayor's plan calls for a reduction through attrition of 511 uniformed staff positions next year, from 11,182 to 10,671, with savings of about $20 million. The Preliminary Budget assumes an average daily future inmate population of 14,500, very close to the current figure.
- Also as a result of the lower inmate population, the Mayor's preliminary 2003 budget provides for DOC overtime spending of about $59 million next year, $6.6 million less than anticipated in last June's adopted Financial Plan.
- The Mayor's plan assumes that the city will continue to receive federal reimbursement for costs of incarcerating illegal aliens convicted of criminal offenses in the city. However, President Bush's proposed 2003 budget would eliminate the federal program, the State Criminal Alien Assistance Program (SCAAP). If the program is eliminated, an additional $30 million in city resources would be needed to make up for lost SCAAP funds.
- The Mayor's 2002-2005 capital commitment plan calls for construction to begin this summer on a new 448-cell Central Punitive Segregation Unit (CPSU).

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted Budget	$900.7
Labor Settlement	$72.5
Staff Reduction Savings	($36.1)
Planned Overtime Savings	($6.6)
All Other Changes, Net	$0.2
February Plan	$930.7
Headcount	
Adopted Financial Plan	
Uniformed	11,182
Civilian	1,823
February Plan	
Uniformed	10,671
Civilian	1,820
Revenue PEGs	$1.0
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$678.1
February Plan	$502.7

EFFECTS OF BUDGET PROPOSALS

Uniformed Staff Reductions And Other Personnel Savings. As a result of the long-term decline in the number of inmates in DOC custody, the agency intends to reduce uniformed staffing next year by 511 positions, or 4.6 percent. This action, along with other personnel-related savings (mostly from delays in filling vacancies) are to yield a total of $36.1 million in savings next year. The planned reduction in uniformed staffing follows on the long-term decline in the inmate population, which reached an all-time high of 21,449 in 1992 but has declined significantly in recent years in tandem with the drop in serious crime. The Preliminary Budget assumes that the average number of inmates in DOC custody next year (and each year through 2006) will remain at about 14,500, very close to the average from the first four months of the current fiscal year.

Other Savings. The preliminary 2003 DOC budget provides overtime spending of about $59 million next year, $6.6 million less than projected as of the June 2001 adopted plan. This savings results from the lower inmate population and the closure of vacant facilities. The department will completely close three vacant facilities, one situated in the Brooklyn Navy Yard and two reconstituted Staten Island ferry boats that had been moored off Rikers Island since the 1980s. The facilities have a combined capacity of 1,689 beds and have for some time been staffed by a skeleton crew of uniformed personnel. Reassignment of the staff and a reduction in other costs associated with these facilities will yield savings totaling $5.0 million annually (including $4.3 million in overtime spending counted in the total above).

Increased Charges. The Preliminary Budget anticipates collecting an additional $1 million from prisoner commissary and telephone charges. The department proposes raising inmate telephone revenues from $2.0 million to $2.5 million and commissary fund revenues from $12.6 million to $13.1 million.

CAPITAL PLAN

Planned capital commitments over the 2002-2005 period have been reduced by $175 million (or about 26 percent) since last June, from $678.1 million to $502.7 million.

Most of the reduction is in the form of project deferrals, rather than outright cuts. Delayed projects include $58.2 million in planned renovations to an assortment of DOC facilities, as well as $31.4 million for infrastructure improvements on Rikers Island.

Adjustments have also been made to the timetable associated with the agency's plan to spend $970 million in capital budget funds over the next 10 years to replace 5,400 temporary jail beds with an equal number of permanent beds. The beds to be replaced are situated within temporary structures erected during the 1980s as a short-term expedient to house the then rapidly growing inmate population.

In particular, $39 million in planned commitments for construction of a 224-cell addition to the Eric M. Taylor Center on Rikers Island has been delayed one year (to 2006), as has $22 million for design work pertaining to additions to the George Motchan Detention Center.

The agency does plan to proceed this summer with construction of a new 448-cell Central Punitive Segregation Unit (CPSU) at a cost of $117 million, for incarceration of inmates presenting the most serious disciplinary issues. The existing CPSU, which has been in use only since 1996, will be converted to general population cells.

Department of Juvenile Justice (DJJ)

PRELIMINARY BUDGET OVERVIEW

The preliminary DJJ budget for 2003 is $108.3 million, up $1.9 million (or 1.8 percent) from the projected 2003 budget included in the Financial Plan adopted last June.

- The Mayor's Preliminary Budget and capital plan call for expanding secure and non-secure capacity in the city's juvenile justice system by 200 and 24 beds, respectively.
- The Preliminary Budget calls for saving $750,000 next year by delaying an expansion of community-based programs that provide preventative and post-detention services to youth and their families.

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted Budget	$106.4
Expand Non-Secure Capacity	$1.0
Delay Expansion of Preventive Programs	($0.8)
All Other, Net	$1.7
February Plan	$108.3
Headcount	
Adopted Budget	815
February Plan	825
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$76.1
February 2002 Plan	$74.8

EFFECTS OF BUDGET PROPSALS

Increase Detention Capacity. The Preliminary Budget provides an additional $1.0 million for the purpose of expanding non-secure detention capacity by 24 beds. Twelve beds would be provided by contract in each of two new group homes, bringing total non-secure detention capacity to a total of 176 beds. During the first four months of this fiscal year, there were on average 119 juveniles in non-secure detention, down from 129 last year.

Secure detention capacity would be increased significantly, by 200 beds, for a total secure detention capacity of 450 beds. (See discussion under "Capital Plan.")

Delay Expansion of Community-Based Programs. The city currently contracts with six community-based groups offering truancy and delinquency prevention and post-detention services. A total of 1,190 juveniles were provided services in 2001. A planned expansion in these programs would be delayed, yielding $750,000 in 2003 savings.

CAPITAL PLAN

Planned capital commitments for DJJ over the 2002-2005 period are about $75 million, down only slightly from adoption. Nearly all planned commitments for the agency are for the expansion of DJJ's secure detention centers, one in Brooklyn (Crossroads) and one in the Bronx (Horizon). One hundred beds are to be added to each facility. These 200 beds will replace 150 beds at the former Spofford facility, and add 50 beds to bring the agency's total secure detention capacity to 450 beds. This expansion plan comes after a drop in the average number of juveniles committed to secure detention, from 336 in the first four months of last year to 287 during the first four months of the current year.

One of the primary objectives of the agency's capital plan is the permanent closing of the antiquated Spofford facility in the Bronx (recently renamed the Bridges Juvenile Center). The Bridges facility remains in use as an intake and admissions facility, as well as a transfer point for youth awaiting transfer to state facilities.

New York City Fire Department (FDNY)

PRELIMINARY BUDGET OVERVIEW

The Mayor's Preliminary Budget proposes spending $1,067.3 million for FDNY in 2003, a decrease of $32.3 million, or 3 percent, from the level forecast at the time of the 2002 Adopted Budget. The 2003 budget proposal includes several initiatives to deploy departmental resources more efficiently.

- FDNY will reduce overtime and other personnel costs by $20.4 million by hiring additional firefighters and redeploying other uniformed and civilian personnel.
- The Preliminary Budget proposes saving $10 million annually by reducing Emergency Medical Service (EMS) ambulance tours, but this initiative has been suspended while the city and the union consider alternative sources of savings.
- An increase in ambulance transport fees and efficiencies in the ambulance billing and collection operation will reduce city spending by $8.5 million in 2003.
- FDNY will transfer $22.5 million back to the Department of Buildings (DOB) because the building inspection program will remain in DOB.

2003 Budget Summary
Dollars in millions

Expense Budget	
Adopted Budget	$1,099.6
Personnel Savings	(20.4)
Program Reduction	(10.0)
Agency Transfer	(22.5)
Collective Bargaining	22.6
All Other Changes, Net	(2.0)
February Plan	$1,067.3
Headcount	
Adopted Financial Plan	
Uniformed	11,092
Civilian	4,923
February Plan	
Uniformed	11,156
Civilian	4,472
Revenue PEGs	$1.4
Capital Commitments	
Total, 2002-2005	
Adopted Financial Plan	$599.8
February 2002 Plan	$501.8

EFFECTS OF BUDGET PROPOSALS

FDNY proposes to reduce overtime costs by deploying more firefighters to active duty and hiring 73 new firefighters, and to cut personnel costs generally by reducing certain uniformed and civilian positions through attrition and implementing a partial civilian hiring freeze. The initiatives to reduce personnel costs would save $20.4 million in 2003, and include the following:

Headcount Deployment Efficiency. The department would reduce overtime by deploying its uniformed force more efficiently. To accomplish this 245 light duty firefighters (firefighters who cannot be assigned to active firefighting duty for medical reasons) will be assigned as Battalion Aides and the firefighters currently performing this function will be detailed to the engine and ladder companies. This results in an increase in firefighter availability, reducing overtime needs. This initiative also includes the elimination of 27 EMS battalion aides through attrition and the hiring of an additional 73 firefighters to reduce overtime. Even including the cost of the new hires, this set of initiatives would save $11.3 million in 2003.

Fire Safety Education Program Savings. FDNY will transfer 20 firefighters from fire safety education to field duty. This will increase firefighter availability and reduce overtime, saving $1.0 million. The department will use other personnel to maintain the program at its current level

Fire Marshal Redeployment. The Administration proposes to reduce the number of budgeted positions for fire marshals. This is to be accomplished by eliminating vacancies and transferring fire marshals to field duty to increase firefighter availability. This initiative is projected to save $2.2 million in 2003.

Civilianization. FDNY has identified 29 uniformed personnel who work in supply distribution and computer support. These firefighters will be assigned to field duty to save overtime, and civilians will be hired part-time to perform these responsibilities, for a savings of $465,000 in 2003.

Reduction of Light Duty Firefighters. The number of firefighters on light duty assignment will be reduced by 100 positions, by encouraging retirement on disability. The positions targeted are currently held by individuals who have been on long-term light duty. This initiative is projected to save $3.7 million in 2003.

50 Percent Civilian Hiring Freeze. The Administration has projected that civilian attrition will be 34 positions annually. By instituting a 50 percent hiring freeze in 2003 through 2006, the Administration anticipates reducing the civilian headcount by 66 positions. Savings would be $347,000 in 2003, rising to $2.2 million in 2006.

Reduce Ambulance Tours. The Preliminary Budget also proposes reducing EMS ambulance tours to save $10 million annually. The cut would save overtime costs by eliminating 75 of the 589 daily "basic life support" ambulance tours. Subsequent to the release of the Preliminary Budget, however, FDNY and the union for city emergency medical technicians agreed to postpone this reduction pending the identification of alternative budget reductions or increased revenues. As of this date an alternative plan to reduce city spending has not been negotiated.

The Preliminary Budget also proposed several revenue initiatives:

EMS Revenue. Pending the outcome of a recent compliance lawsuit between the city and federal government, the city stopped collecting for ambulance services. The lawsuit has been settled and the city anticipates clearing the backlog of bills for ambulance services that resulted from the billing suspension. The Administration anticipates an additional $5.5 million in revenue in 2003 by clearing the collection backlog and by incorporating efficiencies into the ambulance billing and collection operation. This increase in EMS revenues will offset city tax-levy funding, with no net budget impact.

Increase Ambulance Transport Fees. FDNY's billing rates will be increased 25 percent to make them consistent with the fees charged by the private ambulance services. These revenues—$2.9 million per year—will also offset city funds.

Other initiatives, including improving collections of the 2 percent tax on insurance premiums and increasing revenues from fire prevention, would raise $1.4 million annually in additional revenue.

Two other actions in the Preliminary Budget roughly offset each other in their budgetary impact:

UFOA Collective Bargaining. The city and the Uniformed Fire Officers Association reached agreement on a new 27-month contract retroactive to July 1, 2000. This agreement will increase FDNY's budget by $22.6 million in 2003.

Transfer to the Department of Buildings. The 2002 Executive Budget proposed the transfer of the building inspection program from the Department of Buildings (DOB) to the FDNY. Enabling legislation necessary to accomplish this transfer was never approved so this function remains within DOB. A total of $22.5 million associated with this program is being transferred back to DOB from FDNY. FDNY's civilian headcount will be reduced by about 400 positions to reflect the transfer of personnel.

CAPITAL PLAN

For 2002 through 2005, FDNY's capital commitment plan totals $501.8 million, a decrease of $98 million, or 16 percent, from the $599.8 million in the adopted commitment plan. This reduction is due mainly to the delay of facility improvements, which includes facility upgrades, renovations, and new construction.

The replacement of front-line firefighting apparatus and support vehicles and equipment accounts for $179.7 million, or 36 percent, of the commitment plan. FDNY anticipates receiving approximately $29 million in federal funding to replace the vehicles that were damaged or destroyed on September 11. These funds are being used for budgetary relief in 2002. The vehicles will then be purchased through the capital budget and financed with city debt.

Commitments associated with facility improvements total $166 million or 33 percent of the commitment plan and will provide for the replacement and upgrade of building components, the renovation of the central communication offices, the construction of a new fleet maintenance facility and the rehabilitation of firehouses. Commitments totaling $97.5 million, or 19 percent, of the commitment plan will provide for the upgrade of the five borough communication offices, upgrade and maintenance of the call box network and upgrade of the FDNY/EMS dispatch system. The remaining commitments, totaling $58.6 million, are associated with the reconstruction of the firefighter's training facility on Randall's Island, the construction of a new EMS training facility in Fort Totten, Queens, and the purchase of a new fireboat.

New York City Police Department (NYPD)

PRELIMINARY BUDGET OVERVIEW

The preliminary NYPD budget for 2003 is $3.2 billion, up $28 million (under 1 percent) from the projected 2003 amount in the adopted Financial Plan. IBO estimates that an additional $100 million will be needed in 2003 to cover uniformed police overtime costs currently budgeted at $169 million.

- The Mayor's Financial Plan proposes a reduction of 1,600 in peak uniformed staffing. Peak police staffing would fall to 39,110 officers. Anticipated attrition is roughly 2,200 officers annually, bringing uniformed police staffing to 36,878 by the close of next year (June 2003), its lowest level since July 1996.
- The decline in uniformed police staffing would be partially offset by increasing civilian staffing by 800, freeing up that many officers currently performing functions that do not require law enforcement expertise for policing activities.
- The Mayor's Preliminary Budget for next year includes $40 million to continue Operation Condor, the agency's overtime program that brings uniformed personnel in on their day off to staff narcotics and quality-of-life enforcement tours. This would continue the program at a lower level: the program was budgeted for $100 million annually in both 2001 and this year (reduced this year due to the World Trade Center emergency), or about 1,000 overtime tours per day.
- IBO believes that the current NYPD budget for uniformed overtime of $169 million will be inadequate, and that the department will need an additional $100 million next year (or a total of $269 million) for uniformed overtime costs.
- While supervisory uniformed personnel have reached a settlement with the city, the 26,000 police officers have yet to do so. The Preliminary Budget funds a settlement in line with that reached with other uniformed personnel, but contains no funds for future settlements after 2003.
- The department proposes using the wireless telephone surcharge previously dedicated to capital funding for the Enhanced-911 (E-911) system for operating expenditures of the system, funding further capital costs through city debt issuance.

2003 Budget Summary

Dollars in millions

Expense Budget	
Adopted Budget	$3,126
Uniformed Overtime	54
Collective Bargaining	21
Personnel Savings	(62)
Non-Personnel New Needs	25
Other Changes, Net	(9)
February Plan	$3,154
IBO Repricing (see text)	$100
IBO Reestimate	$3,254
Headcount*	
Adopted Financial Plan	
Uniformed	40,710
Civilian	8,431
February Plan	
Uniformed	36,878
Civilian	9,160
Revenue PEGs	
Swap E-911 Surcharge	$37
Increase E-911 Surcharge	$44
Increase Towing Fee	$4
All Other	$1
Total Revenue PEGS	$86
Capital Commitments	
Total, 2002-2005	
Adopted Plan	$563
February 2002 Plan	$486

NOTE: *Headcount figures are based on end of year (June 30) targets. The department had planned to swear in a new class on June 30, 2002 (the last day of fiscal year 2002), and now plans to do so on July 1, 2002 (the first day of fiscal year 2003).

EFFECTS OF BUDGET PROPSALS

Lower Uniformed Staffing. The Mayor's Financial Plan proposes a reduction of 1,600 in peak uniformed staffing, at a savings of $57 million. These savings would be partially offset by $13 million for "civilianizing" 800 positions in which uniformed officers currently perform functions that do not require law enforcement expertise, freeing them up for direct law enforcement activities. The net effect is thus a savings of $44 million.

The Mayor is seeking a waiver from Washington to insure that the $14 million in federal funds scheduled to be received next year to support police officer salaries will not be affected by the planned reduction in peak uniformed police staffing. The grant was most recently predicated on attaining a peak uniformed staffing of 40,710 each year through 2005.

The department also anticipates other personnel savings, including $4.6 million from leaving vacant 500 of 1,200 budgeted positions in its Police Cadet program. The aim of the program is to provide part-time employment and college tuition assistance to city residents interested in eventually becoming police officers

Overtime. With the planned extension of Operation Condor, the NYPD's total budget for uniformed overtime in 2003 is $169 million. Actual uniformed overtime expenditures were $221 million and $317 million in 2000 and 2001. This fiscal year through February, other than World Trade Center-related overtime spending has been $242 million. IBO believes that the agency's overtime budget of $169 million for 2003 is understated. Unless the department decides to aggressively curtail overtime, we estimate it will need another $100 million next year in order to meet its uniformed overtime needs.

Collective Bargaining Increases. A total of $21 million is included in next year's Preliminary Budget to cover the cost of salary increases for supervisory uniformed personnel. However, the more than 26,000 members of the union representing the largest subset of NYPD uniformed personnel, the Patrolmen's Benevolent Association (PBA), have since July 2000 been working with an expired contract. The Mayor's Financial Plan assumes police officers will eventually accept a contract that includes terms identical to those already agreed to by their uniformed colleagues in other city agencies—a retroactive 11.9 percent increase over 30 months—roughly half what the PBA has sought. Each 1 percent increase in PBA salaries above what is currently budgeted costs the city approximately $19 million in the first year (including incremental pension contributions), rising rapidly in subsequent years as the raises compound.

Homeless Shelter Security. The Department of Homeless Services is to provide the NYPD with $5 million in intra-city funding for the enhancement of security services in homeless shelters. Since these funds merely substitute for currently budgeted city funds, the effect is to give the NYPD an additional task to perform within existing resources.

E-911 Funding Swap. The city has been using the existing 35 cents per month surcharge on telephone lines in the city to finance capital improvements to NYPD's Enhanced-911 system. The $33.4 million in surcharge revenue that was to be tapped this year to cover capital costs will instead be used for E-911 operating expenditures. All $175 million in planned capital improvements to the E-911 system from 2002-2005 (the majority of which is for construction of a back-up call answering center) are now to be financed through city-funded debt.

The Mayor has also proposed increasing the surcharge to $1.00 per month as well as imposing a 30 cent surcharge on wireless telephones, to collect $43.7 million (see Other Expenditures section of this report).

CAPITAL PLAN

Planned capital commitments over the 2002-2005 period have been reduced by about $78 million (or about 14 percent) since adoption, from $563.0 million to $485.6 million.

Notable reductions include $27 million for high frequency radio equipment, $20 million for planned improvements to various police facilities, $17 million in planned acquisition and installation of computer equipment, and $16 million due to delay from 2003 until 2007 of a new station house for Brooklyn's 66th Precinct.

Debt Service, Borrowing to Close the Gap, and World Trade Center Spending

DEBT SERVICE SAVINGS

Payments on the city's outstanding debt in 2003 will cost $3.5 billion, or nearly 16 cents of every city tax dollar, projected to rise to $5.2 billion, or over 19 cents on the dollar, by 2006, assuming full implementation of the city's capital plan. The Preliminary Budget projects an estimated $441 million in debt service savings for 2003 compared to the adopted Financial Plan. The majority of the savings ($250 million) is expected to be realized through state and federal initiatives. These initiatives are as follows:

Additional Federal Advance Refunding. Included in the economic stimulus package passed by Congress and signed by the President on March 9 is a provision allowing New York City to refinance up to $9 billion in previously refinanced municipal debt. Federal law normally allows only one refinancing in the life of a bond issue. The debt that may be refinanced includes general obligation bonds of the city, bonds issued by the Metropolitan Transportation Authority or the Municipal Water Finance Authority, or state or city bonds to finance hospital facilities. The Mayor and the Governor will each designate half of the refunding. The city estimates that this will save $150 million in 2003.

State Initiatives. The city has sent to Albany proposed legislation that would result in savings of $100 million in 2003. The major proposals include the following:

- *Debt service.* State law currently provides that if the city issues either new or refunded debt for which the debt service is level or declining, that the first year's principal payment should be exempt. The city is proposing that the determination of whether annual debt service is level or declining not take into account payments made in the first two years.

- *Sale of tax benefits.* The city is asking that some of the restrictions surrounding the sale of tax benefits related to city property—for example, the city's water mains—be relaxed. Specifically, the city is seeking to be relieved of the requirement that proceeds of the sale of tax benefits be placed in a reserve fund if they are used in the same fiscal year to pay for other capital improvements. As part of this proposal, the city is also proposing to amend the current amortization schedule for city property to reflect the true useful life of certain projects, thus providing the city with more valuable depreciation rights to sell.

- *Creation of financing authorities.* The city is proposing that it be authorized to create additional not-for-profit authorities (similar to the Municipal Water Finance Authority, for example) that will issue debt on the city's behalf to fund the city's capital improvement program. This would expand the city's debt-issuing capacity not subject to the constitutional debt limit.

Although these savings will require changes in state law, the city's Office of Management and Budget (OMB) has stated that even if these legislative changes are not successful, the city will still be able to realize the debt service savings through refinancing and other adjustments not requiring state or federal action—although no specifics have been offered. The Preliminary Budget already includes approximately $76 million in this more "traditional" debt service savings.

BORROWING TO CLOSE THE GAP

The Administration proposes using a total of $1.74 billion in borrowed funds to close the 2003 gap—$1.5 billion from the Transitional Finance Authority (TFA), and a net $235 million from the reserves of the Municipal Assistance Corporation (MAC). In addition to these borrowings, other actions the city proposes taking to close the 2003 gap will also defer costs to future years, resulting in spending of roughly $300 million per year in the future.

Municipal Assistance Corporation. The Municipal Assistance Corporation, formed in 1975, is a public benefit corporation of New York State created for the purpose of providing financial assistance and fiscal oversight for the city. Each year the city is obligated to make a payment to MAC equal to the debt service due on the MAC bonds issued for the city's benefit. In 2000, the city paid MAC $450.5 million and in 2001, the city paid $457.9 million. For 2003, however, the city is proposing to reduce its scheduled payment of $490.3 million to $255.3 million, taking the $235 million savings to help close the budget gap.

Under this proposal, MAC would release $250 million from its debt reserve fund and apply it to the city's 2003 funding requirement, lowering the city's required payment by that amount. In exchange for the release, the city would provide MAC with a surety bond—in effect, a guarantee that the city will repay the funds. Because the city would be required to pay a fee of $15 million for costs associated with purchasing a surety bond, the actual net proceeds to the city would be $235 million. MAC is currently scheduled to make its final debt payment in 2008. If that year's scheduled city payment and MAC's reserves are sufficient to pay off MAC's final obligations, then the city will not need to repay the $250 million to MAC in 2008.

Transitional Finance Authority. The state approved legislation on September 13, 2001—two days after the terrorist attack on the World Trade Center—authorizing the city to borrow through TFA an unlimited amount of short-term debt for all disaster-related costs, in anticipation of federal and state disaster relief aid. The law also allowed the city to borrow up to a total of $2.5 billion in long-term debt for disaster-related purposes. The legislation explicitly allowed long-term borrowing for non-capital operating expenses (normally not allowed). It also exempted the short-term borrowing from the provisions of the state Financial Emergency Act, which would not normally allow the city to end the fiscal year with outstanding short-term debt.

In October 2001, fearing the possibility of extremely high disaster-related spending and a shortfall in revenues, the city used this authority to issue $1 billion in one-year notes, stating that the notes would either be repaid with federal or state aid at their term, or—as it now appears—refinanced with long-term bonds. The proceeds from this sale were not used immediately and were instead placed in a reserve account for future use. Under the Mayor's Preliminary Budget, the city plans to issue another $1 billion in long-term "recovery bonds" in July 2002, for a total of $2 billion in TFA borrowing. The city will use $1.5 billion for general gap-closing purposes in 2003, and another $515 million, mostly in 2002, to pay for disaster-related spending already incurred (see below). The city projects that this will result in debt service costs of $180 million annually for 20 years.

Other Actions. The city is proposing some other measures that will also result in higher future costs in order to close the $4.8 billion 2003 gap. The extension of the phase-in of cost-of-living adjustments for retired city employees from 5 years to 10 years will cost the city roughly $125 million a year by the time it is fully implemented in 2010 (see Labor Issues section). And the decision to pay for replacing fire trucks, ambulances, and other capital equipment lost in the World Trade Center disaster with debt—while taking the federal reimbursement as operating revenue—will also cost the city about $11 million annually for 20 years (see below).

WORLD TRADE CENTER-RELATED SPENDING

The Preliminary Budget anticipates that spending for emergency response and recovery from the World Trade Center terrorist attack will total $2.3 billion through 2006. Ninety-five percent of these costs will be incurred in the current fiscal year, 2002. The city expects to receive federal disaster relief funds from the Federal Emergency Management Agency (FEMA) for over three-quarters of the anticipated total spending, or a total of $1.8 billion. The balance—$515 million—will be paid for from the proceeds of $2 billion in disaster-related TFA borrowing authorized by the state legislature on September 13th (see above).

As of March 15, the city has spent $825 million for World Trade Center-related costs. The majority of spending has been for uniformed services overtime ($340 million) and for contracts for debris removal ($350 million). The city has received approximately $525 million from FEMA thus far. FEMA provided $392 million within weeks of the disaster, essentially as an advance to help the city cover its immediate emergency response costs, and has been processing claims from the city since. Although FEMA agreed to formulas for reimbursing some initial costs, including overtime for the first 60 days following September 11, for all subsequent claims FEMA requires detailed documentation, which is then scrutinized carefully before the claim is approved (see endnote 1 for a detailed discussion of FEMA reimbursement for city overtime spending).

Paying for World Trade Center-Related Spending
Dollars in millions

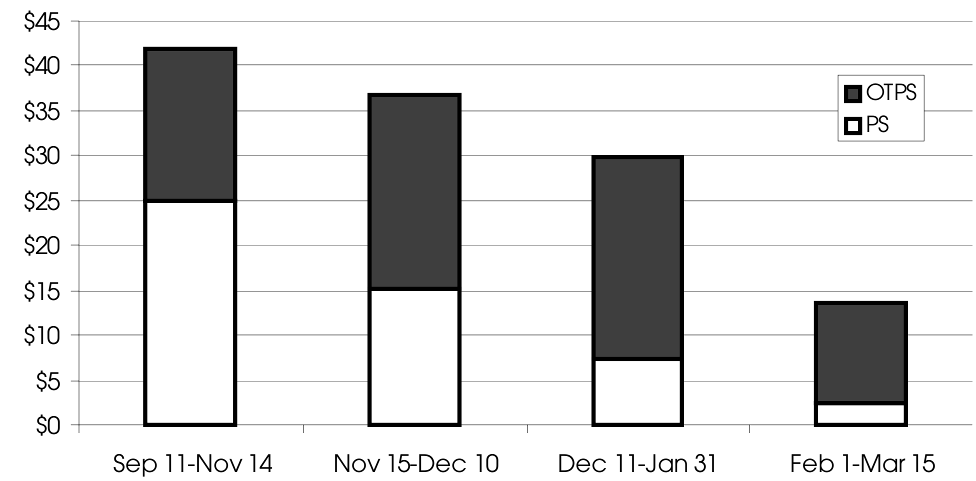
	2002	2003	2004	2005	2006	Total
Federal disaster relief aid:						
Operating expenses	$1,536.6	$20.3	$6.4	$6.5	$6.5	**$1,576.3**
Capital expenses	139.6	27.3	24.5	--	--	**191.4**
Incremental overtime cost	31.0	4.4	--	--	--	**35.4**
Subtotal, federal disaster relief	$1,670.6	$51.7	$31.0	$6.5	$6.5	**$1,766.3**
TFA-funded disaster spending*	$488.5	$26.7	--	--	--	**$515.2**
Total	**$2,195.7**	**$78.7**	**$30.9**	**$6.5**	**$6.5**	**$2,318.3**

SOURCE: IBO
NOTE: *Does not include $1.5 billion in TFA borrowing to be used in 2003 for gap-closing purposes.

World Trade Center-related personnel spending has slowed since the months immediately following the attacks. The police, fire, and sanitation departments account for 96 percent of total World Trade Center personnel costs. These agencies were heavily involved in providing security and cleanup in the fall of 2001, but the need for these services has slowed to a rate of about $2.5 million per week (compared to $25 million per week in the first two months after September 11). Total spending on non-personnel costs (OTPS) has continued to grow as the city makes payments for contracts for debris removal and for the purchase of damaged or destroyed capital property and equipment.

Average WTC-Related Spending per Week Has Declined

Dollars in Millions



SOURCE: IBO

NOTE: PS: personal services; OTPS: other than personal services

The city anticipates reimbursable expenditures of $1.54 billion in 2002, $20 million in 2003, and roughly $6.5 million in 2004-2006. The city expects these costs will be reimbursed through standard FEMA procedures.

The city also anticipates receiving another $226.8 million ($170.6 million in 2002) in disaster-relief aid from the federal government for two other categories of costs.[2] FEMA agreed to reimburse the city on an "incremental cost" basis for certain overtime costs incurred (see above and endnote 1). This amount is expected to total $31 million in 2002, and $4.4 million in 2003. The balance—$191.4 million total, including $139.6 million in 2002—is for capital equipment that the city plans to issue debt to pay for, but for which FEMA will reimburse the city. The city plans to take the FEMA reimbursement as operating revenue, rather than paying off the debt—in essence, capitalizing operating expenses—at an annual cost of approximately $11 million for 20 years.

In addition, the city plans to use $515 million of TFA funds for WTC-related spending for which the city will not receive federal reimbursement. For roughly half this amount—$247.2 million—the city requested reimbursement from FEMA, but was denied. The balance—$241.3 million—are costs the city recognized were not going to be reimbursed by FEMA, but which it felt were disaster-related and therefore could be bonded out under the September 13 legislation. This includes regular salaries of personnel who were diverted from their normal duties to disaster-related tasks.

Federal Disaster Aid to New York. On March 7, 2002, President George Bush and the New York Congressional delegation announced a $10.5 billion package of new assistance to help New York City recover from the attacks on the World Trade Center, bringing the total appropriated aid for disaster relief and recovery for New York to $21.5 billion.[3] The $10.5 billion in new funds has two components. The recently passed economic stimulus act includes aid for New York that will cost the federal government $5 billion over 10 years. Elements of the act include:

- Extension of the federal Work Opportunity Tax Credit (WOTC) to include businesses in the Liberty Zone (essentially Manhattan below Canal Street), or that were forced to move out of the zone as a result of the attack. The credit, which extends through the end of calendar year 2003, equals $2,400 per worker, and may be used for both new hires and (unlike usual WOTC rules) existing employees.
- $8 billion in supplemental private activity tax-exempt bond authority available through the end of calendar year 2004, which may be used to finance economic development projects principally in Lower Manhattan.
- Authority for an additional advance refunding for up to $9 billion in previously refunded bonds. The Mayor and the Governor will each designate half of the bonds to be refunded, which may include New York City general obligation bonds, Metropolitan Transportation Authority bonds, Municipal Water Authority bonds, or city or state bonds used to finance hospital facilities.

- Several tax provisions applying to business property located in the Liberty Zone.

While the provisions are expected to provide significant economic stimulus and ultimately boost city tax revenues, several of the tax incentives would have an immediate negative effect on city income taxes. IBO estimates that, barring action to "de-couple" calculation of city tax liabilities from federal taxes, the stimulus legislation would reduce city income tax collections by $93 million in 2002 and $204 million in 2003, diminishing thereafter.[4]

The remaining $5.5 billion will be included in a supplemental budget bill that President Bush is expected to send to Congress in April. The President has proposed allocating an additional $2.75 billion in FEMA disaster-relief funds (for a total of $10 billion), $1.8 billion to build an intermodal transit station in Lower Manhattan, $750 million for utility companies, and $167 million for reconstruction of the West Side Highway and other federally aided highways. Although the FEMA funds are well in excess of the city's current estimate of its needs, according to Senator Charles Schumer, the federal Office of Management and Budget has promised that if FEMA reimbursements to New York City and State do not reach the $10 billion currently allocated, the funds will be channeled to New York in other ways—for example, by allowing the city and general contractors to use FEMA money to purchase private insurance policies to cover liability arising from cleanup projects.

END NOTES

[1]For the police, fire, and sanitation departments, FEMA agreed to pay for all overtime spending for the period from September 11 through September 30. For the next 40 days-through November 9-FEMA agreed to reimburse overtime on an "incremental cost" basis, paying for all overtime in excess of an amount equal to average overtime spending for the same calendar period during the past three years (1999-2001). The incremental cost approach was extended another 15 days-through November 24-exclusively for the NYPD. Subsequently, FEMA will only reimburse overtime on a detailed cost basis, which requires documentation of exact costs for disaster-related overtime. The city and FEMA have agreed on specific sites where overtime spending would be eligible for reimbursement, including the World Trade Center site itself, and the Fresh Kills landfill. FEMA has not agreed to reimburse the city for increased police staffing at so-called "Omega posts"-highly sensitive sites at which the city has increased security since September 11-on the grounds that almost every large city in the country has taken similar steps.

[2]The city had originally anticipated receiving $465 million for these two categories of spending. However, FEMA would not agree to some of what the city had requested, and the balance-$238 million altogether-is now included in the portion of disaster-related spending the city will finance from TFA borrowing.

[3]For a description of federal aid appropriated prior to the newly announced package, see *Federal Aid to New York City in the Aftermath of September 11th: How Much, and For What?*, Testimony before the Joint Hearing of the City Council Finance, Lower Manhattan Redevelopment, and State and Federal Legislation Committees, February 11, 2002 <www.ibo.nyc.ny.us>.

[4]For details, see IBO: *Effect of the Federal Stimulus Act on New York City Tax Revenues* <www.ibo.nyc.ny.us>.

Labor Issues

PRELIMINARY BUDGET OVERVIEW

City-funded labor costs for 2003 are projected to be $14.7 billion, or 56 percent of total city-funded spending. Roughly 70 percent of the total is for salaries and wages, and 30 percent is for fringe benefits.

- The city's labor reserve does not include any resources to fund wage settlements after this year, when most city workers' contracts expire. Each 1 percentage point increase in city worker wages adds $180 million to the city budget, compounding over time.
- The administration proposes to save $856 million over four years from stretching out the phase-in of retiree cost-of-living increases enacted in 2000. This will result in higher costs in the future, however, as the city makes up for the lower payments during the phase-in period.
- The Mayor is seeking further cost savings from unspecified measures to contain the growth in fringe benefits for city workers. The city and municipal labor unions will have to agree on a set of measures to provide an additional $1.3 billion in savings over four years.
- Losses on city pension fund investments in 2001 and—most likely—2002 will trigger increases in future contributions.
- Rising health insurance premiums and extended retiree health benefits will add $242 million to city costs in 2003.

COLLECTIVE BARGAINING

Last year the city reached contract agreements with most municipal unions, including the largest civilian union, District Council 37 (DC 37), which represents 125,000 members and 10 of the 13 unions represented by the Uniformed Forces Coalition (UFC). Teachers (80,000 employees) and police officers (26,000 employees) are still without a contract. The February Financial Plan provides funds to pay for the current settlements, as well as for teachers and police officers if their unions settle for wage increases in line with DC 37 and the UFC, respectively. The agreement with DC 37 includes wage and benefit increases of 9.27 percent over a 27-month period. The UFC agreement covers a 30-month period and includes wage and benefit increases of 11.9 percent.

Three UFC unions representing police sergeants, detectives and firefighters have not ratified their contracts. Moreover, the Police Benevolent Association and the United Federation of Teachers are seeking wage increases significantly greater than those negotiated with other unions. The police union, which represents police officers below the rank of sergeant, will have its contract dispute resolved by the State Public Employment Relations Board (PERB), while the teacher's union is awaiting recommendations from PERB regarding its contract. (See the Board of Education section for a discussion of education labor issues.)

Most of the contracts in the current round of collective bargaining expire in 2003. The city's labor reserve does not include any resources to fund the next round of wage increases during the 2003-2006 period. The outcome of outstanding labor contracts and the next round of collective bargaining, which starts this summer, could significantly increase city costs. Each 1 percentage point increase in wages for all city workers, including the BOE, would increase labor costs by over $180 million during the first full year the contracts are in effect.

FRINGE BENEFIT SAVINGS

The city currently plans to achieve savings of $500 million in 2003, $525 million in 2004, $550 in 2005 and $575 million in 2006 by containing the growth of fringe benefit costs. As part of the anticipated fringe benefit cost containment, the city expects to realize savings of $856 million over the four-year plan period by stretching out the phase-in of cost-of-living adjustment (COLA) payments. The COLA legislation enacted by the state in 2000 provided automatic adjustments for retirees and active members, and is estimated by the city to cost approximately $585 million annually. The legislation allowed the city to phase in the COLA payments over five years in order to lessen its fiscal impact. The city's proposal extends the phase-in period to 10 years. The financing schedule does not affect pension benefits to retirees. However, the budgetary impact in subsequent years will be substantial, given that once the phase-in is concluded in 2010 the city will have to increase contributions by more than $120 million to make up for the reduced payments in the earlier years. In order to implement the COLA phase-in, the city needs approval by the state legislature.

This still leaves $1.3 billion in other fringe benefit savings to be achieved over the course of the four-year Financial Plan period in cooperation with city labor unions. In his Preliminary Budget, the Mayor did not include any specific proposals. Instead, the city has asked that municipal unions identify specific actions that would generate recurring savings to the city. In the past, proposals such as health insurance cost-sharing and reductions in annual leave allowances have been considered.

Although there are significant uncertainties as to the successful implementation of these actions, IBO has included the full value of these proposed savings in its reestimate of the Financial Plan.

EARLY RETIREMENT AND SEVERANCE

The February Financial Plan includes savings of $100 million annually resulting from an early retirement and severance plan that the city hopes will lead to a decline in the city workforce of between 3,500 and 4,000 employees. The city anticipates the state will approve the proposal, which allows the city to target specific job titles for an early retirement incentive that includes elimination of penalties for retiring prior to meeting the eligible age and a service credit of one month for each year served. The city has not provided specific details on targeted positions or program financing. Additionally, the severance portion of the program has yet to be negotiated with the unions. IBO believes that the city's estimates are reasonable if the early retirement and severance package is approved and implemented in a timely manner.

PENSIONS

The February Plan anticipates that the city's contributions to the five actuarial pension funds will be $1.6 billion in 2002, $1.9 billion in 2003, $2.2 billion in 2004, $2.5 billion in 2005 and nearly $3 billion in 2006. Compared to the 2002 Adopted Budget and Financial Plan, the city's contributions to the five pension funds for the 2002-2006 period increased by about $3 billion. Slightly less than half of the increase represents transfers from the general labor reserve and the Board of Education labor reserve to pay for pension costs associated with wage increases included in the 2000-2002 round of collective bargaining. These transfers do not affect the city's overall budget.

The balance of the increases—including the recognition of the 8.3 percent pension fund investment losses in 2001—result in additional needs of $1.5 billion through 2006. The city's losses on its pension fund investments in 2001 and—most likely—2002 will trigger increases in its future contributions. The city's estimates of pension contributions are based on the assumption that pension fund investments will earn 8 percent annually. If investment returns are higher than 8 percent in any fiscal year, then the city can reduce its future contributions. If, on the other hand, returns are lower than 8 percent, then the city must appropriate additional resources, as determined by the city actuary, to adequately fund anticipated future retiree benefits. The city phases in this adjustment over a five-year period.

During the first six months of fiscal year 2002, pension fund investments lost about 2.3 percent. While it is premature to predict investment returns for the year, the outlook for 2002 is troubling. Unless pension fund investments achieve more than a 10.5 percent return in the latter half of the fiscal year, the city will have to increase pension contributions once again to make up for investment losses.

Lower headcount projections will save the city $137 million through 2006. In addition, a recent court ruling to include teachers' per session compensation in calculating retirement benefits may increase the Teachers' Retirement System pension costs by approximately $70 million annually. Finally, casualties and disabilities related to the World Trade Center attacks as well as accelerated retirements due to high levels of trade center-related overtime will also increase pension costs. However, the federal government is expected to pay for these expenses. The February Plan already includes $27.8 million in federal funds to pay for incremental pension costs associated with the attack in 2002.

Changes to City-Funded Pension Contribution Requirements

Millions of dollars

	2002	2003	2004	2005	2006
Adopted Plan	**$1,343**	**$1,454**	**$1,559**	**$1,754**	**$1,754**
Transfers from Labor Reserves	$218	$340	$370	$375	n/a
Actuarial Reestimate	($81)	$53	$200	$303	$1,126
All Other, Net	($17)	$24	$14	$15	$20
February Plan	**$1,463**	**$1,871**	**$2,143**	**$2,447**	**$2,900**

SOURCE: IBO

HEALTH INSURANCE

The city's health insurance costs are linked to the Health Insurance Plan of Greater New York (HIP) premium rates. In the November Financial Plan, the city projected that health insurance costs for city employees in 2002 would reach $1.7 billion based on the assumption that premiums would rise by 4 percent a year. HIP premium rates, however, increased by 11.9 percent in 2002 and will increase by another 8.5 percent next year. In the February Plan, the city recognized the shortfall and increased health insurance allocations by $120 million in 2002, $200 million in 2003, and, assuming 8 percent increases in future years, $280 million in 2004, $375 million in 2005, and $490 million in 2006.

Medicare Part B. Mayor Giuliani filed suit last year to block City Council legislation that would fully reimburse Medicare-eligible retirees for premiums incurred for Medicare Part B insurance. The legislation came after 13 years of partial payment by the city. Mayor Bloomberg apparently does not intend to continue the suit. In the 2003 Preliminary Budget the city recognized the cost for full reimbursement and increased allocations for Medicare Part B by $33 million in 2002, $42 million in 2003, $62 million in 2004, $73 million in 2005, and $84 million in 2006.

Appendices

Appendix A

IBO Expenditure Projections

Dollars in millions

	2002	2003	2004	2005	2006
Health & Social Services					
Social Services	$ 5,870	$ 6,010	$ 6,049	$ 6,166	$ 6,310
Administration for Children	2,321	2,337	2,353	2,353	2,353
Health	2,141	2,079	2,131	2,195	2,241
Homeless	536	557	587	596	596
Other Related Services	536	424	425	425	425
Subtotal	11,404	11,407	11,545	11,735	11,925
Education					
BOE (excl. Labor Reserve)	11,504	11,539	11,812	12,174	12,488
CUNY	427	402	412	416	420
Subtotal	11,931	11,941	12,224	12,590	12,908
Uniformed Services					
Police	3,616	3,254	3,318	3,310	3,307
Fire	1,199	1,067	1,064	1,063	1,062
Correction	901	931	937	939	936
Sanitation	1,082	971	1,000	1,024	1,024
Subtotal	6,798	6,223	6,319	6,336	6,329
Debt Service	1,349	3,527	4,597	4,871	5,163
Labor Reserves					
Board of Education	381	472	485	485	485
All Other Agencies	375	490	479	481	484
All Other	9,716	9,004	9,593	10,273	11,027
Total Expenditures	$ 41,954	$ 43,064	$ 45,242	$ 46,771	$ 48,321

SOURCE: IBO

NOTES: Expenditures in 2002 include extraordinary costs related to the World Trade Center disaster.

Expenditures are not adjusted for prepayments.

Debt Service includes Transitional Finance Authority (TFA) debt service expenditures

Expenditures are net of intra-city sales.

Appendix B

Report Contributors

David Belkin	Business income taxes, sales taxes
Theresa Devine	Economic outlook
James Doyle	Public health, HHC, Medicaid
Richard Greene	Fire department
Michael Jacobs	Economic outlook, personal income tax, hotel occupancy tax; business services
Christine Lidbury	State and federal assistance
Paul Lopatto	Public assistance, Medicaid, child care
Marcia Murphy	Labor, pensions
Bernard O'Brien	Police department, CCRB, corrections, juvenile justice
Molly Wasow Park	Housing, homeless, buildings
Merrill Pond	Sanitation, environmental protection, debt
Alan Treffeisen	Transportation, NYC Transit
Ana Ventura	Board of Education (capital), youth services, seniors
Robert Weiner	Board of Education, CUNY
Elizabeth Zeldin	Parks, cultural affairs, libraries, real property transfer and mortgage recording taxes

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