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Analysis of the Mayor's Preliminary Budget for 2004

IBO's Reestimate of the Mayor's Preliminary Budget for 2004 and Financial Plan through 2007

IBO

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Preface

As we developed this report over the weeks since the Mayor released his budget plan, more indications of how steeply the city has fallen from the economic and fiscal heights of the late 1990s have become available. Revised employment numbers show that the city lost 222,900 jobs between December 2000 and December 2002—considerably more than previous estimates. The financial services sector, which is so critical to the city's tax base, shed nearly 32,000 jobs, or 16 percent, since Wall Street employment peaked in June 2001. And even as the city's revenue projections continued to fall, war in Iraq has added millions of dollars a day to local security costs.

This report provides IBO's analysis of the Mayor's Preliminary Budget for 2004 and Financial Plan through 2007. It presents an examination of the key tax and budget proposals made by the Mayor, reviewing and, in many cases, reestimating the potential revenue, costs, or savings from these initiatives. Because many of the sections contained in this report—in particular the economic and revenue forecasts and the overview—were first released in early March to supplement IBO's testimony at the City Council's budget hearings, they may not reflect all of the latest events and information.

Two notes on the report's format: all years refer to fiscal years unless otherwise indicated; the total budgets for city agencies are always net of intra-city sales (contracts and purchases between city agencies).

Like last year, we also have produced a companion volume to this report, *Budget Options for New York City*. Released in February, the report presents more than 60 options for closing the city's budget gap, along with pros and cons associated with each measure.

This Preliminary Budget report 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 the report. The report was written under the supervision of Deputy Directors Preston Niblack, Frank Posillico, and George Sweeting. Doug Turetsky served as editor, and Michael Hartmann and Nashla Rivas were responsible for its layout and production.

Ronnie Lowenstein

Director

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INTRODUCTION

The Independent Budget Office (IBO) has reviewed the Mayor's Preliminary Budget for fiscal year 2004 and Financial Plan through 2007, as required by the City Charter. IBO's review and analysis of the budget plan includes our own projection of revenues, repricing of the Mayor's policy proposals, and reestimate of the cost of delivering existing services. The following review is based on this comprehensive examination.

- Despite a substantial tax increase and spending reductions, IBO finds that a budget shortfall of up to $2.2 billion remains to be closed in 2004. Gaps in the following years grow from as much as $3.9 billion in 2005 to $4.1 billion in 2006.
- The Mayor's budget plan for 2004 depends upon $2.9 billion in initiatives outside his control. These include measures that require state or federal assistance or approval as well as the consent of municipal labor unions.
- City tax revenues will grow by $1.7 billion in 2004; $828 million of the rise is attributable to the second half of the property tax rate increase that takes effect in July. With the property tax hike, tax revenue will once again exceed their pre-recession 2001 peak.
- City-funded expenditures will grow by $1.6 billion in 2004 and total $32.8 billion despite the combined November and January plan cuts of $1.3 billion in agency spending. Rising Medicaid, pension, fringe benefit, and debt service costs are major factors for the increased spending.
- The Bloomberg Administration's plan for closing the 2004 budget gap includes nearly $1.6 billion in measures that will have no recurring value (roughly $1.3 billion) or diminishing value after 2004 (Personal Income Tax Reform).
- The Governor's state budget proposal, while failing to provide much of the assistance the Bloomberg Administration is seeking, would impose upwards of $140 million in new Medicaid costs for the city and reduce education aid to the city by at least $462 million, The state's own fiscal difficulties will pose significant hurdles to balancing the local budget.

Total Revenue and Expenditure Projections

Dollars in millions

	2003	2004	2005	2006	2007	Average Change
Revenues	$ 45,080	$ 44,483	$ 44,620	$ 46,119	$ 47,933	1.5%
city-funded revenues	*31,167*	*30,522*	*31,299*	*32,700*	*34,425*	2.5%
Expenditures	45,080	46,719	48,480	50,202	51,591	3.4%
city-funded expenditures	*31,167*	*32,758*	*35,159*	*36,783*	*38,083*	5.1%
IBO Surplus/(Gap) Projection	**$ -**	**$ (2,236)**	**$ (3,860)**	**$ (4,083)**	**$ (3,658)**	

SOURCE: IBO.

NOTES: IBO projects a surplus of $628 million for 2003, $7 million above the Bloomberg Administration's forecast. The $628 million is used to prepay 2004 expenditures, leaving 2003 with a balanced budget. City-funded revenues and expenditures exclude state and federal categorical grants. Projections are net of intra-city revenues and expenditures.

BUDGET GAPS

Largely because of the 18.5 percent increase in the property tax rate in the middle of the current fiscal year, IBO anticipates the city will end 2003 with a surplus of $628 million. These funds will be used to prepay some 2004 expenses and help shrink the gap by an equivalent amount.

Based upon IBO's estimates of city revenue and spending as well as a review of the Mayor's revenue and expenditure proposals, we anticipate that a shortfall of up to $2.2 billion remains in 2004. The potential budget gap grows in the following two years, to $3.9 billion in 2005 and $4.1 billion in 2006, and then falls slightly in 2007 to $3.7 billion.

To close the 2004 gap, the Mayor's plan depends upon $2.9 billion in initiatives outside his control. These include measures such as his proposal to extend the city's Personal Income Tax (PIT) to commuters, requests for state and federal assistance, and changes in collective bargaining agreements with municipal labor unions.

REVENUE ESTIMATES

The recession has hit New York City and its critical financial services industry harder and for a longer period than many economists had expected. The World Trade Center attack has of course also had a continuing effect on the city's economic condition. IBO projects that the recession, coupled with the aftershock from the trade center attack, will mean continued job losses in the city through calendar year 2003. We forecast job losses of 13,000 in calendar year 2003, followed by modest growth of nearly 29,000 jobs in calendar year 2004—mostly in the lower paying service sectors. The securities industry will continue to have job losses through the middle of calendar year 2004; due to the industry's high level of compensation, the loss of securities jobs has a disproportionate impact on the local economy.

Based on this economic forecast, IBO projects that if the 18.5 percent property tax rate increase had not been enacted, 2004 city tax revenue would have remained below its high point in 2001 prior to the recession. With the rate increase in place and modest growth in other tax sources, tax revenue is expected to total $24.8 billion in 2004, $1.7 billion more than we expect tax collections to total in 2003.

Much of the growth that IBO expects will resume in 2004 will be reflected in business tax collections. But much of the dollar growth in 2004 tax revenue will come from the property tax. IBO projects the property tax will total $11.2 billion in 2004, $1.2 billion more than this fiscal year—largely because of the increase in the property tax rate, which took effect in the second half of 2003.

EXPENDITURE ESTIMATES

IBO projects city-funded spending to reach $32.8 billion in 2004—$1.6 billion more than estimated for the current fiscal year. This rise occurs despite spending by city operating agencies actually falling in 2004. From 2003 through 2007, IBO projects agency spending will grow at an average annual rate of less than 1 percent.

In 2004, the combined November and January plans cut agency expenditures by $1.3 billion. Approximately half of the spending reductions would come from the elimination or cutback of specific programs and services, and from other, unspecified cuts in agency budgets. While not linked to specific programs, these cuts could ultimately affect service delivery as well. The other half of the agency spending reductions would come from reestimates of service needs, shifting costs to federal or state resources, and similar actions.

The largest cuts, in dollar terms, are shouldered by the police and education departments. In percentage terms, however, several smaller agencies, such as the Department of Employment, Department of Youth and Community Development, and the Department for the Aging took larger cuts, ranging from 4 percent to 8 percent.

A number of factors contribute to the rise in spending despite agency cutbacks. One is the increasing cost of Medicaid for the city. IBO estimates the city's share of Medicaid in 2004 will equal $4.4 billion, $212 million more than last year. Pension costs also are rising rapidly due to the need to cover losses in pension fund investments as well as cost-of living-adjustments required by the state. The city's contributions to its five pension funds are projected to grow by $827 million in 2004, and total $2.6 billion. Even if the pension funds resume their 8 percent assumed return on investments in 2004, pension costs are expected to grow at an average annual rate of nearly 27 percent, and total $4.6 billion in 2007. Also increasing at a fairly fast pace are the cost of fringe benefits for city employees—particularly health care. Spending for fringe benefits will rise by an estimated $146 million in 2004, and total $2.8 billion (excluding public school employees). Fringe benefits are projected to total $3.4 billion in 2007.

Another factor in the continued rise in spending is debt

Pricing Differences Between IBO and the Administration

Items that Affect the Gap

Dollars in millions

	2003	2004	2005	2006	2007
Gaps as estimated by the Mayor	**$ -**	**$ -**	**$ (1,495)**	**$ (2,008)**	**$ (2,034)**
IBO Pricing Differences					
Revenues					
Taxes					
Property	(10)	(9)	138	162	96
Personal Income	119	129	125	223	503
General Sales	57	74	93	134	174
General Corporation	(29)	41	(48)	(144)	(8)
Unincorporated Business	(13)	(6)	(39)	(68)	(62)
Banking Corporation	3	7	(6)	(17)	(38)
Real Property Transfer	16	33	24	8	(6)
Mortgage Recording	28	(1)	(36)	(13)	32
Utility	5	6	7	9	12
Hotel Occupancy	(3)	(4)	5	3	(9)
Commercial Rent	(23)	(25)	(20)	(18)	(24)
Other Taxes, Peg's and Audits	(18)	(29)	(40)	(37)	(37)
	132	216	203	242	633
PIT / Commuter Tax Proposal	-	206	192	62	(255)
STaR Reimbursement	(7)	18	18	45	65
Total Revenues	125	440	413	349	443
Expenditures					
Public Assistance	2	28	58	62	62
Medicaid	(39)	(73)	(137)	(167)	(328)
Department of Education	(25)	(11)	(53)	(53)	(54)
Campaign Finance	4	(4)	12	(34)	12
Overtime	(60)	(65)	(65)	(65)	(65)
Total Expenditures	(118)	(125)	(185)	(257)	(373)
Total IBO Pricing Differences	**7**	**315**	**228**	**92**	**70**
Uncertainties					
PIT / Commuter Tax Proposal	-	(1,168)	(850)	(221)	255
Anticipated State and Federal Actions	-	(600)	(1,050)	(1,250)	(1,250)
Labor Cost Containment	-	(600)	(600)	(600)	(600)
Airport Rent	-	(190)	(93)	(96)	(99)
Total Uncertainties	**-**	**(2,558)**	**(2,593)**	**(2,167)**	**(1,694)**
Prepayment Adjustment	(7)	7	-	-	-
IBO Surplus/(Gap) Projection	**$ -**	**$ (2,236)**	**$ (3,860)**	**$ (4,083)**	**$ (3,658)**

SOURCE: IBO.

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

service. During the last two fiscal years (2001 and 2002), general city debt-funded capital spending, in inflation adjusted terms, surged from an average annual level of $3.2 billion between 1996 and 2000 to $4.5 billion a year—a 40 percent increase. The increased city borrowing to finance this level of capital spending will help push debt service up at an average annual rate of 5.6 percent between 2004 and 2007. Several refundings of city general obligation and Transitional Finance Authority (TFA) debt substantially lowered debt service in 2003, and will help lower costs through 2007. At the same time, however, the $2 billion in TFA bonds issued to fund World Trade Center-related operating expenses will add $95 million in debt service in 2004 and $165 million annually over the next three decades.

To help hold down the growth in debt service, the Bloomberg Administration ordered cuts to the four-year capital program that totaled 24 percent for city debt-funded projects. These cuts would begin to bring the rate of city capital spending back down to roughly its level of the late 1990s.

ONE-TIME RESOURCES

The Bloomberg Administration's plan to close the 2004 budget gap includes nearly $1.6 billion in measures that will have no recurring value or diminishing value after 2004. In other words, these "one shots" will be of little or no help in addressing the substantial shortfalls the city will face in the years after 2004. But unlike the borrowing done to help close this year's gap, the one-time resources proposed for 2004 do not come at the cost of increased expenditures in future years.

The largest single one shot is the anticipated settlement with the Port Authority of New York and New Jersey on back rent owed for the city's airports. The city estimates $600 million from this settlement, although the Governor has talked about $500 million.

A number of agency spending cuts only will produce savings in 2004. Among these are $32.6 million in savings from debt refunding, $23.7 million by delaying some Fresh Kills closure expenditures, and $21 million in personnel savings in the police department.

The Mayor's plan for altering the city's Personal Income Tax would have diminishing returns because in addition to extending the tax to commuters it would also lower the tax rates. In 2005, the new PIT revenue from this proposal would be $317 million less than in 2004. IBO estimates that by 2007 the Mayor's PIT reforms would actually *cost* the city $255 million.

The $628 million budget surplus that IBO projects at the end of 2003 will be used to prepay some 2004 expenses. While helping to lower the 2004 gap, the surplus will not ease the projected gaps in future years.

UNCERTAINTIES

While a preliminary budget often includes a few "trial balloons," the 2004 plan contains a number of measures the Mayor first presented in November but which have received little support since then. The January plan acknowledges that these initiatives, which require help from the state and federal governments and municipal labor unions, have not yet been achieved. Although the Mayor may ultimately succeed in securing all or part of these measures, they pose a sizable risk to his plan.

The biggest of these initiatives is the proposed change to the city's Personal Income Tax. If this proposal is not approved by the state—and both the Governor and Senate Majority Leader have expressed their doubts—IBO estimates it will result in $1.2 billion less in tax revenue for the city in 2004.

Other proposals that present significant risks to the Bloomberg Administration's plan for balancing the 2004 budget include $400 million in actions from the state and federal governments as well as $200 million in "transportation initiatives"—tolling the East River bridges and having the Metropolitan Transportation Authority assume responsibility for the private bus routes now subsidized by the city.

The proposal for $600 million in savings from labor concessions and/or productivity also is very uncertain. Recognizing this, on February 25 the Bloomberg Administration directed city agencies to prepare contingency cuts of $600 million in case an agreement with the municipal labor unions on savings could not be reached by April 1.

Another labor issue with ramifications for the city budget is future wage increases for the municipal workforce. Most union contracts have already expired, and the remainder will in 2004. The Bloomberg Administration's budget plan includes no funds for wage increases. In fact, the Mayor has said there will be no retroactive pay raises and no raises that are not self-funded by workers through additional productivity savings. This may prove a hard bargaining line to hold.

The federal and state budgets also pose some very significant uncertainties for the city. The President's proposal to end the tax on dividend income could both lower city PIT revenue (the city links its income tax to the federal tax) and make it more expensive for the city to issue bonds, since they would no longer have the competitive advantage of being the only tax free investment. The President's proposals for converting Medicaid and Head Start funding into block grants also could have consequences for the city budget in the future.

The Governor's proposed budget included little of the new aid the Mayor had been seeking. Moreover, the Governor's plan for education spending would *reduce* aid to the city by at least $462 million, including the elimination of all support for universal pre-kindergarten and the program to reduce class size in the lower grades. Nor did the Governor's budget proposal include the $275 million the Mayor sought to help fund the 20-minute extension of the school day negotiated last year.

The Governor's proposed changes to Medicaid also would have fiscal consequences for the city. IBO estimates that if adopted the changes would add upwards of $140 million a year to the city's Medicaid expenditures.

While much can change as budget negotiations proceed in Albany, the state's own $11.5 billion budget shortfall poses a significant barrier to gaining the new aid the city wants—or restoring newly proposed cuts or changes in state aid. Given the uncertainty of several of the Bloomberg Administration's key proposals for closing the budget gap as well as the fluidity of state budget negotiations, closing the city's 2004 budget shortfall will pose major challenges for the Mayor and City Council.

Revenue

Economic Outlook

RECENT DEVELOPMENTS

Recent economic data have continued to send mixed signals about the U.S. and local economies. Last week, the U.S. Department of Commerce issued its updated measure of growth of the U.S. economy for the fourth quarter showing that the economy grew slowly at an annual rate of 1.4 percent. (This revision doubled the preliminary fourth quarter growth rate released earlier in February.) The modest growth in the last quarter brought real gross domestic product (GDP) growth for all of 2002 to 2.4 percent. At the same time, a new report found consumer confidence at its lowest point in nine years, with concerns over possible war in the Middle East and employment prospects discouraging consumers from spending. Given the key role of consumer spending in sustaining the current modest economic recovery this finding is potentially troubling.

At the local level, job losses have continued. On a seasonally adjusted basis, the city economy lost 11,700 private-sector jobs in December, bringing the total job losses since December 2000 when employment peaked to 175,700. The local unemployment rate grew to 8.5 percent in December, the highest since 1997. New data from the securities industry show that profits for firms in the industry fell to $7 billion in 2002 ($4.8 billion after accounting for charges and settlements associated with complaints about conflicts of interest in the firms' equities research units.) As recently as 2000, the profits of these companies topped $20 billion.

IBO's outlook has grown more pessimistic, particularly for the local economy, since last fall. In addition to the employment and securities profits data noted above, the intervening months have brought new evidence of weakness in commercial real estate markets and little sign of recovery in the financial markets.

NATIONAL ECONOMIC OUTLOOK

For the national economy, while modest growth has continued, this has not been accompanied by growth in employment or business investment. Thus, IBO now expects strong economic recovery for the U.S. economy to be postponed until 2004. With so many economic uncertainties, IBO expects no significant improvement in financial markets, as measure by the S&P 500 and other indices, until early 2004. At the local level job losses are expected to continue through 2003 with only modest recovery in 2004. Strong local growth is now projected to be delayed until late 2004, with a pickup in 2005 and 2006. Although IBO's outlook has been revised downward since last fall, our projections, particularly for the local economy in the near term, are still somewhat more optimistic than those presented by the administration in the Preliminary Budget.

The national economy is expected to grow slowly this year and then expand more strongly in 2004. IBO expects GDP to grow at a rate of 2.6 percent in 2003 and then 3.5 percent in 2004, before tapering off to an average of 3.3 percent annual growth in 2005-2007. The forecast does not include the type of rapid expansionary growth that typically follows periods of recession, and the projected rates of growth remain well below the surging growth of the late 1990s. Likewise, IBO projects meager growth in U.S. payroll employment through the end of this year, resulting in a 0.7 percent growth for 2003, following a 0.9 percent loss in 2002. Employment growth is still not expected to be very strong in 2004 (2.0 percent) before dropping back to 1.8 percent in 2005 and less than 1.4 percent for 2006 and 2007. Real personal income is expected to grow by only 1.5 percent in 2003 (identical to 2002), somewhat faster in 2004 (2.8 percent), and then average 2.9 percent from 2005 through 2007.

The current outlook for the national economy is subject to greater uncertainty than normally accompanies any economic forecast. The largest unknown stems from a potential war in the Middle East. Whether a war occurs, and how long it proceeds, will have a major impact on the fate of the economic recovery still getting underway. A prolonged war or a sustained increase in oil prices have the potential to stop the nascent recovery or even to push the economy back into recession. In contrast, a short war could reduce uncertainty for consumers and businesses, thereby removing an impediment to economic recovery. For the purposes of our forecast IBO has assumed that the latter.

A second major unknown is the federal stimulus package being debated in Washington. Depending upon the timing and the nature of the specific measures enacted, short term economic growth could be accelerated. The President's proposal to exclude dividends from taxation under the personal income tax could potentially lead to new investment in the stock market, which would benefit New York City's critical securities industry. On the other hand, IBO has estimated that the dividend exclusion would probably reduce city income tax collections by about $150 million per year.

IBO versus OMB Economic Forecasts

	2002	2003	2004	2005	2006	2007
National Economy						
Real GDP Growth						
IBO	2.5	2.6	3.5	3.1	3.5	3.0
OMB	2.4	2.9	4.5	3.7	3.4	3.0
Non-farm Employment Growth						
IBO	-0.9	0.7	2.0	1.8	1.4	1.3
OMB	-0.8	0.8	2.5	1.9	1.2	1.1
Inflation Rate (CPI-U)						
IBO	1.6	2.0	2.1	2.5	2.4	2.3
OMB	1.6	2.3	2.5	2.4	2.2	2.1
Personal Income Growth						
IBO	1.5	1.5	2.8	3.1	2.9	2.7
OMB	3.0	4.7	6.4	6.0	5.5	5.2
Unemployment Rate						
IBO	5.8	6.2	5.7	5.4	5.2	5.2
OMB	5.8	5.9	5.3	5.0	5.1	5.1
10-Year Treasury Bond Rate						
IBO	4.6	4.6	5.5	5.8	5.9	5.8
OMB	4.6	5.2	6.5	6.7	6.7	6.5
Federal Funds Rate						
IBO	1.7	1.9	4.6	5.3	5.1	5.0
OMB	1.7	1.7	3.3	4.2	4.9	5.0
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	-87.0	-13.1	28.9	45.9	63.7	61.8
OMB	-91.2	-57.6	49.1	38.8	41.4	37.3
Employment Growth						
IBO	-2.3	-0.4	0.8	1.3	1.7	1.7
OMB	-2.5	-1.6	1.4	1.1	1.1	1.0
Inflation Rate (CPI-U-NY)						
IBO	1.9	2.1	2.2	2.5	2.5	2.3
OMB	2.7	2.4	2.6	2.6	2.5	2.5
Personal Income ($ billions)						
IBO	310	319	332	350	370	390
OMB	310	315	331	347	366	389
Personal Income Growth						
IBO	-0.4	2.8	4.1	5.3	5.9	5.3
OMB	-0.9	1.3	5.4	4.8	5.4	6.2
Manhattan Office Rents ($/sq.ft)						
IBO	55.58	53.36	54.40	55.97	57.85	59.78
OMB	52.77	46.46	44.78	45.57	46.61	47.35
Securities Industry Prof ($billions)						
IBO	8.1	10.0	13.0	12.7	14.8	15.7

SOURCES: IBO.
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.

LOCAL ECONOMIC OUTLOOK

IBO expects the New York City economy to recover later and slower than the U.S. economy. Following last year's estimated loss of 87,000 jobs, 2003 is expected to bring a further loss of 13,100 jobs.[1] Job growth does not resume until 2004—a year later than for the national economy—and even then projected growth is a fairly modest 28,900 jobs. IBO expects accelerating job growth in 2005 and 2006, when the local economy is projected to add 45,900 and then 63,700 jobs.

This overall increase in employment obscures a shift in the composition of payroll employment in New York City away from relatively high-paying jobs in securities and toward other service sector jobs—a change with potentially grave implications for the New York City economy and budget. IBO expects this trend to continue over the next few years as securities industry firms continue to shed jobs in response to the cyclical downturn in their sector, as well as stepping up the long-term trend towards decentralizing their operations to lower costs and to provide redundancy to reduce the threat to their operations stemming from a catastrophic event such as September 11.

As of December 2002, employment in the securities industry had fallen by 24,900 (13.1 percent) from the peak level in August 2001. Several major firms in the financial industry have since announced plans for additional job cuts. IBO expects the securities industry to shed another 8,000 local jobs during 2003 and to not resume growing until mid-2004. Once securities employment resumes it will remain weak; by the end of 2006 the job gains are only expected to make up the losses anticipated during 2003 and 2004. Employment at the end of 2006 is expected to be 168,000, 22,600 below the level in August 2001. Other sectors expected to continue losing jobs are those associated with tourism (hotels, restaurants, entertainment, and the transportation industry), business services, and construction.

IBO expects these job losses to be made up in other sectors, albeit in jobs paying lower wages. Health, education, social services, and other services excluding business and legal services are expected to add 18,500 jobs in 2003 and another 15,500 jobs in 2004. Compensation (wages, salaries, and bonuses) in these sectors in 2000 (the latest data available) averaged $41,200 annually, a fraction of the $248,500 average in the securities industry. Other sectors such as retail and wholesale trade are also expected to help sustain the city's employment base in 2003 through 2005.

Other measures of local economic activity are expected to show more robust growth than employment. IBO forecasts a jump in the annual growth rate for residents' personal income from a negative 0.4 percent in 2002 to growth of 2.8 percent in 2003 and 4.1 percent in 2004. Growth then accelerates to over 5 percent annually in 2005 through 2007. The forecast for wages and salaries earned in New York City is similar, with slow growth in 2003 of 1.8 percent, followed an increase of 4.8 percent in 2004 and then over 6 percent annual growth from 2005 through 2007. The inflation forecast remains mild—2.1 percent this next year, and 2.2 to 2.5 percent in 2004-2007. Profits in the securities industry are expected to be $10.0 billion this year, roughly one-third higher than the total earned in 2002 before the reserve for penalties and settlements and slightly higher than the $9.5 billion assumed by the Bloomberg Administration in the Preliminary Budget. Office vacancy rates are expected to drop slightly in 2003, but remain near their current levels. Asking rents are expected to decline this year and then bottom out next year before beginning a gradual recovery.

[1] The annual March re-benchmarking of the Department of Labor's employment data (scheduled to be released on March 13) will likely result in a significant adjustment to the 2002 figure.

Taxes and Other Revenue

INTRODUCTION

The city's revenue outlook, particularly from tax sources, has continued to worsen in recent months. IBO projects that revenue from all sources (taxes, miscellaneous city revenues, state and federal categorical aid and other revenues including unrestricted aid) will total $45.1 billion in 2003 and $44.5 billion in 2004. The total for 2003 includes $1.5 billion in one-time borrowing authorized by the state in the wake of the World Trade Center attack and $650 million in anticipated payments from the federal government to cover some of the city budget's losses stemming from the attack. Adjusted for these extraordinary payments, the total for all other revenues is expected to grow by 3.6 percent from 2003 to 2004 and then at an average annual rate of 2.5 percent from 2005 through 2007, when they reach $47.9 billion.

The bulk of this chapter presents IBO's forecast of tax revenues, which is built up from our forecasting models for 11 major tax sources. The chapter also includes a brief overview of the outlook for revenues from other sources.

IBO Revenue Projections

Dollars in millions

	2003	2004	2005	2006	2007	Average Change
Tax Revenues						
Property	$ 9,916	$ 11,158	$ 11,721	$ 12,168	$ 12,555	6.1%
Personal Income	4,626	4,781	5,131	5,589	6,181	7.5%
General Sales	3,566	3,675	3,903	4,123	4,372	5.2%
General Corporation	1,142	1,307	1,397	1,421	1,632	9.3%
Unincorporated Business	786	842	881	911	979	5.6%
Banking Corporation	227	299	360	420	432	17.5%
Real Property Transfer	480	451	474	488	515	1.8%
Mortgage Recording	475	383	377	423	503	1.4%
Utility	287	277	286	289	297	0.9%
Hotel Occupancy	203	223	256	272	272	7.6%
Commercial Rent	375	388	405	417	431	3.5%
PILOT's	145	144	147	152	155	1.7%
Other Taxes and Tax Audits	853	823	812	813	810	-1.3%
Total Taxes Before Proposals	23,081	24,751	26,150	27,486	29,134	6.0%
Tax Proposals - excluding PIT reform	*3*	*40*	*23*	*23*	*23*	*n/a*
Total Taxes After Proposals	*23,084*	*24,791*	*26,173*	*27,509*	*29,157*	*6.0%*
Other Revenues						
STaR Reimbursement	652	676	698	760	801	5.3%
Miscellaneous Revenues	3,130	3,408	2,880	2,862	2,882	-2.0%
Transitional Finance Authority - 9/11	1,500	-	-	-	-	n/a
Anticipated State and Federal Aid	650	-	-	-	-	n/a
All Other	2,151	1,647	1,548	1,569	1,585	-7.3%
Total Other Revenues	8,083	5,731	5,126	5,191	5,268	-10.1%
State and Federal Grants	13,913	13,961	13,321	13,419	13,508	-0.7%
Total Revenues	$ 45,080	$ 44,483	$ 44,620	$ 46,119	$ 47,933	1.5%

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 local economy still in recession and recovery now not expected to begin until 2004, IBO's tax revenue forecast is now lower than the forecast from last fall. Revenues in 2003 are projected to grow by 7.2 percent over 2002 and then by another 7.2 percent in 2004, although this growth is largely fueled by the 18.5 percent property tax rate increase, half of which was implemented this year, with the remainder taking effect for 2004. Tax revenues are projected to grow by 5.6 percent annually from 2005 through 2007.

- IBO projects that total tax revenue in 2003 will be $23.1 billion, an increase of $1.5 billion from 2002-$865 million of which is attributable to the property tax rate hike.
- The forecast calls for tax revenue to grow by 7.2 percent from 2003 to 2004 when they reach $24.8 billion. Again, much of the increase ($828 million out of $1.7 billion) is attributable to the property tax rate increase, with the second phase taking effect July 1, 2003.
- The strong tax revenue growth in the latter years of the Financial Plan (2005 through 2007) is largely driven by the personal and business income taxes. Real property tax revenue growth is expected to slow in these years as the pipeline of phased-in assessment increases from prior years is finally exhausted.
- IBO's tax revenue forecast exceeds the Bloomberg administration's Preliminary Budget forecast for 2003 by $132 million and by $216 million for 2004. These modest differences are attributable to IBO's somewhat more optimistic near-term outlook for the local economy.

REAL PROPERTY TAX

IBO projects that property tax revenue will reach $11.2 billion in 2004, up 12.5 percent from the 2003 level. While growth in property values accounts for some of this increase, most of the increase ($828 million) is due to the second step in the implementation of the 18.49 percent increase in property tax rates enacted last November. Because the higher rates were only in effect as of January 1, 2003, the full-year impact for fiscal 2003 is a rate increase of 9.23 percent. The remainder of the increase will be imposed in 2004. From 2004 to 2007, property tax revenues will continue to grow, but at the more moderate rate of 4.0 percent. Nearly all of this revenue growth will be due to the "pipeline" of assessment increases that are phased-in over five years for apartment buildings and commercial properties. A substantial pipeline of deferred increases was built up during the substantial run-up in market values in recent years.

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.[1]

Under the property tax law, every parcel is assigned to one of four tax classes: 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 ratios (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 classes in terms of shares of total market value, assessed values, and tax burdens (levies). On the 2003 assessment roll, class 1 homes account for 47.7 percent of market value in the city, but only 11.5 percent of assessed value for tax purposes and 13.2 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.

Tentative Assessment Roll for 2004. In January, the Department of Finance released the tentative 2004 assessment roll. Because of the timing of the assessment process, the market values on the 2004 roll largely reflect economic conditions in calendar year 2002, when the real estate market continued to show surprising strength in the face of the local recession. After taxpayer challenges and other department adjustments are processed, the values will be finalized in May and used for setting 2004 tax bills. Market values on the 2004 tentative roll show an overall growth rate of 9.0 percent over 2003, with class 1 showing the largest increase at 13.6 percent, followed by class 4 at 6 percent and class 2 at 3.7 percent. For class 1, the growth of aggregate market value on the 2004 roll was essentially the same as growth on the 2003 roll. Market value growth for class 2 was less than half the rate on the 2003 roll, however, while the growth for class 4 led by increases in office and loft buildings (including commercial condos) and hotels was much stronger than it had been on the 2003 roll.

Outlook for Values in 2004. IBO projects that total assessed value on the final 2004 tax roll will grow to $98.9 billion, 5.9 percent over the 2003 roll, but only about two-thirds of the increase in market values. The required phase-in of assessment increases for classes 2 and 4 accounts for part of this difference. A second constraint on assessment growth is the cap on annual assessment increases in class 1, which are limited to 6 percent in one year and a cumulative 20 percent increase over five years. While class 1 market values on the 2004 assessment roll grew by 13.6 percent, class 1 assessed values show growth of only 5.1 percent, largely because of these caps on assessment increases.

While the city eventually captures the phased-in assessment increases in classes 2 and 4, much of the market value growth lost to the caps in class 1 is essentially lost forever. When class 1 market value increases exceed the assessment cap, assessed values fall further and further short of the target assessment rate of 8 percent of market value. (Even in weak real estate markets, values rarely fall so far that assessments "catch up" to the target assessment rate for class 1.) When assessment increases for some properties in class 1 hit the caps, the tax rate for the class as a whole must be increased because under the state law governing the city's property tax system the same amount of revenue must be raised from the class regardless of the total assessed value in the class. Thus, owners of properties that did not hit the caps bear a higher burden than they would if the caps did not exist.

Outlook for Values in 2005-2007. Continued weakness of the local economy is expected to finally take its toll on the real estate market this calendar year and next, which will affect the 2005 and 2006 assessment rolls. The outlook for 2007 is more mixed with some classes growing slightly and others continuing to decline moderately. IBO projects that market values in class 1 will grow by just 3.1 percent for the 2005 assessment roll, and then decline at an average annual rate of 1.7 percent in 2006 and 2007. Class 2 market values are expected to decline by 2.0 percent on the 2005 assessment roll and then grow by an average rate of 3.1 percent in 2006-2007. The largest declines are expected to be in the Manhattan rental sector, where market values will fall by 4.4 percent on the 2005 roll before resuming slow growth. Class 4 market values are also expected to decline by an average rate of 1.9 percent each year for the 2005 and 2006 rolls. Manhattan office buildings, faced with declining demand due to job losses in the financial services and business services sectors, are expected to account for most of this weakness, with values projected to fall by 7.9 percent for the 2005 roll and another 4.9 percent for 2006.

With a steep drop in class 1 market value growth expected in 2005 (from 13.6 percent in 2004 to 3.1 percent) and smaller declines expected for 2006 through 2007, growth in class 1 assessments will also be anemic, with annual increases averaging 1.4 percent. The pipeline of previous growth will keep assessments in classes 2 and 4 growing fairly briskly for 2005—despite declines in market values. IBO projects that the 2005 assessment roll will be bolstered by a cumulative backlog of $9.8 billion in assessment increases from 2001 through 2004 remaining to be phased in. The pipeline of earlier increases will keep the assessment subject to tax (billable taxable value) growing, albeit at a diminishing rate in 2005 and 2006. Class 2 and 4 assessment growth rates are expected to average 4.6 and 4.3 percent, respectively. Overall, assessment growth for all classes of property will average 4.0 percent annually during 2005-2007.

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. Before raising property tax rates by 18.49 percent last year, the City Council had observed an informal freeze in the average tax rate since 1992. IBO's property tax revenue forecast assumes that a freeze in tax rates will be reinitiated at the 2004 average tax rate, which will have the 18.49 percent increase fully phased in. The levy for 2004 and subsequent years is assumed equal to 12.28 percent of the aggregate assessed value for tax purposes on the assessment roll, up from the old frozen average rate of 10.366 percent.

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. Taking these other factors into account, IBO projects that net property tax revenue for 2003 will total $9.9 billion, 14.7 percent above revenues for 2002. For 2004, revenue will grow by 12.5 percent to $11.2 billion. For 2005 through 2007, growth will average 4.0 percent, with revenue totaling $12.6 billion by the last year of the plan period.

Impact of Governor's Budget Proposal. One of the Governor's proposals to help close the state's budget gap would freeze the value of the School Tax Relief (STaR) exemption at last year's level for many beneficiaries. STaR is a statewide program that lowers school property taxes for homeowners by exempting a portion of the value of their property from taxation. The school districts are then reimbursed by the state for the foregone tax revenue. STaR benefits flow disproportionately to the New York City suburbs, which have high property values and high property taxes. Even after taking into account a supplementary city income tax benefit under STaR, the city has received a disproportionately low share of the statewide benefits.

The Governor's proposal would freeze the dollar value of the exemption at last year's levels for all beneficiaries except senior citizens. For city residents, this means that the automatic adjustment that would have occurred in the dollar value of the exemption to account for increases in property values—and more importantly, the recently increased property tax rate—would not take effect. The proposal would cost individual STaR recipients an average of $25 on their 2004 tax bills and reduce STaR benefits for city residents by a total of roughly $13 million.

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 $377 million in 2001 and $380 million in 2002. 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. The median rent for these remaining taxpayers is approximately $500,000 per year.

IBO projects that in 2003 CRT revenues will fall slightly to $375 million. CRT revenues are forecast to resume growth in 2004 and beyond, rising by roughly 3.6 percent per year to reach $388 million in 2004 and $431 million in 2007. The continuing slump in the demand for office and retail space, particularly downtown, accounts for the decline in CRT revenues in 2003 and the relatively modest growth from 2004 through 2007. IBO's CRT forecast is lower than the Preliminary Budget's estimate by $23 million for 2003 and $25 million for 2004.

Mortgage Recording Tax and Real Property Transfer Tax. These two closely related revenue sources are levied at opposite ends of residential and commercial real estate transactions. The real property transfer tax (RPTT) is levied directly on the sale price and is typically paid by the seller. The mortgage recording tax (MRT) is levied on 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 usually subject to the MRT, it is exempt from the RPTT, as no transfer of property is involved. 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 since 2000. Low mortgage rates effectively decrease housing costs and thus increase incentives to purchase new property. Low interest rates also provide incentives to refinance mortgages, which are subject to the MRT. Conversely, increasing mortgage rates effectively raise property costs and also deter mortgage refinancing. Recent declines in stock prices, which have hurt the local economy and depressed other tax sources, have actually spurred investments in real property and buoyed transfer tax revenues in last two years.

These forces have helped real estate markets, especially the housing market, to continue growing over the past year, although at a slower pace than in the late 1990s. IBO's outlook for the local real estate market is now more pessimistic. Mortgage interest rates are expected to rise by more than a percentage point between early 2003 and late 2004. IBO projects that sales prices, particularly for residential properties, will finally begin to more closely track the sustained weakness in the local economy. Single-family home prices, which grew by over 13 percent in calendar 2002, are expected to grow more slowly in 2003 (3.1 percent) and then drop by 1.6 percent in 2004, with further slight declines each year through 2007.[2] The decline may be greater if increased property tax rates have a significant downward effect on sales prices.

IBO forecasts an increase of 12 percent in RPTT revenues to $480 million for fiscal year 2003. By 2004, revenues will drop to $451 million. In 2005, revenues will rebound and increase by 5 percent to $474 million. Growth will continue in 2006 and 2007 with revenues reaching $515 million. MRT revenues in 2003 will remain close to their 2002 level, at $475 million. In 2004, revenues are expected to drop by 19 percent to $383 million. With higher interest rates depressing the refinancing business, MRT revenues are expected to continue declining, albeit at a slower rate, to $377 million in 2005. Revenues will then turn around, increasing to $423 million in 2006 and $503 million in 2007.

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 14 percent of base rate liability.[4] When applying the surcharge to the base rates, the tax rate totals 2.9 percent for income in the lowest bracket and 3.6 percent for income in the highest.

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 a quarter of what they would have been in the absence of the cuts. In spite of this substantial loss of revenue, PIT collections grew an average of 3.7 percent annually from 1998 to 2001, buoyed by the prolonged economic expansion and a soaring stock market that continually surpassed expectations.

In the first half of calendar year 2001, however, the national economy weakened, Wall Street's bull market was over, and local employment growth came to a halt. The September 11 attack on the World Trade Center was another blow to New York City's economy that—coupled with a loss of confidence in corporate accounting—had a particularly negative impact on employment and profits in the financial sector. As a result, PIT receipts plummeted 20.5 percent from 2001 to 2002, to $4.5 billion—the lowest level since 1997.

Revenue in the Current Year. With the prolonged slump on Wall Street and a local economy that continues to lag even the nation's anemic recovery from the recession of calendar year 2001, PIT collections to date in fiscal year 2003 are 2.4 percent less than in the comparable 2002 period. The bear market over the last two years has more than halved capital gains realizations and been the primary factor behind a sharp 26.9 percent decrease in quarterly estimated payments. The loss of estimated payment revenue has been partially offset by a small increase in withholding, a much larger PIT component typically accounting for over three-quarters of net collections. There has been no repeat this year of last year's large withholdings decline during the bonus-paying months (December to February), in spite of the continued erosion in securities firms' profits in calendar year 2002.

Despite the weakness in collections so far this fiscal year, IBO expects net PIT revenue (after refunds) to reach $4.6 billion, slightly higher than in 2002. (These and other collections figures reported in this section include PIT receipts dedicated to the Transitional Finance Authority.) Whereas estimated payments for anticipated calendar year 2002 liability were far less than 2001 payments, estimated payments in the coming months, in anticipation of 2003 liability, will not repeat last year's sharp fall-off. Moreover, unlike last year, when many taxpayers received substantial refunds in April because they had greatly overpaid their liabilities prior to filing their returns, this year fewer taxpayers have overpaid their liability through estimated payments. As a result, fewer refunds and more payments with final returns are expected this March and April, compared with last year. IBO's 2003 PIT forecast exceeds that of the city's Office of Management and Budget (OMB) by $119 million—2.6 percent of the total—with more revenue from withholding and final returns (but less from estimated payments) expected relative to OMB's current projections.

The Forecast for 2004 and Beyond. IBO forecasts a moderate increase in PIT collections, to $4.8 billion, in 2004. Starting in calendar year 2004, IBO projects employment growth exceeding 10,000 jobs per quarter and a sharp rise in the growth of personal income. As a result, 2004 withholding collections are expected to grow by 3.9 percent. Estimated payments, however, are forecast to grow only 0.5 percent in 2004, their growth being dampened by only moderate projected increases in capital gains realizations. IBO's 2004 PIT forecast is $130 million (2.8 percent) greater than OMB's Preliminary Budget estimate, due to our higher projections of withholding and final returns payments.

After 2004, faster employment and income growth, plus an expected jump in securities firms' profits will cause PIT growth to accelerate. IBO forecasts a healthy 7.3 percent increase in PIT collections in 2005, to $5.1 billion. This revenue increase is fueled by strong increases in withholding attributable to general improvement in the city's economy. With relatively strong employment and income growth being forecast for the final years of the Financial Plan, relatively rapid withholding growth continues after 2005. In contrast to the previous year, however, withholding growth is expected to be accompanied by significant increases in estimated payments that average 9.4 percent per year from 2005 through 2007. Total net PIT collections are expected to reach $5.6 billion in 2006 and $6.2 billion in 2007.

Relative to OMB, IBO projects higher levels of profits in the securities industry, as well as faster city employment and income growth throughout the forecast period. As a result, our PIT forecasts are from $125 million to $503 million higher than OMB's from 2005 on. As with the 2004 forecasts, higher projections of withholding and final returns payments account for most of the difference in the two sets of forecasts.

BUSINESS INCOME TAXES

After falling 18 percent in 2002, business income tax revenues are expected to decline another 12 percent in 2003. Projected total collections in 2003, $2.2 billion, would be the lowest on record since 1996. IBO projects that revenue growth will pickup in 2004 enough to recoup the losses in 2003. Subsequent revenue growth will be moderate, and it will take until 2007 for business income tax revenues to finally surpass their 2001 peak.

General Corporation Tax. New York City is one of the few localities in the United States to levy a tax on corporate income. About three-quarters of GCT revenue comes 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, and (3) a minimum tax of $300. The alternative bases apply when they yield a higher liability than the net income base.

IBO projects general corporation tax (GCT) collections to slip to $1.1 billion in 2003-$188 million less than in 2002, and almost $600 million less than in 2001, a decline of over one-third.[5] The projected slump in GCT revenue reflects the strong and lingering impact of the recession on the New York City economy in general and on securities industry profits in particular. The drop in securities industry profits has been precipitous: from an all-time peak of $21 billion in calendar year 2000, Wall Street profits fell to under $5 billion in 2002. The 2002 total was reduced $2.2 billion by the cost of settlements pertaining to accounting abuses uncovered during the year. Even without these charges, securities industry profits would have amounted to only $7 billion in 2002, the lowest total since 1994.

IBO expects securities industry profits to recover to about $10 billion in calendar year 2003. Combined with modest growth in both total New York City economic activity and in U.S. corporate profits, this will increase projected GCT collections to $1.3 billion in 2004, a 14.4 percent rise. GCT growth will decelerate in 2005 and 2006, but this in part reflects the impact of the federal post-9/11 stimulus bill, which by IBO calculations will cost $130 million in 2005 and $166 million in 2006.[6] As of 2007, GCT revenue will still be almost $150 million below their 2000 peak.

Unincorporated Business Tax. New York City levies a 4 percent unincorporated business 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), and 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.

UTB revenues more than doubled between 1995 ($379 million) and 2000 ($805 million). The recession and the additional shocks to the local economy have delivered only a glancing blow to the UBT. Collections fell only 3.6 percent in 2002 and are expected to remain almost unchanged in 2003 ($786 million). A resumption of growth in 2004 will bring UBT collections up to $842 million, comfortably above the previous peak of $819 million in 2001. Projected modest but steady growth throughout the rest of the plan period will bring collections to $979 million by 2007.[7]

This pattern reflects the fact that while one of the principal determinants of UBT revenue growth trends, security industry profits, declined steeply in calendar years 2001 and 2002, the other principal determent, legal services earnings, continued to grow throughout the recession and is expected to maintain positive real growth 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 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.

But over the past five years, the pattern has been dominated by declines. After a 46 percent increase in 1998, BCT collections fell 25 percent and 11 percent in 1999 and 2000. A 22 percent increase in 2001 was followed by a drop of 24 percent in 2002, and an additional 29 percent decrease is projected for 2003. (Indeed, through January 2003 collections are running almost 50 percent behind last year's pace.) Projected 2003 revenues, $227 million, are well under half of the 1998 peak of $514 million.

IBO expects this string of declines to end in 2004. Collections are projected to jump 31 percent in 2004 (to $299 million), 21 percent in 2005, and 16 percent in 2006. As of 2007, BCT revenues will still be below their 1998 peak.[8]

GENERAL SALES TAX

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 4.0 percent city tax, a 4.0 percent state tax, and a dedicated 0.25 percent surcharge for the Metropolitan Transportation 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.

The 8.2 percent decline in sales tax revenues in 2002 was the largest (with one policy-driven exception) since World War II.[9] Collections have recovered somewhat in 2003; they were up 6.3 percent through December and are projected to increase 6.1 percent (to $3.6 billion) for the full fiscal year. Further, albeit weaker, growth is projected for 2004—but these forecasts (especially for the remainder of the current fiscal year) are subject to downside risk: as of this writing war worries have sent consumer confidence to the lowest level in a decade, and should a Middle East war prove longer and more disruptive than currently anticipated, a hiatus in resident household spending and tourism could curtail or halt near-term growth in sales tax collections.

Over the longer run, sales tax revenues are projected to grow at about 6 percent per year for the remainder of the financial plan. At this rate, revenues should exceed the $4 billion mark in 2006—a level that IBO expected the sales tax to reach during the current fiscal year in forecasts made before the 9/11 attack.

These projections do not include the impact of the Governor's proposed elimination of the clothing tax exemption and its replacement with four one-week "clothing tax holidays." IBO estimates that this change would net the city about $260 million in additional sales tax revenues in 2004, an amount rising to almost $300 million by 2007.

PRELIMINARY BUDGET TAX PROPOSALS

The Preliminary Budget includes a set of tax policy proposals that together are expected to boost city tax revenue for all years of the forecast period, with the exception of 2007. Almost all of the revenue impact derives from the Mayor's proposal, first presented in November, to extend the personal income tax to commuters in conjunction with phased-in rate reductions. If the proposed PIT reforms are enacted, tax collections would increase by an estimated $1.2 billion in 2004 but by smaller and smaller amounts in subsequent years. Several new tax proposals were introduced in the January plan: a Tax Amnesty Program for businesses, which would boost 2004 collections by an estimated $20 million; a proposal to increase the interest rate charged businesses for tax underpayments, which is expected to yield $10 million of additional revenue annually starting in 2004; and the closing of a number of tax loopholes and increasing state reimbursement to the city for administering several taxes, which together would increase city tax receipts by $10 million to $13 million each year.

These items are discussed in greater detail below. Each would require state legislative approval, and the city is currently drafting enabling legislation to be introduced in Albany. Because state approval has not yet been granted, the estimated effects of the tax program items have not been incorporated into IBO's baseline forecast of tax revenues. In contrast, the Preliminary Budget did include in its baseline the revenue to be gained from the interest rate increase and the closing of loopholes and reimbursement increases, though not the revenue from tax amnesty and PIT reform. To facilitate comparison of the IBO and Bloomberg Administration forecasts, this report removes all expected revenues from the tax program from the presentation of the Preliminary Budget baseline forecast.

PIT Reform. The Preliminary Budget repeats the Mayor's November proposal to extend the city's personal income tax to commuters while scheduling reductions of PIT rates over the next four years. Prior to July 1999, non-residents who worked in the city paid a tax on their earnings from city employment. The tax was not graduated, with flat rates of 0.45 percent on wages and salaries and 0.65 percent on earnings from self-employment. With the elimination of the commuter tax, non-residents now pay no city tax on their city earnings.

Including the effects of the 14 percent surcharge on base liability, marginal rates under the city's PIT currently range from 2.91 percent in the lowest bracket to 3.65 percent in the top bracket. The proposed rate reductions would begin July 1, 2003, with an almost 25 percent decline in all marginal rates. Rates would decline further at the beginning of each of the next three calendar years so that by January 1, 2006, marginal rates would range from 1.79 percent to 2.25 percent—38.5 percent lower than the current rates. In comparison to the baseline revenue forecast, IBO estimates that the rate-cut portion of the Mayor's proposal would decrease resident PIT revenue by $1.0 billion in 2004 and larger amounts in later years; by 2007, revenues paid by residents would be reduced by $2.4 billion.

The other portion of the Mayor's proposal—extending the PIT to commuters at the same rates at which city residents are taxed—would greatly increase city tax revenues. The proposal is for the city to tax the earnings of commuters in a manner comparable to how New York State taxes non-residents who earn some or all of their income within its borders: regardless of where it is earned, the commuter's entire income would be subject to the city PIT, though the resulting liability would be reduced in proportion to the share of total income actually earned in New York City. IBO estimates that under the proposed schedule of rate reductions, extending the PIT to commuters would boost tax collections by $2.2 billion in 2004, and by comparable amounts in subsequent years. If there were no accompanying rate reductions, economic growth and inflation during the forecast period would result in an increasing amount of revenue received from extending the PIT to commuters, but under the current proposal these increases are offset by the effects of annual rate cuts from 2003 through 2006.

The Preliminary Budget presents OMB's estimates of the total impact on revenues of the Mayor's PIT proposal, not separate resident and commuter tax impacts as IBO has calculated. As shown in the table, the combined impact of IBO's estimates is $206 million higher than the Bloomberg Administration's

IBO's and Mayor's Estimate of the Tax Program

Dollars in millions

	2003	2004	2005	2006	2007
IBO's Estimate of the Tax Program					
PIT Rate Cuts, Resident Liability	$ -	$ (1,020)	$ (1,391)	$ (1,950)	$ (2,354)
Extending PIT to Commuters	-	2,188	2,241	2,171	2,099
Business Tax Amnesty: GCT, UBT, CRT, Utility, and Hotel Occupancy	-	20	-	-	-
Business Tax Interest Rate Increase: GCT, BCT, and UBT	3	10	10	10	10
Loophole Closings/Reimbursement Increases: MRT, RPTT, GCT, and BCT	1	10	13	13	13
Total Cost of Tax Program	**$ 4**	**$ 1,208**	**$ 873**	**$ 244**	**$ (232)**
Mayor's Estimate of the Tax Program					
PIT Rate Cuts and Extending PIT to Commuters (Combined)	$ -	$ 962	$ 658	$ 159	$ -
Business Tax Amnesty: GCT, UBT, CRT, Utility, and Hotel Occupancy	-	20	-	-	-
Increase Interest Rate: GCT, BCT, and UBT	3	10	10	10	10
Loophole Closings/Reimbursement Increases: MRT, RPTT, GCT, and BCT	1	10	13	13	13
Total Cost of Tax Program	**$ 4**	**$ 1,002**	**$ 681**	**$ 182**	**$ 23**
Difference in PIT Reform Estimates	**$ -**	**$ 206**	**$ 192**	**$ 62**	**$ (255)**

SOURCE: IBO.

NOTES: Tax Program revenue impacts are not included in the baseline revenue forecast reported elsewhere in this report. The Preliminary Budget, however, does include the revenue from the Interest Rate Increase and Loophole Closing/Reimbursement Proposals in its revenue baseline.

forecast for 2004 and $192 million higher for 2005. But the difference in the estimates diminishes after 2005 in large part because IBO's baseline PIT forecast is higher; the higher the revenue forecast under current tax rates, the greater the revenue loss from cutting rates.

Business Tax Amnesty Program. The Preliminary Budget features a tax amnesty program aimed at resolving business tax delinquencies and boosting tax collections in 2004. Businesses with delinquencies older than three years would be given incentives to pay their outstanding liability by requiring only three years of interest payments regardless of how long the tax had been delinquent. The amnesty program would yield an estimated $20 million in tax revenue in 2004, with general corporation tax payments accounting for half of this amount. The remainder would come from businesses owing the unincorporated business tax ($3 million), the utility tax ($2 million), the commercial rent tax ($3 million), and the hotel occupancy tax ($2 million). An amnesty program for city taxes would require state legislative approval.

Increasing the Interest Rate for Business Tax Underpayments. Another Preliminary Budget tax proposal would increase the interest rate charged businesses for tax underpayments by 2 percentage points. If enacted, the interest rate increase would generate an estimated $2.5 million in 2003 and $10 million in each year thereafter, with four-fifths of the revenue coming from businesses paying the GCT and the remaining payments split between payers of the banking corporation tax and unincorporated business tax. The proposal mirrors the increase that the state enacted in conjunction with its own tax amnesty program.

Miscellaneous Loophole Closings and Increases in State Reimbursement. The Preliminary Budget seeks local and state legislation to close several loopholes related to property transfers. The plan also proposes an increase in the state's reimbursement payments for the real property transfer tax.

One measure would close a loophole that currently allows taxpayers transferring an economic interest in an entity with assets combining real property and other property to not fully account for the value of the real property transaction for transfer tax purposes. This measure would bring city law into conformity with state law. If enacted, it would raise $2.0 million in 2004 and $2.6 million in each year thereafter. Another measure seeks state legislation to close a mortgage recording tax loophole that exempts supplemental mortgages from the mortgage recording tax. This is expected to raise $4.0 million in 2004 and $5.0 million each year thereafter. Another measure requiring state legislation closes an income tax loophole excluding dividends received on real estate investment trusts, or REITs, distributions to shareholders. If passed, this would raise $2 million in 2004 and $2.6 million thereafter.

Finally, the city is requesting that the state increase its reimbursement to the city for administrative expenses related to the RPTT. The city collects the separate State and New York City Transit taxes while administering its own RPTT. This proposal would raise $2.0 million in 2004 and $2.6 million each year thereafter.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2004 totals $5.7 billion, $172 million lower than projected in the Preliminary Budget. The differences between the IBO and OMB forecasts decrease in the out-years of the plan, with IBO $75 million below OMB in 2005, $51 million below in 2006, and $34 million below in 2007.

Other revenues include funds from unrestricted intergovernmental aid, STaR reimbursement, other categorical grants, inter-fund capital transfers, and miscellaneous revenues from recurring and nonrecurring sources.

Airport Rent. The Preliminary Budget anticipates receiving rental income from the Port Authority of New York and New Jersey for JFK and LaGuardia airports of $705 million in 2004. This includes a $600 million one-time payment for prior-years rent and $105 million in base rent, $90 million higher than previously projected in the Financial Plan for base rent. The Governor's Executive Budget, released in January, proposed a payment of $500 million to settle the city's outstanding back-rent claims. The disagreement over the amount of back-rent owed the city has been under arbitration for many years. Additionally, there is no indication at this time that the port authority is in agreement to increase the base rental payment. Therefore, IBO's forecast is $100 million lower than projected in the Preliminary Budget for back-rent and $90 million lower in base rent.

Categorical Grants. Categorical grants received from the state and 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 $8.6 billion and $5.4 billion, respectively, in 2004. For some types of categorical grants, such as education and welfare, IBO has developed forecasts based on changes in programs and caseloads. IBO's forecast of categorical grants in other parts of the budget is based on a methodology that takes the grant level in the current year and adjusts for historical trends and programmatic changes.

IBO's forecast of state categorical grants is $14 million higher than projected in the Preliminary Budget. This increase in primarily due to higher projections in police and transportation aid based on historical trends, and an increase in education aid based on an analysis of the enacted state budget for school year 2002-2003. This increase is offset in part by lower estimates in public assistance caseload projections. It should be noted that IBO's forecast of state categorical grants does not reflect the effect of the Governor's Executive Budget proposals.

IBO's forecast of federal categorical grants is $486 million higher in 2004, growing to $618 million in 2007. IBO's estimates of education, children's services, and public health aid—which together account for over 50 percent of all federal grants—are greater than the Preliminary Budget. IBO's higher projections are mainly attributable to greater federal aid for children's services and public health based on historical trends and an analysis of education funding increases included in federal appropriations enacted for school years 2002-2003 and 2003-2004 and proposed by the President for 2004-2005.

END NOTES

[1]When IBO refers to market values and assessments, the reference includes only taxable property. The assessed value for tax purposes (also referred to as billable taxable value) reflects the required phase-in of assessment changes for apartment, commercial, and industrial buildings.

[2]IBO's estimate of home sales prices is based on median sales prices for single-family homes in the boroughs outside Manhattan.

[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 city also collects a significant amount of audit revenues from the GCT. Audits are expected to bring in about $300 million per year over the course of the Financial Plan. Audit receipts are segregated from their individual taxes and shown as a separate tax revenue source in city budget documents.

[6]The estimated impacts of the stimulus bill are net of New York City's decoupling from the accelerated depreciation portion of the bill for investments made outside of the Liberty Zone in lower Manhattan.

[7]These projections are exclusive of audit revenues, which are expected to run around $32 million per year over the financial plan period.

[8]The Bloomberg Administration estimates that BCT audit revenues will run about $75 million per year over the plan period.

[9]The exception was 1966, when the sales tax rate was reduced from 4 percent to 3 percent and sales tax collections fell 13 percent.

Expenditures

Department of Consumer Affairs (DCA)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 would increase funding to the Department of Consumer Affairs by $241,000 to $13.4 million, an increase of 2 percent compared to the amount projected for 2004 in the Financial Plan adopted last June.

- DCA will add $476,000 to fund 12 positions to implement a new sidewalk café licensing process. The new process, which includes a new fee schedule, is expected to generate an additional $4 million.
- The agency will spend $100,000 to encourage more New Yorkers to take advantage of the federal Earned Income Tax Credit.
- DCA will transfer personnel to the new 311 call center and reduce staffing by three positions to save $335,000.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$13.1*
Transfers to 311 Call Center	(0.16)
Unspecified Reductions	(0.18)
EITC Outreadh	0.10
Sidewalk Cafe Implementation	0.48
January Plan	*$13.4*
Revenue PEGs	$4.1
Headcount	
June 2002 Financial Plan	236
January Plan	242

EFFECTS OF BUDGET PROPOSALS

Earned Income Tax Credit Outreach. DCA estimates that 230,000 low-income New Yorkers have missed out on a collective $360 million in federal Earned Income Tax Credits (EITC) in the past year. The EITC is a refundable credit available to qualified low-income taxpayers. Taxpayers are often unaware of the program's existence and either do not apply for the EITC or do not file taxes at all. The missed credits do not directly impact the city budget but do impact the purchasing power and income of many New Yorkers.

DCA will receive $100,000 in city funds to coordinate the citywide outreach campaign. Additional private funds plus in-kind and volunteer contributions will help implement the initiative. DCA plans to begin tax credit outreach into low-income communities starting this fiscal year. Advertisements will run on television and radio as well as in newspapers and other targeted outlets.

Sidewalk Cafe Licensing Process. Obtaining a license to operate a sidewalk cafe currently requires approvals from six separate city agencies, the local Community Board, and the City Council. The statutory application process requires 226 days; in practice, however, it often stretches to as much as 465 days. As of the spring of 2002, there was a backlog of 275 sidewalk cafe license applications.

A new law (Local Law 8 of 2003) both streamlines the application process and increases the fees for sidewalk cafe permits. The new application process will be reduced to 110 days, including 45 days for Community Boards to review the applications and return their recommendations. All agency responsibility will fall to DCA, creating “one-stop shopping” for cafe permits.

To implement the new process, DCA will be given an extra $476,000 to fund 12 positions. The new fee schedule is expected to generate $4.1 million in 2004.

Proposed New Enforcement Powers. DCA is responsible for enforcement of consumer protection and other laws for both businesses that it licenses and those that it does not. In fiscal year 2002, DCA collected only 35 percent of the fines assessed that year against businesses not licensed by the agency. Part of the reason for this is that DCA does not currently have the authority to pursue violations against unlicensed businesses without a costly hearing process in the New York State courts. New legislation pending in the state Assembly and Senate would give DCA the authority to try unlicensed violators at the agency's administrative tribunal. The legislation would allow DCA to declare judgments for nonpayment of fines and thus to take legal action to collect money. Such actions include seizure of cash registers and confiscation of credit card receipts. With the new authority, DCA should be able to provide more effective enforcement and collect a larger amount of fine revenue. DCA estimates that with this authority it could have collected an additional $1.1 million in fine revenues over the last three years.

Department of Cultural Affairs (DCA)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 would fund the Department of Cultural Affairs at $102.5 million, a reduction of $20.9 million (17 percent) compared to last June's Financial Plan.

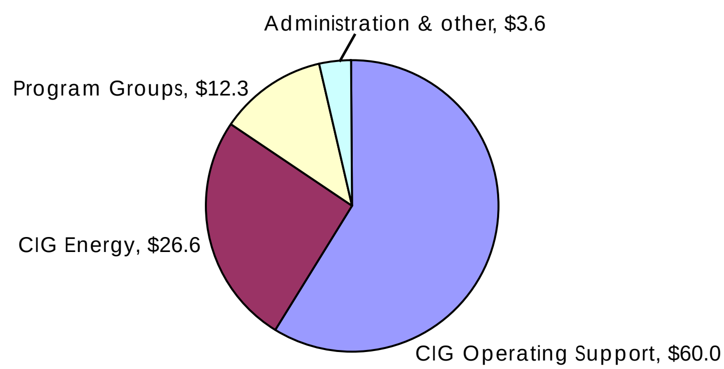
2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$123.4*
CIG Reduction	(16.0)
Program Groups Reduction	(3.6)
Eliminate Challenge Grant	(2.0)
Collective Bargaining	0.5
All Other Changes, Net	0.1
January Plan	*$102.5*
Headcount	
June 2002 Financial Plan	35
January Plan	35
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$763.3
January 2003 Plan	$547.5

EFFECTS OF BUDGET PROPOSALS

The 2004 Preliminary Budget includes a 15 percent cut in funding to $86.7 million for the 34 members of the Cultural Institutions Group (CIG). The CIG institutions are cultural organizations generally housed in city-owned property, and a share of whose operating costs are borne under contracts with the city. Typically about three-quarters of the CIG funding goes for "basic operating support," while the rest goes for energy costs. With energy costs rising, the cuts will have to be taken from basic operating support. Several institutions have announced that they will respond to the combination of slower fund-raising, a drop-off in visitors to the city, and budget cuts by reducing opening hours, scaling back or eliminating programs, and charging higher admission fees.

Preliminary 2004 Budget for Cultural Affairs
Dollars in millions



SOURCE: IBO.

The budget includes $512,000 to fund collective bargaining agreements for CIG maintenance workers.

The budget would also cut $3.6 million, or 18 percent, from funding for cultural organizations known as the Program Group, which are not CIG members. Each year 500 Program Group organizations receive grants ranging in size from $5,000 to $2 million.

The Cultural Challenge program, totaling $2 million, would be eliminated. The program awards competitive grants to cultural organizations throughout the city each year. In 2002, 156 grants totaling $5 million were awarded through the Cultural Challenge.

Although last year's January Financial Plan proposed a similar cut to DCA, most of the cut was restored by the time the budget was adopted. The city's continuing fiscal difficulties, however, will make restorations to the agency less likely this year.

CAPITAL PLAN

The January Capital Commitment Plan would decrease four-year total capital commitments by $215.8 million, or 28 percent from the September plan. A stretch-out of the schedule for the Lincoln Center reconstruction project accounts for $95.4 million of the reduction. Due to setbacks in the project's planning, reconstruction of the complex will not proceed as quickly as initially proposed. Accordingly, total city commitments for the project, which in September totaled $264.1 million over eight years, have been pushed back, totaling $253.5 million over 13 years. The bulk of the funding is now expected to occur over the last half of the project's duration.

Elimination of the downtown Guggenheim Museum construction project from the plan saves $18 million over four years. Due to the institution's financial difficulties, the museum is no longer planning to build an annex in Lower Manhattan. In September, the city projected committing a total of $32.8 million to the project between 2006 and 2009. As of January, funding for the project has been eliminated.

Another $18 million of the four-year plan difference is due to reduction of funding for the American Museum of Natural History facility modernization program. In September, the city was to commit $50.0 million over four years; the January plan reduces commitments to $33.2 million over five years. Funding was reduced because the museum has not yet put out a plan or design for the project.

The remainder of the capital cut was distributed to various cultural organizations. Priority for funding went to projects that have already begun work.

It is difficult to rely on the Capital Commitment Plan as a guide to the actual timing of funding for projects. In years past actual capital commitments have fluctuated significantly from the levels included in the capital plan, driven by the timing of individual projects. The causes lie partially with delays in planning for budget needs by the institutions themselves, and partially with understaffing at DCA, limiting the agency's ability to move projects forward.

Department of Finance (DOF)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 calls for a $186.0 million appropriation for the Department of Finance $2.3 million (1.9 percent) less than planned for 2004 in last June's Adopted Budget. The department is expected to realize more substantial savings to the city's budget, however, through a number of revenue measures with impacts totaling $118.4 million in 2004. Most of these require state legislative approval. Some of the Preliminary Budget's expenditure changes would trim the DOF's headcount, but one action would add a relatively large number of positions, resulting in a net gain of 57 full-time employees projected for 2004 since the Financial Plan of June 2002.

- The Preliminary Budget includes a plan to convert DOF's Parking Violations Bureau judges from per diem hires to regular city employees, at an expected savings of $1 million in 2004. Since per diem hires are not included in the headcount but regular employees are, this change would add 87 positions to the department.
- A Tax Amnesty Program is expected to provide a one-time boost to business tax collections of $20 million in 2004. The Preliminary Budget would provide the department with an additional $1 million in 2004 for anticipated expenses associated with administering the amnesty.
- The November Plan incorporated a $75 million annual increase in revenue from DOF audits of business and other tax filers, though no funding for additional staff or other expenses was budgeted.
- Closing several tax loopholes, increasing various City Register and court fees, and obtaining a higher amount of reimbursement from New York State for the city's administering the non-city portion of the Real Property Transfer Tax are together expected to add $13.4 million to the city's revenue in 2004.
- The most recent capital budget commits spending on a number of the department's data processing projects. Funding for ACRIS, or the Automated City Register Information System, has been increased since last June's Adopted Budget.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	$ 188.3
Productivity savings	(1.3)
Tax Amnesty Program expenses	1.0
All other changes, net	(2.0)
January Plan	$ 186.0
Headcount	
June 2002 Financial Plan	2,123
January Plan	2,180
Revenue PEGs	$ 118.4

EFFECTS OF BUDGET PROPOSALS

Background. The Department of Finance is responsible for activities related to New York City revenues, and in recent years the City Sheriff and Parking Violations Bureau have been incorporated into the department. DOF administers and provides information about city taxes, collects real estate and business taxes, and audits tax returns. It assesses the value of real property and maintains property records. And it collects revenue from other sources, including parking summonses and charges assessed by other city agencies, and it provides a forum for the public to dispute tax and parking violations. Its expenditure budget is funded almost entirely by city funds—all but $2 million of $187 million projected spending in the current fiscal year.

The amount of revenue the department generates (over $12 billion expected this year from collections of the major business taxes and the property tax alone) dwarfs its expenditures, and increasing revenues rather than cutting spending is generally the means by which DOF is expected to realize budgetary saving. DOF does not maintain its own capital budget, but there are significant commitments in the Capital Commitment Plan for a number of projects entailing data processing equipment and systems for DOF operations.

The 2004 Budget Changes Since June. The Preliminary Budget calls for a $1 million reduction in DOF spending from 2003 to 2004, to $186 million. Planned expenditures for 2004 are now $2.3 million less than what had been projected at budget adoption last June. This decrease results from a number of new measures as part of the Program to Eliminate the Gap (PEGs) which aim to enhance productivity and reduce headcount without affecting service delivery, but the cuts are partially offset by increased spending associated with administering the revenue-raising Tax Amnesty Program. Tax amnesty, increased audits of business taxpayers, and other revenue PEGs added to the budget since June are together expected to generate $118.4 million for the city's general fund in 2004. Details of these revenue-raising initiatives are presented below, followed by the most significant changes to the department's spending budget.

Tax Amnesty Program. The Preliminary Budget features a Tax Amnesty Program aimed at resolving business tax delinquencies and boosting tax collections in 2004. Businesses with delinquencies older than three years would be given incentives to pay their outstanding liability by requiring only three years of interest payment regardless of how long the tax has been delinquent. The amnesty program would yield an estimated $20 million in tax revenue in 2004; general corporation tax (GCT) payments would account for half of this amount, with the remainder coming from businesses owing unincorporated business, utility, commercial rent, and hotel occupancy taxes. While the revenue side of the Preliminary Budget accounts for the estimated boost to tax receipts, DOF's expenditure budget provides an additional $1 million to cover the costs associated with administering the Tax Amnesty Program. An amnesty program for city taxes would require state legislative approval.

Increased Audit Revenues. The November Plan's program of revenue PEGs included a $75 million increase in DOF revenue from additional audits of businesses paying the GCT or the banking corporation tax —$45 million and $30 million of extra revenue, respectively, from each tax. Neither the November Plan nor the Preliminary Budget, however, included additional funding for either personal service or other than personal service costs. To increase the number of audits its staff can conduct and better target potential productive audits, the department has been implementing the Professional Audit Support System, an audit selection and case management computer application.

Other Revenue Initiatives. The November Plan and Preliminary Budget included a number of other DOF revenue PEGs that together would increase the city's 2004 revenue by $23.4 million. Most of these require state legislative approval in order to take effect. The city is in the process of drafting the needed enabling legislation, and Mayor's Office of Management and Budget analysts believe that approval will be forthcoming. The revenue initiatives are:

- Raising the interest rate charged businesses for tax underpayments by 2 percentage points is expected to generate $10 million in 2004 and each year thereafter.
- The city is seeking state legislation to close loopholes in the mortgage recording and real property transfer (RPTT) taxes, and in the taxation of real estate investment trusts, which would bring the city's tax laws into greater conformity with state law. If enacted, the changes would increase tax collections by an estimated $8 million annually.
- Following the recommendation of the New York Secretary of State, the city intends to more than double the Uniform Commercial Code fees charged by the City Register for deeds, mortgages, and other instruments of title. State approval is not needed to increase the fees, which have not been raised in a long time; revenues would increase by $2.2 million in 2004.
- The city is pursuing legislation to increase the amount of money that the state reimburses the city for administering the state and the NYC Transit Authority portions of the real property transfer tax. The proposed methodology for calculating how much the city is to be reimbursed for RPTT administrative expenses is based on the recently adjusted methodology for state reimbursement of the city's Mortgage Recording Tax expenses, and it is expected to boost city revenues by $2 million in 2004.
- The city is also seeking legislation that would increase Treasury Division fees for court and trust services, which would boost revenues by $1.2 million.

Productivity Savings. The Preliminary Budget includes a PEG that would make the Administrative Law Judges of the DOF's Parking Violations Bureau regular city employees. Currently the judges are per diem (temporary) hires, paid from the department's other than personal service budget and not included in the headcount. By converting the per diems to regular employee status the department expects to realize savings from more efficient scheduling and by reducing administrative costs. The savings are projected to be $1 million per year. Hiring the judges would add 87 positions to DOF's official headcount and boost its personnel spending.

Another productivity-enhancing PEG, introduced in the November Plan, would save DOF $0.3 million annually, starting in 2004. The use of hand-held computers by Traffic Enforcement Agents issuing parking tickets is expected to cut costs by doing away with the need for pre-printed summonses.

Personnel Reductions. The November Plan included a number of PEGs that trimmed DOF's budget primarily by reducing headcount. The largest of these was an unspecified elimination of 25 positions, at an annual savings of $1.5 million, beginning in 2004. Another $0.2 million cut results from transferring four positions to the Department of Investigation. None of these cuts is expected to affect DOF service delivery. Indeed, the PEG program assumes that the finance department will be able to increase the amount of tax revenue collected with the smaller workforce.

Office Relocation. DOF is scheduled to relocate offices currently at 25 Elm Place in Brooklyn to 59 Maiden Lane in Manhattan, in June 2004. The move is expected to cut the costs by $0.2 million in 2004, with far greater savings ($2.2 million) each year thereafter.

Capital Projects. The Department of Finance does not maintain its own capital budget, though a number of projects benefiting DOF are managed by other agencies, such as Department of Citywide Administrative Services. These projects generally entail purchasing and installing data processing equipment and systems intended to provide services more efficiently and integrate DOF operations with those of other city agencies. The largest of the DOF-related projects listed in the most recent Capital Commitment Plan are:

- A commitment to spend $32.1 million by the end of 2003 on DOF equipment for NYCSERV, the wide-scale project to consolidate collection, payment, licensing, and adjudication processes across several city agencies. This commitment is $2 million less than the amount incorporated into the capital budget when the city budget was adopted last June.
- The plan commits a total of $45.3 million through 2008 in spending on data processing equipment for ACRIS, a project to convert deeds, mortgages, and other records from paper to digital images and make them available on-line to the public, improving service to the public as well as cutting costs. The bulk of the commitments are for 2003 ($14.8 million) and 2004 ($16.7 million), with the latter amount almost double what had been planned for at budget adoption. Out-year commitments for ACRIS equipment were also increased significantly in the latest Capital Commitment Plan. Fees paid by users accessing ACRIS have covered the capital outlays and other start-up costs (notably creating digital images of documents) associated with ACRIS.
- The plan also includes a project to spend $10 million in 2003 on SPAZM, the acronym for "Street, Properties and Zoning Map," an amount unchanged since last June. The map is intended to be used by DOF's Property Tax division, in coordination with other agencies such as the Department of City Planning.

Department of Small Business Services (DSBS)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 calls for a $27.7 million appropriation for the Department of Small Business Services, $4.8 million less than had been planned for 2004 in last June's Financial Plan. The new budget removes the one revenue-raising initiative that had been introduced in the November plan. The Preliminary Budget also cuts almost 36 percent of the 2003-2006 economic development capital spending commitments that had been specified in the September 2002 Capital Commitment Plan.

- Over half of the expense budget cuts to the 2004 budget come from once again deferring city spending on New York City's federal Empowerment Zone to later years, after the end of the Financial Plan period.
- Contracts with various local development corporations, the In-Place Industrial Parks, and the Garment Industry Development Corporation—all items for which the City Council restored 2003 funding in December—account for another large share of the cuts in 2004 and beyond.
- The Preliminary Budget removed the November plan's savings for DSBS to raise revenue by charging Business Improvement Districts (BIDs) an administrative fee; the idea was deemed counter-productive and unlikely to receive state legislative approval.
- The $901.7 million capital plan for economic development projects from 2003 through 2006 is over a third less than the amount that had been budgeted last year; the removal from the capital plan of the New York Stock Exchange project accounts for half of the budgeted reduction.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$ 32.5*
Program cuts	(1.9)
EZ funding deferrals	(2.8)
Funding swap	(0.2)
New needs	0.6
All other changes, net	(0.4)
January Plan	*$ 27.7*
IBO Repricing	3.0
IBO Reestimate	30.7
Headcount	
June 2002 Financial Plan	117
January Plan	113
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$ 1,400.2
January 2003 Plan	$ 901.7

EFFECTS OF BUDGET PROPOSALS

Background. In the past year, the city's Department of Business Services was renamed the Department of Small Business Services (DSBS) to more closely identify the agency with the businesses it typically serves. In addition to the operations of the department itself, the DSBS budget also includes funding for: the Mayor's Office of Film, Theatre & Broadcasting; contracts with the Economic Development Corporation (EDC), which tends to serve larger companies than does DSBS; NYC & Co. (formerly the NY Convention and Visitors Bureau); and the local Empowerment Zone.

A large share of the money appropriated for DSBS is used for loans, grants, and other benefits to businesses; because it is often difficult to predict the amounts needed for certain economic programs during specific periods of time, DSBS appropriations are often changed, and the department's budget has fluctuated greatly in the last 20 years. The activities and funding needs of DSBS and EDC expanded greatly after September 11, 2001, and a large portion of the unusually high levels of spending in the months since then has been financed by the Federal Emergency Management Administration, the federal Community Development Block Grant, and the city's Transitional Finance Authority. At $27.7 million, the Preliminary Budget's DSBS budget for 2004 is almost 64 percent less than the current projection for 2003 spending ($43.4 million) and far less than the $97.2 million actually spent in 2002.

Since the current budget was adopted in June 2002, the DSBS budget for 2004 has been decreased by $4.8 million, an almost 15 percent cut. Over half the reduction comes from deferring city spending on Empowerment Zones; program cuts, funding swaps, and other changes account for the remainder. Funding for new needs, however, has offset a small portion of the cuts. Details of the most significant changes from the Adopted Budget to the Preliminary Budget follow.

Program Cuts. A number of spending PEGs, or actions that are part of the Program to Eliminate the Gap, included in the November plan and the Preliminary Budget are likely to affect services delivered by organizations that receive DSBS funds, and they together reduce the 2004 budget by $1.9 million. The bulk of these reductions entail cuts in contracts with various local development corporations ($0.9 million), the In-Place Industrial Parks ($0.3 million), and the Garment Industry Development Corporation ($0.3 million). Funding of these groups for all years of the Financial Plan had been added to the budget last June at the request of the City Council, only to be cut in the November plan. The Council then restored 2003 funding in December.

The November plan also reduced 2003-2006 funding for NYC & Co. by 9.5 percent, but the cut was subsequently reversed after the Council sought a restoration. The Preliminary Budget, however, included a new, 6 percent cut in the DSBS contract with NYC & Co., reducing 2004-2006 funding by $0.3 million.

Deferring EZ Funding. The largest specific DSBS reduction from adoption to the Preliminary Budget concerns the department's allocation for the New York City Empowerment Zone (EZ), 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 required to fund 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. In the last few years, the city has continually shifted its funding obligations to later years, thus realizing near-term budget savings. The November plan reduced DSBS spending on the EZ by $1.2 million a year for 2004-2007, and the Preliminary Budget cut another $1.6 million to $1.7 million a year over the same period. As a result, EZ funding in 2004 now stands at $7.2 million, slightly higher than the minimum annual funding level required under the revised agreement reached between the city, state and federal governments. Even with these and comparable cuts in the subsequent years of the Financial Plan period, OMB maintains that the city's EZ funding would be sufficient to allow NYEZ to meet its spending needs.

Funding Swap. Three positions in DSBS's Business Assistance unit are being transferred to currently vacant lines that are funded by the federal Community Development Block Grant, thus saving the city $0.2 million and reducing the department's budget by an equal amount.

Other Spending Cuts. Unspecified personnel service cuts that reduced city funding in 2004 account for the bulk of other spending cuts, which total $0.4 million.

New Needs. The November plan added funding for seven executive and professional positions to help the agency establish service centers in all boroughs. Additional spending for more staff in the film office was also budgeted in November, though no corresponding headcount increase was designated. The total amount added to the 2004 budget to cover these new needs is $0.6 million.

Revenue PEG Reversed. The November plan had included a plan for DSBS to charge administrative fees to Business Improvement Districts, which would generate an estimated $1.1 million annually. The Preliminary Budget, however, reversed this PEG because the proposed charges came to be seen as counter-productive in light of financial difficulties facing many BIDs. Moreover, it was not clear that there was enough support in the state legislature to obtain the approval needed to enact this proposal.

IBO Repricing. Even if all of the recent proposals to cut the DSBS budget are put into effect, IBO estimates that the agency's total spending in 2004 would still be about $3 million greater than called for in the Preliminary Budget. The Preliminary Budget projects $5.2 million in state and federal aid during 2004, all of it from the Community Development Block Grant. An analysis of historical levels of federal aid, however, suggests that federal aid is likely to be $3 million higher, even when taking into account the unusual levels of recent World Trade Center-related aid. Accordingly, IBO's forecast of the total DSBS budget from all revenue sources reflects this expected federal aid.

CAPITAL BUDGET

The capital plan accompanying the Preliminary Budget calls for just over $901.7 million in spending on economic development projects from 2003 through 2006. DSBS manages almost all of these projects, which include a large number of commercial and industrial development projects and many related to waterfront improvement.[1] City funds account for 90 percent of the planned capital expenditures.

The latest economic development capital plan for 2003-2006 is nearly $500 million (or 35.6 percent) less than included in the plan issued last September. While reductions a year ago in the four-year capital plan were achieved by deferring spending on many projects, this year's reduction relies on cuts to the budgets of specific projects and in some cases completely removing projects from the plan. Almost half of the decrease is due to the removal of spending for a new facility for the New York Stock Exchange, which last June had been retained on the books at a cost of $240 million in 2003—by far the largest project in the prior capital plan. Another project entirely eliminated from the 2003-2006 capital plan is the Audubon Research Park, for which $18.5 million in construction costs had been budgeted for 2006 in last September's plan. Also eliminated was $8.0 million of capital spending in 2006 on a Council-initiated project in the BAM (Brooklyn Academy of Music) Cultural District, though other BAM projects remain in the budget (see below). Finally, the new plan includes only $50,000 in 2003 funds for Council-initiated biotechnology projects, compared with almost $13 million committed last June.

In the new capital plan, the most costly economic development projects (for the entire 2003-2006 period) include:

- Fulton Fish Market Relocation to Hunts Point ($77 million) plus Hunts Point Expansion ($21 million);
- Whitehall Ferry Terminal Reconstruction ($98 million);
- Brooklyn Navy Yard Movie Studio development ($28 million) and Navy Yard infrastructure $26 million);
- BAM Cultural District development ($38 million for various projects);
- Brooklyn Stadium/Amateur Sport Complex (two projects: $7 million and $29 million); and
- Battery Maritime Building Roof Support ($36 million).

The capital plan also contains several "lump-sum" listings that act as placeholders for projects in EDC's 10-year capital plan. The lump-sum categories include Commercial Development, Industrial Development, and Neighborhood Rehabilitation. When EDC identifies a specific capital project, funding is added to the capital budget for that project but an equivalent amount is taken out of the corresponding lump-sum category. Thus, most of the lump-sum funding is included for later years of the capital plan, though over $10 million is committed for 2003 through 2006 in each of categories.

END NOTE

[1]DSBS also manages a number of other capital projects relating to housing, health care facilities, parks, and roads. The capital budget totals discussed in this section do not include the budgeted commitments for these projects.

Department of Parks and Recreation (DPR)

2004 Budget Summary	
Dollars in millions	
Expense Budget	
June 2002 Financial Plan	*$192.6*
Program Cuts	(4.1)
Funding Shifts	(6.8)
All Other Changes, Net	(5.0)
January Plan	*$176.8*
Headcount	
June 2002 Financial Plan	2,012
January Plan	1,842
Revenue PEGs	$9.0
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$749.5
January 2003 Plan	$677.2

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget cuts Department of Parks and Recreation spending by 8.2 percent to $176.8 million for 2004, a $15.8 million decrease from the June 2002 Financial Plan. Highlights of the budget proposal include:

- The department will save $7.6 million by eliminating an unspecified number of full-time staff and seasonal positions and by not filling vacant positions. Full-time staffing would fall 8.4 percent to 1,842 positions by the end of 2004.
- The department will reduce its payment to the Central Park Conservancy from $3 million to $1 million annually. The Conservancy maintains and operates Central Park under contract with the department, and is funded largely through private donations.
- The city will realize $3.4 million from back-rent payments for Shea Stadium following an audit by the City Comptroller.
- Various user fee increases would generate $4.9 million.

EFFECTS OF BUDGET PROPOSALS

Elimination of Full-time and Seasonal Positions. The total decline in full-time positions is expected to be about 170, or 8.4 percent fewer than foreseen in the June 2002 Financial Plan. This comes on top of the reduction of over 300 full-time positions between 1997 and 2002. The exact number of seasonal positions to be eliminated has yet to be determined, but the savings attributable to this initiative is equivalent to approximately another 170 six-month seasonal positions. The condition of parks and their acceptability ratings are closely related to the number of workers maintaining parkland. Other services, such as recreation and youth-related programs, could also be affected by the decline in staff.

The impact of previous cuts to DPR's full-time staffing levels has been at least partially offset by the Parks Opportunity Program (POP). The parks department receives federal funding to employ former welfare recipients whose benefits have recently run out for 11-month, 40-hour per week contracts. As of December 2002, 1,786 POP participants were working at the department. This program, along with the Work Experience Program, or 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 concerns 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. Moreover, because of declining welfare rolls, POP participation has declined substantially since the beginning of 2002, when parks employed 3,000 POP workers.

Central Park Conservancy Contract Renegotiation. The city contracts with the Central Park Conservancy, a private nonprofit organization, to provide maintenance and operations services to Central Park. Typically, the city pays $3 million per year to the conservancy, with private contributions totaling $17 million comprising the bulk of the funding. In 2004, the city will provide $2 million less to the conservancy, which would be expected to make up the difference from unspecified sources, potentially including increased concession and special events fees.

Capital Switch to the Wildlife Conservation Society. The parks department is under contract with the Wildlife Conservation Society (WCS) to fund 50 percent of operating losses from the three New York City zoos: the Central Park Zoo, the 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 commit $3 million of the total toward capital projects, using debt-financed capital funds rather than tapping the expense budget.

Pruning Contract Reductions. New York City's approximately half a million street trees are currently pruned on a 10-year cycle. About 50,000 trees are pruned each year. Pruning contract reductions of $1.5 million will cut in half the number of trees pruned each year—in effect, stretching the pruning cycle to 20 years.

Shea Stadium Audit Payments. In January 2003, the City Comptroller released an audit finding that the Mets baseball team owes the city $3.4 million in Shea Stadium rental payments. The rental payments are based on stadium revenues, which the audit found to be under-reported. The Preliminary Budget assumes that the team will pay the total amount owed by the end of 2004. The team is contesting about $400,000 of the total.

Fee Increases. The parks department plans to increase various fees. Central Park Zoo admissions will be raised, generating $1 million. Children's admission will rise from 50 cents to $1 and adult admission will rise from $3.50 to $6. Increases in recreation center memberships will raise $800,000. Fees will rise from $75 to $100 for centers with pools, and from $50 to $75 for centers without pools. Children will still be allowed free membership. Ball field permits will rise from $8 to $16, generating $600,000. Adult tennis permit fees will rise from $50 to $100, raising $900,000. Finally, stadium parking will rise from $8 to $10, to raise $1.6 million.

CAPITAL PLAN

The January four-year Capital Commitment Plan decreases funding by $72.3 million—or 10 percent—since September. The largest cut is in street and park tree planting, with a reduction over four years of $17.3 million, from $64.7 million last September. Between 2003 and 2015, commitments for street and park trees decrease from $193.9 million in the September plan to $141.4 million in the January plan.

In addition, the city's funding for the construction of Brooklyn Bridge Park, which totaled $53.2 million for 2003 through 2006 in the September commitment plan, has decreased to $37.2 million in January. This project relies on sources of funding, including state aid and private donations, that at present are not fully in place. In addition, plans for the park's design have not been finalized.

The remainder of the capital cuts falls fairly evenly throughout all other projects. As with last year's January commitment plan, the reductions fall disproportionately on City Council-sponsored projects, which shoulder more than half of the total cut. Projects sponsored by the Bloomberg Administration are cut by only 5 percent.

Department of Sanitation (DOS)

PRELIMINARY BUDGET OVERVIEW

The preliminary Department of Sanitation budget for 2004 is $950 million, a decrease of 6.9 percent from the 2004 budget projected in last June's Financial Plan.

- The city plans to bring back recycling of plastics beginning in 2004, most likely under a new contract that will pay the city $5.15 per ton for metal and plastic combined.
- The department is studying redrawing current garbage collection routes in the hope of saving $41.8 million in 2004 and $63.7 million in subsequent years.
- New export contracts for parts of Brooklyn will raise export costs $10 million to $25 million per year.
- Reestimation of the costs to retrofit the city's eight marine transfer stations (MTSs) for the new Solid Waste Management Plan represents a $471.7 million increase to the capital plan, partially offset through cuts in other capital items.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$1,021*
Revised Collection Routes	(42)
New Needs/Collective Bargaining	8
Expenditure Reestimates	(3)
Fresh Kills Closure Adjustments	(24)
All Other Changes, Net	(9)
January Plan	*$950*
Headcount	
June 2002 Financial Plan	
Uniformed	7,884
Civilian	2,112
January Plan	
Uniformed	6,965
Civilian	2,034
Revenue PEGs	$8
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$964
January 2003 Plan	$1,166

EFFECTS OF BUDGET PROPOSALS

Return of Plastics Recycling. The temporary suspension of plastics recycling in the city is scheduled to end in 2004, in keeping with the eleventh-hour deal reached last June between the Mayor and City Council to avoid cutting metal, glass, and plastic (MGP) recycling altogether.

The Mayor's original plan, proposed in the 2003 Preliminary Budget, was to suspend curbside pickup of all MGP recyclables for 18 months, through all of 2003 and half of 2004. The resulting savings would have been $51.3 million in 2003 and $24.9 million in 2004.

The compromise agreement continued metal recycling because it is a profitable source of revenue for the city: that is, processors will pay the city for the metal it picks up, in contrast to glass and plastic, which the city had to pay processors to take. Glass and plastic recycling was suspended while DOS sought to develop a more cost-effective recycling program for these two materials. The agreement envisioned bringing back plastics in 2004 and glass in 2005.

The decision to continue metal recycling reduced the expected 2003 savings by $12.0 million, to $39.3 million, because DOS had to resume collection runs for metal which they had anticipated canceling. The return of plastics recycling for all of 2004 rather than just half the year, combined with the full- instead of half-year suspension of glass recycling, reduced anticipated 2004 savings by $13.0 million, to $11.9 million.

The savings estimates were predicated on a reduction in the number of recycling collection runs. But adapting to the changes in the recycling program proved more challenging for both citizens and DOS than had been foreseen. It took several months before the recycling stream was "clean"—that is, free of nonmetal materials no longer being recycled—which meant that extra pickups often had to be scheduled. In addition, reconfiguring collection routes proved to be a difficult challenge as long as the stream was in flux. As a result, even if the department does meet its target reduction in recycling runs for the remainder of this year, it will not achieve the $39.3 million intended savings. DOS does expect to achieve the savings through other means, including attrition.

The city currently receives an average of $25 to $30 per ton of recyclable metal. Minimal demand for plastic recyclables makes it a much less lucrative material. Some private haulers are asking the city to pay approximately $70 per ton to take its plastic recyclables. One firm, however, that holds the current contract for the city's metal recyclables, has offered to pay the city $5.15 per ton of plastic and metal combined. Revenues that the firm receives for metal would in effect be used to offset the cost of also accepting the city's plastic. This contract is still under review, but DOS expects it to be signed in time for the recycling program's anticipated expansion on July 1, 2003.

Reevaluation of Collection Routes. In the fall of 2002, the Department of Sanitation announced the start of a six-month study of refuse collection routes in order to improve efficiency. By redrawing routes to increase the amount of refuse each truck picks up, the department plans to decrease the overall number of daily collection runs beginning later in fiscal year 2004. The resulting savings in 2004 are anticipated to be $41.8 million, rising to $63.7 million in subsequent years. DOS projects that it will need 800 fewer uniformed personnel due to this productivity measure, comprising a large part of the department's projected 10 percent total headcount decrease. DOS will report progress on the collection route study in time for the Mayor's Executive Budget in April.

The 2003 Preliminary Mayor's Management Report notes an increase this year in average refuse tonnage per truck shift, from 10.3 tons in 2002 to 11.2 tons in the first four months of 2003. Rather than signaling the advent of more efficient collection, the increase in average tonnage instead reflects the increase in trash volume since glass and plastic are now included in the garbage stream.

Export Contracts to Be Renegotiated. The city currently pays an average of $66.78 per ton for private haulers to export its approximately 12,500 tons of refuse each day. With two of the four Brooklyn contracts up for bid in the fall of 2003, this cost will rise. The borough's average export cost per ton is presently $0.43 less than the citywide average, but bids for the new contracts are significantly higher, averaging $74.90 per ton. With Brooklyn accounting for nearly 30 percent of the city's total refuse tonnage, IBO estimates that the new contracts will raise total export costs by between 4 percent and 10 percent—$10 million to $25 million per year—depending on the actual volume.

The revision of garbage collection routes throughout the five boroughs will likely change planned export costs as well. Redrawn routes may result in some collected trash going to different transfer stations, changing the total tonnages in individual export contracts, and therefore export costs as well.

Snow Budget. The record snowfall this winter has demanded long hours from the city's sanitation workers and has strained an already tight sanitation budget. In addition to administrative, equipment, and supply expenses, the snow budget covers some costs for personnel assigned to snow duties. When uniformed or civilian sanitation personnel working their regular shifts switch to snow removal duties, they continue to receive their regular pay (from their normally budgeted payroll) for the duration of their seven- or eight-hour shifts. Then they receive overtime pay (at time and one-half) for the next four to five hours to complete the standard 12-hour snow shift. This overtime cost is covered by the snow budget. When uniformed sanitation personnel are called in for snow work on their days-off, they receive double pay for the full 12-hour shift, paid entirely through the snow budget.

The snow budget is calculated each year as an average based on the previous five years, excluding years of unusually high or low snowfall. The 2003 Adopted Budget allowed $19.7 million for snow removal activities. Actual expenditures on snow this winter are not yet final, although DOS acknowledges that costs will substantially exceed the previously budgeted amount. As of February 11, the city had spent $18.9 million on snow removal activities and an additional $3.3 million on salt purchases. Final costs of the subsequent Presidents' Day blizzard are still being calculated. The city may be eligible for 75 per cent coverage of the blizzard's costs by the Federal Emergency Management Agency (FEMA), which provided the city with assistance after the heavy snowfalls of 1996. A request for reimbursement has been submitted to FEMA, but it could be several months before FEMA issues an Emergency Declaration, ensuring that it will provide funds. In the past, the state has supplied an additional 12.5 percent reimbursement but it is unclear if it will do so in this instance, given the state's own fiscal difficulties.

Other Changes. In 2004, DOS will privatize security at the city's eight marine transfer stations. This productivity measure will save $418,000. The department also will civilianize half of its recycling enforcement staff and expand their enforcement powers to include health and administrative code violations, as well as recycling violations, for savings of $923,000 in 2004.

DOS has proposed increasing most sanitation fines from $50 to $100, which would produce an additional $8 million per year in revenue for the city beginning in 2004.

Costs of closing the Fresh Kills site will be reduced by $23.7 million in 2004 due to renegotiated prices of materials and contracts.

CAPITAL PLAN

DOS's current four-year capital plan totals nearly $1.2 billion, a 21 percent increase from the September 2002 Capital Commitment Plan. Much of this increase is associated with higher than expected costs of the Mayor's new long-term Solid Waste Management Plan proposed last July. With the previous long-term plan involving the Linden, New Jersey transfer station off the table, the costs of retrofitting the city's eight marine transfer stations had to be reconsidered. Under the new plan, trash will be containerized at the MTSs for longer distance transport by barge and rail. To facilitate containerization, MTSs require not only internal retrofitting, as originally planned, but also extensive reconstruction and expansion of the buildings' footprints. These considerable modifications will result in much greater costs to the capital budget.

The September plan had estimated the retrofitting costs through 2006 at $72.2 million. New cost projections are $543.9 million, accounting for 46.7 percent of the agency's 2003-2006 capital budget. These costs include $416.0 million for construction, $90.0 million for container purchases, and $37.9 million for rehabilitation of barges and other related costs. The largest portion of these costs ($490.0 million) would be incurred in 2005.

Garages and other facilities account for 35.2 percent ($411.0 million) of the agency's capital spending through 2006. An additional 16 percent ($186.3 million) is for vehicle acquisition and maintenance. DOS cut $50.0 million for collection truck purchases from the September capital plan. DOS is currently evaluating its fleet size to provide for the city's future waste management needs, which are uncertain due to continuing adjustments to both the recycling program and the long-term Solid Waste Management Plan.

The remaining 2.1 percent ($24.9 million) of the January plan is for other projects, including $13.9 million for ongoing landfill monitoring and leachate control, and $11.0 million for technology upgrades.

Public Libraries

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget cuts city funding to New York City's public library systems by $29.2 million compared to last June's Financial Plan. This represents a 12 percent decrease to $222.4 million.

2004 Budget Summary
Dollars in millions

Expense Budget	New York	NYPL Research	Brooklyn	Queens	Total
June 2002 Financial Plan	*$96.0*	*$18.3*	*$70.2*	*$67.1*	*$251.6*
Program Cuts	(11.7)	(2.2)	(8.6)	(8.2)	(30.7)
Collective Bargaining	0.6	0.1	0.5	0.4	1.5
January Plan	*$84.8*	*$16.2*	*$62.1*	*$59.3*	*$222.4*
Capital Commitments					
Total, 2003-2006					
September 2002 Plan	$162.4	$40.3	$53.0	$35.2	$290.9
January 2003 Plan	$116.3	$32.0	$37.7	$25.1	$211.1

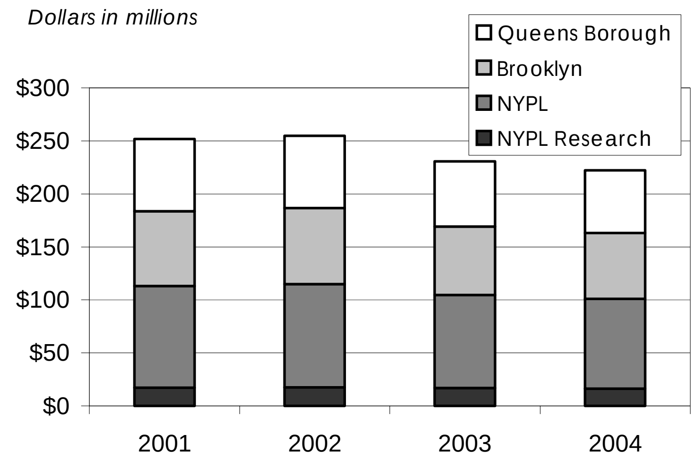
EFFECTS OF BUDGET PROPOSALS

New York City provides funding to each of the city's public library systems. The decision on how these funds are spent—and how to manage budget cuts—is determined separately by each library system. In response to the budget cuts already made this year, which would be extended and deepened in 2004, the systems have taken the following actions:

- Beginning in the spring of 2003, 48 out of 62 branch libraries in Queens will reduce service to five days per week from six or seven. The Queens Borough Public Library has also announced that, due to budget cuts, 200,000 fewer books will be purchased yearly. In contrast, 761,814 total items, including books, were purchased in 2002. The Connecting Libraries and Schools Program (CLASP) and the Enhanced Summer Reading programs at the Queens libraries have already been eliminated.
- The Brooklyn Public Library has cut hours to five days per week in half of its 58 branches. Its book budget has been reduced by over 25 percent, leading to the purchase of 270,000 fewer books systemwide, or 3,000 fewer books per branch. The CLASP and summer reading programs have been greatly reduced. A hiring freeze begun in the fall of 2001 has led to the loss of about 140 positions, with roughly 50 more at risk from proposed cuts for 2004.
- The New York Public Library distributed its cuts in a similar way. Service in 67 out of its 85 branches has been cut to five days per week. All four research libraries now operate on five day schedules. CLASP and other programs are still operational, albeit on a limited basis. The hiring freeze resulted in 200 lost staff members through attrition and early retirement. Book purchases have been reduced by 260,000, or about 3,000 per branch. In contrast, a total of 952,796 items were purchased in 2001.

Cuts in library services come in the midst of increased library usage. Since September 11, circulation at the New York Public Library has increased by 12 percent, with attendance up 7 percent. Usage of the New York Research Library's small business Web site, which provides advice to and suggests sources for small business operators, is up 40 percent. Over 90 percent of computers with free access to the Internet in New York City are in the public libraries. While there is no research on computer usage specific to New York City, studies in other states have shown that low-income people are far more likely to use library computers than is the general population.

City Operating Support to Public Library Systems
Dollars in millions



SOURCE IBO.

Collective bargaining increases of $1.5 million for maintenance workers and other support staff employed in the libraries also are reflected in the 2004 budget.

Last year's Preliminary Budget proposed a similar plan, with a 15 percent cut to $222.8 million in 2003. The budget was subsequently restored to $254.8 million. Given this year's projected budget gap, however, it is unlikely that funding will be maintained at its current level.

CAPITAL PLAN

The January capital plan proposes to cut the four-year total capital budget for libraries by $80.0 million, a 27 percent reduction from the September capital plan. Of that difference $23.8 million is due to elimination of funding for renovation of the Mid-Manhattan library. In Brooklyn, the largest cut was for construction of the Kensington Branch library, a cut of $5.9 million from $6.0 million. Since construction of the branch had not yet begun, the project has been suspended indefinitely. There were no large cuts attributable to specific projects in Queens.

The largest remaining project is construction of the Bronx Borough Center library. Funding for the center has not changed much between the September and the January plans—the 11-year total as of September was $36.9 million; in January, the total is projected to be $35.9 million. Much of the funding initially proposed for the Mid-Manhattan library has been diverted to the Bronx Borough Center to keep the project on-course. Renovation of the Mid-Manhattan library was eliminated from the Capital Commitment Plan because the project hinged on additional mayoral funds; due to changing budget priorities, these funds are not available. The entire project was thus put on hold.

Administration for Children's Services (ACS)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 for the Administration for Children's Services proposes total agency spending of $2.1 billion, a decrease of $171 million from the June 2002 Financial Plan. The decrease results from $168 million in proposed reductions, of which $109 million are city funds. The budget also includes other adjustments that add $32 million in city funds while decreasing federal and state funds by $35 million, for a net reduction of $3 million.

IBO estimates that spending will be $65 million more than the Preliminary Budget, due to our forecast of an additional $65 million in federal categorical grants. Key budget actions for 2004 include:

- A $22 million savings in total funds, including $11 million in city funds from eliminating more than 800 positions, primarily as a result of the early retirement program. These headcount reductions have been partially offset by other changes that add headcount to the budget.
- A decrease of $22 million in total funds spending, including $8 million in city funds, by reducing contracts by 18.5 percent to programs that help to prevent children from being placed in foster care.
- A savings of $5.8 million in city funds from raising the fees paid by families for subsidized child care.
- The elimination of 2,500 "low-priority" child care slots to achieve a savings of $9 million in city funds.
- A $24 million savings in total funds, including $13 million in city funds, from reducing contract payments and family stipends for adoption and foster care.
- A reduction of $21 million in total funds, including $11 million in city funds, due to continued decreases in the number of children in foster care.
- A savings of $13 million in total funds, including $7.6 million in city funds, from eliminating a substance abuse program for foster care youth.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$2,224*
Expenditure Reestimates	(33)
Service Impact	(84)
Other PEGS	(51)
New Needs	0
All other Changes, net	(3)
January Plan	*$2,053*
IBO Repricing (see text)	$65
IBO Reestimate	$2,118
Headcount	
June 2002 Financial Plan	7,764
January Plan	7,397
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$126
January 2003 Plan	$89

EFFECTS OF BUDGET PROPOSALS

Personal Service Reductions. The budget proposes saving $11 million in city funds through the elimination of more than 800 positions, primarily as a result of early retirement. These reductions have been partially offset by other headcount additions, resulting in a net reduction of 367 positions since the 2003 Adopted Budget. Since many of those retiring were among the agency's most experienced personnel, it faces major challenges in absorbing their departures without significantly affecting services.

Reduction of Funds for Preventive Services. The budget proposes reducing funds for preventive services contracts by 18.5 percent for 2004. As of October 2002 over 11,000 families including more than 28,000 children, were receiving preventive services provided by social service agencies under contract. Over the last several years the city's overall child welfare strategy has placed emphasis on providing preventive services to at-risk families to reduce the number of children who must be removed from their homes, and increase the rate of family reunification. This strategy has played a major role in the dramatic reduction in the number of children in foster care, from an average of 40,939 in 1998 to 28,215 in 2002.

It is not clear what effect the proposed reduction in preventive services funding would have on these trends. If the funding cuts were to result in higher foster care caseloads, savings could be offset by increased foster care costs. This reduction was originally set to begin in 2003, but funds for the current year were restored by the City Council in November.

Reduction of City Funds for Subsidized Child Care. The budget includes a number of items that reduce city funds available for child care in 2004. Most of these are either temporary accruals resulting from delays in expanding the child care system, or efficiency moves designed to reduce the amount the city pays per child served without reducing service. One of these changes, however, would save $5.8 million in city funds by increasing the amount paid by some families receiving subsidized child care, potentially making it more difficult for these families to remain in the program. Since the city has yet to release a new fee schedule, it is not clear which families would be affected or how much they would be required to increase their monthly contributions.

Eliminating "Low Priority" Child Care Slots. The budget proposes to save money by eliminating 2,500 current low-priority child care slots. While the City Council delayed the impact of this proposal by restoring funds for these slots for 2003, the Preliminary Budget includes the capacity reduction for 2004. The impact of this proposal must be understood in the context of the significant changes in child care funding that have occurred over the last few years. (See IBO's "Where Have All the New Child Care Dollars Gone?" *Inside the Budget,* December 12, 2002)

The city's overall child care budget at the Administration for Children's Services and the Human Resources Administration has grown by 20 percent over the past five years, rising from $520 million in fiscal year 1999 to $622 million in 2003. This increase has been large enough to cover significant increases in the cost per child served, as well as modest increases in enrollment. It has not been enough to bring about the much larger expansion of the subsidized child care system anticipated by many in the child care community. This expectation of a larger expansion primarily resulted from the large increases in the city's Child Care Block Grant (CCBG) allocation, made possible by the growing use of the state's surplus federal welfare funds for child care. The city's CCBG allocation grew from $178 million in 1999 to $415 million in 2003. This large increase, however, was offset by significant decreases in other child care funding streams. In particular, city funds budgeted for child care decreased from a high of $289 million in 2001 to $193 million in 2003, as city officials struggled to close large budget gaps.

These offsetting reductions in funding have meant that the city was not significantly expanding the child care system despite the new state and federal funds. While the city had previously been expected to add 10,000 or more new child care slots using the increased block grant funds, the 2003 Adopted Budget contained only enough funds for about 3,000 additional slots. Therefore, the Preliminary Budget proposal to eliminate 2,500 current slots would offset most of the remaining new slots the city is still planning add to the city's child care system.

It is also unclear how the agency will determine which child care slots are determined to be low priority. The long waiting list for subsidized child care is evidence that the current demand far exceeds the supply. The city is required by law to provide subsidized child care to all families participating in welfare-to-work programs. The remaining subsidies are only available to low-income working families, with eligibility based on income. In order to receive even a partial subsidy, a family of three must have an annual income of less than $37,000. Any reduction in slots could make it very difficult for some working families to find alternative child care.

CAPITAL PLAN

ACS's four-year Capital Commitment Plan has been reduced to $89 million from $126 million in the September 2002 plan, a 29 percent reduction. Planned commitments for 2003 have been reduced from $58 million to $40 million. The January 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 or eliminated. Among the plan's key components:

- Continued construction of child care facilities already underway, including the Williamsburg Day Care Center in Brooklyn.
- Funds for new child care expansion have been significantly reduced. Compared to the September plan, funds for unspecified child care construction have been reduced by $5 million over the next four years, and by $19 million over the 10-year capital strategy. The overall four-year commitments for day care have been reduced from $35 million to $20 million.
- 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 have been reduced from $46 million to $40 million.

Department for the Aging (DFTA)

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for DFTA for 2004 is $186.0 million, $50.5 million less than the current budget for 2003. Federal and state funding are expected to make up 43 percent and 11 percent, respectively, of the agency's operating budget for 2004. IBO's projections of federal and state funding for the agency in 2004 are greater than Bloomberg Administration's by $3.8 million, raising IBO's forecast of the agency's 2004 budget to $189.8 million. DFTA's proposed full-time headcount for 2004 is 304, with 58 positions funded by the city. The Mayor's Preliminary Budget proposes cutting the agency's operating budget by $33.5 million (15 percent) from the level planned in the budget adopted last June for each year from 2004 through 2007. Key actions in the proposed budget include:

- Adjusting and making new claims for federal and state aid, thereby reducing the amount of city funds needed by the agency by $33.4 million each year starting in 2004.
- Transferring budgetary responsibility for 105 senior centers to the New York City Housing Authority (NYCHA), saving the agency $29.4 million annually starting in 2004.
- Reducing administrative costs, saving the agency $4.5 million each year starting in 2004.
- Providing an additional $1.5 million annually to implement higher salary levels mandated under the city's Living Wage Law for the agency's home care workers.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$219.7*
Program Cuts	—
All Other Changes, Net	(33.5)
January Plan	*186.0*
IBO Repricing (see text)	3.8
IBO Reestimate	$189.8
Headcount	
June 2002 Financial Plan	371.0
January Plan	304.0
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$44.6
January 2003 Plan	$31.5

EFFECTS OF BUDGET PROPOSALS

Claiming Federal and State Aid. The Mayor's Preliminary Budget proposes shifting $32.4 million in federal Title XX Social Service Block Grant funds from the Administration of Children Services to DFTA in exchange for the same amount in agency city tax-levy dollars. The adjustment reflects how future reimbursements for services provided by these two agencies will be claimed; it does not represent a cut to either agency's total operating budget. The proposed budget also assumes that DFTA will claim state and federal funds for Medicaid-eligible administrative activities, saving the agency $1.0 million beginning in 2004.

Transferring 105 Senior Centers to NYCHA. The Preliminary Budget proposes having the housing authority assume budgetary responsibility for 105 senior centers presently located in NYCHA facilities starting in 2004, a savings to DFTA of $29.4 million annually. This change would protect programs for the elderly from cuts proposed in the Mayor's November 2002 Financial Plan. (Because most of these NYCHA-based senior centers are currently not paying rent to NYCHA, the average costs of these centers are less than those for typical non-NYCHA centers.) NYCHA and DFTA are currently in the process of developing a memorandum of agreement for the transfer of the centers. DFTA will continue to oversee the services provided at the senior centers. One unanswered question is how NYCHA and DFTA will allocate responsibility for performing needed capital improvements. In addition, the proposed budget eliminates city rent subsidies for four DFTA-funded programs located in NYCHA facilities, saving the agency $59,000 a year starting in 2004.

Reducing Administrative Costs. The Preliminary Budget proposes reducing the agency's headcount by 67 positions for $4.1 million in annual savings beginning in 2004. Two-thirds of the positions to be eliminated are currently vacant, while the rest are anticipated vacancies that will not be filled after agency staff leave. No significant impact on the delivery of aging services is anticipated as a result of the elimination of these staff lines since most of the positions are currently vacant. The proposed budget also reduces administrative OTPS (other than personnel services) costs by $372,000 starting in 2004.

Providing Living Wage Funding. On November 7, 2002, the City Council passed the Living Wage Bill, Intro. No. 66-A, which requires firms receiving certain service contracts or economic development benefits from the City of New York to pay their employees a living wage. The living wage is scheduled to rise over a several-year period, reaching a minimum of $10.00 per hour by July 1, 2006 (or $11.50 per hour without health care benefits). The bill covers non-medical in-home care services provided to the frail elderly through the Expanded In-home Services for the Elderly Program (EISEP), which is administered by DFTA.

Close to 90 percent of DFTA's home care workers currently earn less than $8.10 per hour, which is the minimum hourly rate scheduled for 2003, the first year of the law's implementation. The Mayor's Preliminary Budget provides $1.5 million annually starting in 2003 to cover the wage increase for these workers. Given the mandated schedule for additional hourly rate increases for home care workers under the living wage law, a funding shortfall for the program would materialize as soon as 2004 (assuming current service levels are maintained).

In 2002, the agency provided 1.5 million hours of home care, slightly below its target of 1.6 million hours. The program has struggled in past years to meet its target due to a shortage of home care workers. The Living Wage Bill's higher salaries are expected to make it easier to attract and retain staff members.

Other changes lie ahead for EISEP. The Governor's 2003-2004 Executive Budget recommends merging EISEP with the Community Services for the Elderly (CSE) program and would increase local government's share of program costs from 25 percent to 30 percent. If the Governor's proposed budget is enacted, the city's share of the program's cost would grow by roughly $1.0 million a year (assuming 2002 service levels are maintained).

CAPITAL PLAN

DFTA's four-year capital plan (2003-2006) was cut 29 percent compared to the adopted plan and is now funded at $31.5 million. The current capital plan particularly impacts 2003 and 2006 as the adopted plan proposed a higher level of capital funding for these years. Twenty-four capital projects were eliminated while funding for other projects was reduced and/or deferred to later years.

Funding for nine senior center renovation projects was eliminated for a total savings of $2.0 million in 2003. The nine centers affected are the Central Harlem Senior Citizen Center, Cypress Hills Senior Center, Hammel Senior Center, Junction Senior Center, Marcus Garvey Senior Center, Melrose Mott Haven Senior Center, Rain Multi Service Senior Center, St. Nicholas Senior Center, and Stuyvesant Senior Center. Funding was withdrawn from the 2003 and 2004 capital plans for two additional center renovation projects: the Sunnyside Community Senior Center and the Educational Alliance for a total savings of $2.5 million. Funding for the renovation of three other centers—Kingstower Senior Center, Laurelton-Rosedale Senior Center, and Stanley Isaacs Neighborhood Center—provided in 2006 was eliminated for a savings of $1.1 million.

Several vehicle purchases for senior centers also were eliminated for a total savings of $440,000 in 2003. The nine centers to be affected include the United Senior Citizens of Sunset Park, Ridgewood Bushwick Senior Center, Round Table Senior Center, Metropair, Decatur Senior Citizens Center, Flatbush Haitian Senior Center, Jackson Heights-Elmhurst Senior Center, Jackie Robinson Senior Center, and Walk the Walk. In 2006, funding for the purchase of a van for St. Anthony's was also cut for a savings of $17,000.

Department of Education (DOE)

PRELIMINARY BUDGET OVERVIEW

IBO estimates that under the Mayor's Preliminary Budget proposals, the Department of Education will spend $12.4 billion in 2004, a decrease of $113 million (0.9 percent) from the level projected in last June's Financial Plan. Over the next three years spending would grow at an average annual rate of 1.5 percent, reaching $12.9 billion in 2007. By comparison, annual growth averaged 9.4 percent between 1997 and 2001. IBO projects that city-funded spending in 2004 would drop from the projected 2003 level by $85 million (1.6 percent) to $5.1 billion, and then grow by an average of 1.7 percent annually to reach $5.4 billion in 2007.

IBO's projections are higher than those in the Preliminary Budget, exceeding the Bloomberg Administration's estimates by $270 million for 2004 and by $466 million for 2007. Much of the difference is attributable to assumptions concerning federal education aid, with IBO generally anticipating more than the Mayor. Key budget actions for 2004 include:

- A reduction of $21 million in summer school funding, which will eliminate space for roughly half of the students encouraged, but not required, to attend summer school.
- Administrative savings of $46.8 million in 2004 ($33.2 million from cutbacks started this year plus a new round of $13.6 million.
- New spending of $13.8 million to hire new teachers as part of a class size-reduction effort in the middle grade.
- Support for initiatives in the Chancellor's Children First program, including $19.7 million to implement the new citywide curriculums in math and reading and $5.7 million for "New Beginnings" schools for disruptive students.
- A cut of $936 million to the four-year capital plan. which will eliminate the plans to create 8,000 new classroom seats.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$12,287*
Service Impacts	(113)
Expenditure Reestimates	(6)
Other PEGS	(202)
New Needs	19
All other Changes, net	188
January Plan	*$12,173*
IBO Repricing (see text)	270
IBO Reestimate	$12,444
Headcount	
June 2002 Financial Plan	102,382
January Plan	102,352
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$3,824
January 2003 Plan	$2,889

EFFECTS OF BUDGET PROPOSALS

Summer School. DOE mandates summer school for children who fail two or more of their core courses or who perform below grade level on standardized tests. The education department has been encouraging many other students whose performance approaches the previous criteria to also attend summer school. DOE now plans to reduce the Encouraged Students Summer Program to save $21 million, or roughly half of the funding previously allocated, on the summer 2003 program (fiscal year 2004). As a result of this cut only about half of the 86,000 openings for this group of students that were available last summer are expected to be available this year. Funding for mandatory summer school remains in place.

Additional Administrative Savings. District and central administration cuts undertaken last fall are now projected to save $33.2 million annually beginning in 2004. These reductions in headcount are not directly related to the district reorganization underway through the Children First initiative (see below). The Preliminary Budget includes a new round of administrative reductions that will trim an additional 5 percent from central office budgets. DOE projects $13.6 million in savings in as yet unexplained cuts. DOE has stated that this further reduction will not necessarily come from staffing cutbacks.

Middle School Class Size. The education department plans to hire 272 new middle school teachers at a cost of $13.8 million to reduce middle school class size. For the 2001-2002 school year the citywide average class size in grades six through eight was 27.9, although 38 percent of students in those grades were in classes with more than 30 students. There were over 1,300 such large classes. As with the early grade class reduction, success in reducing middle grade class size will depend not only on the number of teachers hired but also on having sufficient space to create new classrooms in the schools with the largest average class sizes.

Fringe Benefit Reimbursements. DOE is projecting savings of $36.9 million, rising to $42.2 million in 2007, through the timely filing of claims for reimbursements from the state. The city is able to claim reimbursement for fringe benefit costs for staff paid with state categorical grants. The city has found that when it submits claims the amount it is owed often exceeds the amount that had been budgeted. When the claims exceed the budgeted level, the education department is able to use the excess to offset city-funded expenses. Because DOE has traditionally tallied and submitted claims in August or early September when fiscal year accounts are being closed, it is difficult to make use of that excess during the school year. The education department plans to maximize the potential savings from reimbursable fringe benefits by claiming these funds much earlier in the fiscal year, thereby creating sizeable a tax-levy offset.

Procurement Savings. Individual school districts currently order food and transportation services for their schools. By centralizing these purchases, DOE projects it can save $17 million in transportation costs and $2.5 million on food spending in 2004.

CHILDREN FIRST INITIATIVE

Last year's governance legislation not only gave the Mayor direct control over the Department of Education, but also shifted much of the remaining budgetary and pedagogical authority of the Community School Districts to the Chancellor. Relying on this new authority, the Chancellor has undertaken a major restructuring of the school system in a new effort to address the widespread concerns about the academic performance of New York City's public school children. The Chancellor has packaged his reform agenda under the rubric of Children First. The initiatives that make up Children First would significantly affect instructional and administrative functions across the system. Children First consists of five main initiatives: enhancing school leadership; developing core instructional leadership; restructuring district administration; encouraging parent involvement; and improving school safety.

Leadership Academy. The Chancellor has stated his belief that school-level leadership positions are the most important management positions in the system. The goal of improving the effectiveness of school leadership will be addressed through the creation of a Leadership Academy for recruiting and training high-quality principals. The Chancellor's goal is to free principals from many of their administrative duties, allowing them to devote themselves to being instructional leaders. Principals will be expected to spend more time in classrooms observing teachers and being actively involved in the process of developing staff.

Private entities will provide much of the financing for the Leadership Academy; for example, the Wallace Funds have committed $15 million. Leaders from the public and private sectors are expected to take part in the academy's operation. Future financing for the academy is uncertain because of the reliance on private dollars. If the academy is not sustained, Children First's goal of recruiting and training high-quality principals, which relies heavily on the academy, may be undermined. The Bloomberg Administration is also considering instituting a financial incentive plan for improving principal performance but the details, and their budgetary implications, are still being developed.

Uniform Curricula. The Development of Core Instructional Leadership initiative refers to the implementation of standard citywide curricula for math and reading that is scheduled to start being used in schools this fall. DOE has chosen *Everyday Math* and *Month by Month Phonics* as universal curricula. The education department estimates that the start up cost for implementing this initiative is $19.7 million for instructional materials.

The Chancellor has exempted 208 schools from this requirement using criteria incorporating schoolwide results on standardized tests and measures of the educational needs of each school's student body. These schools will be allowed to continue to use the curricula of their choice. The education department is currently reviewing requests for waivers from additional schools, which may result in more schools being exempted from the universal curricula.

Redistricting. Under the Children First banner, DOE has accelerated efforts to reduce administrative overhead and preserve diminishing resources for classroom instruction. To this end, DOE is now closing 40 school district offices, including the 32 community school district headquarters and the offices of the five high school superintendencies, replacing them with 10 regional superintendent offices. It is assumed that these changes will enable the DOE to save some—but not all—of the $241 million currently budgeted for the operations of community school districts and high school districts.

Closing the district offices also will free some space in school buildings that had been used for offices. The education department estimates the creation of 5,000 seats for students for September 2003 and an additional 3,000 by September 2004. The costs of the classroom conversions will be shared between operating and capital budgets. The conversion of district offices to classrooms is not expected to significantly reduce overcrowding in the most crowded districts. In such districts, most offices had already been moved out of classroom space in earlier efforts to alleviate overcrowding. Redistricting will also create 10 new positions called Local Instructional Supervisors, each responsible for serving as the instructional liaisons between regional superintendents and principals, and positions as reading and math coaches at each school.

Parent Engagement. The Children First initiative includes a strong focus on parent engagement. Beginning this coming September, every school will be staffed by a paid Parent Coordinator who will engage local parents in school programs and policymaking. A Parent Academy will be created to train Parent Coordinators, and Parent Support Offices will be located in each of the 10 regional superintendent offices. The goal is to improve student achievement by increasing parental involvement with children's learning at school and at home. DOE has not yet released information on the number or the cost of hiring parent coordinators.

School Safety. The education department has created two new offices to address issues of school safety. The Office of Youth Development and School-Community Services is a partnership between DOE and the Department of Health and Mental Hygiene. It will work to connect schools with community-based organizations that provide programs in drop-out prevention, health services, physical education, and after-school services. Current administrative structures will be rearranged to create these offices, so no new funding will be necessary.

The Office of School Safety and Planning works with the police department's school safety division to coordinate assignment of safety officers in schools. The education department estimates that 300 new school safety officers will be in schools starting in September. Using data processing techniques similar to the police department's Compstat program, the Office of School Safety and Planning has identified high schools with the highest crime rates. In an attempt to deter crime at these high schools, DOE is installing closed circuit video cameras, and more controversially, is culling the students that repeatedly commit violent crimes and placing them in New Beginnings programs.

Students in New Beginnings programs would effectively no longer attend their high schools, and would instead perform community service in the mornings and attend afternoon and evening classes. DOE is contracting with community-based organizations for space and services at each New Beginnings site, and is staffing each site with DOE teachers. The education department has budgeted $1.9 million for contracts with the community-based organizations for spring of 2003, and $5.7 million for the operation of New Beginnings sites in 2004, rising to $9.8 million in 2006 and 2007.

GOVERNOR'S EXECUTIVE BUDGET

The Governor's Executive Budget, released in January, would reduce state education aid to localities by eliminating some specific aid programs such as funding for class size reduction and for universal pre-kindergarten as well as by consolidating—and shrinking—a number of general operating aid funding streams. The state Division of the Budget estimates that these changes would reduce state education aid by at least $1.2 billion statewide for school year 2003-2004 from the levels for the current school year; $462 million of the reduction is in aid to the city. In addition, the Executive Budget would not provide the city with $275 million in new aid it was seeking to help pay for a portion of the costs of last year's teachers contract. The Executive Budget as proposed in January is only the first step in negotiating a state budget. While proposed cuts to education have generally been reversed in recent years, this year could be different since the state faces a nearly $10 billion budget deficit for the coming fiscal year and a potential cash flow shortfall as soon as May.

Consolidated Operating Aid. The Governor proposes to consolidate nine funding sources, each of which currently has its own allocation formula into a single type of aid—consolidated operating aid—distributed through a single formula. While this proposal helps alleviate some of the complexity and confusion surrounding state school aid, the simplicity comes at a price—at least as proposed by the Governor. It would reduce the amount of aid involved by a total of $407 million, or 4.0 percent statewide. For 2002-2003, the nine separate revenue streams accounted for $10.2 billion, nearly three-quarters of all state aid. For 2003-2004, the Governor proposes to distribute $9.8 billion through the single consolidated formula.

Because the city gets a disproportionately small share of the major type of aid being consolidated under this proposal (Comprehensive Operating Aid), it would fare relatively well under this proposal, although it would still lose $110 million under the new formula. The city's reduction for the aid streams involved is smaller at 2.8 percent than the average for the rest of the state, a reduction of 4.8 percent.

Other Aid Reductions. The Governor's Executive Budget would reduce or eliminate a number of other aid categories, several of which are tailored for the city and other high-need districts. In 2003-2004, the Executive Budget would reduce these aid categories by $826 million from their 2002-2003 levels; the city would experience a $352 million reduction. For the city, the most critical changes would be in a group of categorical aid programs—including Universal Pre-Kindergarten and Early Grade Class Size Reduction—that were established as a package in 1997. For these programs, the city would lose $310 million from the 2002-2003 levels, which is 51 percent of the statewide reduction in these categorical aids.

The Executive Budget would eliminate the $201 million Universal Pre-Kindergarten program, which funds half-day programs for four-year olds statewide. New York City is the largest recipient of this funding. In the current school year, $146.5 million in state funds are combined with $16.2 million in local dollars (although no match is required, the DOE has added funds to cover some of the higher costs associated with offering the program in the city) to provide slots for 44,000 preschoolers.

The budget also would eliminate $135 million for early grade class size reduction, $89 million of which is for New York City. IBO has estimated that the state class size reduction money, in conjunction with a similar federal program, has enabled the city to hire 1,900 hundred teachers to reduce the average class size in the early grades (kindergarten through third grade) from 24.9 students in 1998-1999 to 22.1 in 2001-2002 (*Inside the Budget*, Sept 19, 2002). Across the city, over 145,000 students are currently enrolled in schools that are using funds from the state grant to reduce early grade class sizes. Elimination of this state aid and the teachers it pays for would result in larger classes for most of these students.

Funding for Teachers Contract. In the 2002-2003 budget, the state provided the city with $275 million in various one-time funds to help pay for the first year of the teachers contract that was settled last summer. (The value of the one-shot state revenue was subsequently reduced by $8.5 million and replaced with additional city funds.) The June 2002 Financial Plan showed that city funds would cover the recurring $275 million cost beginning in 2004, although the budget did not detail if other programs were being cut in order to cover this new expense.

The Mayor's Preliminary Budget now requests $275 million in new categorical aid from the state to cover the contract. The Governor's Executive Budget did not include any new aid. Because the city has classified this aid as categorical, the negative response from the state technically has no effect on the city's budget gap. Nevertheless, depending on what sources would be tapped to provide the $275 million in city funds, other spending areas could be affected.

FEDERAL NO CHILD LEFT BEHIND ACT

Federal legislation enacted last year entitled the No Child Left Behind Act seeks to hold school districts and schools accountable for educating every child in their charge. The full fiscal and policy implications of the act for New York City are still emerging, although some features of the new law are already having an impact that will grow during the 2003-2004 school year.

Federal Approval. States are required under the new legislation to submit Adequate Yearly Progress plans to the U.S. Department of Education, and must receive federal approval for those plans. The yearly plan is an assessment of student and school progress as measured by standardized test scores. Failure by a state to file an acceptable progress plan risks the loss of its Title I funding, the largest federal education funding stream. New York State is one of only five states to have had its progress plan approved by the federal education department. New York City will adopt the state's plan. The Chancellor's decision to use *Month by Month Phonics* in the new uniform curricula could jeopardize some portion of Title 1 funding though, as the Secretary of Education has not listed it as an approved language arts curriculum choice and has in fact criticized the curriculum.

Student Transfers and Tutoring. Any school that fails to meet progress requirements two years in a row must be placed on the state's Schools in Need of Improvement list. Currently, 316 city schools are on the list. Parents in schools on this list may request tutoring services for their child and/or a transfer to a higher performing school. The federal act states that school districts must devote up to 20 percent of their Title I funds to provide tutoring services and transportation if it is needed for transferring students. This means that DOE's discretion in Title 1 spending could be greatly reduced, with transportation and tutoring replacing other programs currently funded through Title 1. Schools failing to meet the progress requirements three years in a row are subject to corrective action, which could include closure, change in curricula, or replacement of any staff relevant to the failure to improve.

As required by the act, DOE has begun distributing information regarding transfer options to parents. Thus far DOE has mailed letters, sent letters home in students' backpacks, and made telephone calls to the 228,000 families that qualify for transfer or tutoring. Additionally, information is available on the DOE Web site, and the Chancellor's Hotline will remain open late to answer questions. The cost of providing tutoring and transportation for transferees will depend on the number of students who actually seek the extra instruction and the number of students whose transfer requests are accommodated.

DOE estimates that 244,000 students in schools on the need of improvement list qualified for free tutoring services in the 2002-2003 school year, and that approximately 8.5 percent, or 20,740 students, are taking advantage of those services at a cost of about $20 million this year. DOE indicates that 1,507 children have transferred schools under the provisions of the act this year, but acknowledges that more may transfer later in the school year. DOE estimates the costs of these transfers to be $2 million, but expects the cost to grow as many more students apply to transfer next year.

Teacher Certification. The No Child Left Behind Act requires that by 2005 all classroom teachers in schools receiving Title I funding must by "highly qualified." It is not clear if obtaining a state certificate will be sufficient for a teacher to be considered highly qualified. Under a previous New York State Regents policy, all teachers in the state are supposed to be state certified by September 2003. These two requirements pose a great challenge to the DOE, although the salary increases, particularly for starting teachers negotiated under last year's collective bargaining agreement, and the depressed local economy should make recruiting teachers somewhat easier.

There is a scarcity of certified and experienced teachers at schools in some subject areas, particularly in the areas of math, science, and bilingual Spanish, and citywide special education. Uncertified teachers are also disproportionately concentrated in districts with long-time difficulties in attaining qualified instructors. DOE reports a total of 9,875 uncertified teachers in the system, or 12.6 percent of all teachers. But some districts such as District 9 in the Bronx (20 percent uncertified) and District 13 in Brooklyn (22 percent uncertified) have a much greater share. If the prohibitions on using uncertified teachers are actually enforced, additional incentives or other collective bargaining changes may be necessary to ensure a sufficient supply of teachers for some of the city's hard-to-staff schools.

Standardized Testing and Promotion Requirements. The federal act also calls for states to rely increasingly on standardized testing to students of all ages. It requires all children in grades three through eight to be tested annually in language arts and mathematics beginning in school year 2005-2006. Students in school in the United States for three years must take these tests in the English language, regardless of their proficiency level, and English-language-learners must test in English also. The city has not indicated whether it will use tests given under the act's conditions as promotion criteria.

CAPITAL PLAN

The city's latest four-year (2003-2006) Capital Commitment Plan reduces the education department's capital budget by 25 percent, $936 million below the level in the September 2002 plan. After accounting for these reductions, the January 2003 plan provides $2.9 billion for school capital projects. The School Construction Authority (SCA), which is currently undergoing a major restructuring, will continue to execute the bulk of the education capital plan, while the Department of Design and Construction will undertake a small share of the plan (6 percent).

Of the $2.9 billion provided by the January 2003 plan, over two-fifths is set aside for new school construction, one-fifth for capital improvements, and one-tenth for planning and administration (including insurance costs).[1] Most of the balance is comprised of a lump-sum for the department's next five-year capital plan covering 2005-2009 and prior plan completion costs or adjustments. A small portion of the department's capital budget is the $164 million in discretionary funds provided by the Mayor, the City Council, and the Borough Presidents for school capital projects.

Planning for school construction and repair is guided by the DOE's five-year capital plan, which covers 2000-2004. The Bloomberg Administration's proposal would reduce the funding assumed in the department's five-year capital plan by $158 million in 2003, $241 million in 2004, $226 million in 2005, and by $293 million in 2006. In addition to these reductions, the Capital Commitment Plan would reduce discretionary funding for school capital projects selected by the Mayor, the City Council and the Borough Presidents by $18 million. To achieve the $936 million in targeted savings, DOE will have to defer work on numerous capital improvement projects and new school construction projects.

Projects to Add New Seats Eliminated Under January 2003 Plan

Borough	District	School	Project Type	Seats	Funding 2003-2006 as of Sept. 2002
Brooklyn	20	PS/IS 900A	New school	900	$ 3,729,000
Brooklyn	22	PS 325	New school	300	1,197,000
Brooklyn	78	Vision School	Lease	600	6,000,000
Brooklyn	78	El Puente	Lease	600	10,878,000
Brooklyn	78	HS 800	New school	800	27,466,000
Bronx	10	Jonas Bronck Academy	Lease	318	5,526,000
Bronx	11	Classroom lease	Lease	400	2,000,000
Bronx	78	South Bronx Leadership HS	Lease	300	20,807,000
Manhattan	6	PS 37	New school	445	28,873,000
Manhattan	78	HS 1200	New school	1200	5,432,000
Queens	24	Classroom lease	Lease	600	3,000,000
Queens	25	TBD	Addition	200	333,000
Queens	25	PS 244	New school	430	1,464,000
Queens	27	PS 64	Addition	120	1,536,000
Queens	29	PS 263	New school	704	1,868,000

SOURCES: IBO; Capital Commitment Plans, January 2003 and September 2002.
NOTE: District number and number of seats for each project were obtained from the department's 2000-2004 Five-Year Capital Plan.

Projects to Add 8,000 Seats Eliminated. The January 2003 plan withdraws funding for 15 projects that would have added new school seats, saving about $120 million from the level in the September 2002 commitment plan. These projects, which included seven new schools, six facility leases, and two building additions, would have provided 7,917 new student seats—3,200 in Brooklyn, 2,054 in Queens, 1,645 in Manhattan, and 1,018 in the Bronx. Funding for nine of these projects had already been deferred to after 2004 under the city's September 2002 commitment plan; in January they were dropped entirely. Even in the September plan the funding provided for seven of the 15 projects would have only covered project design and scope, not actual construction. It is unknown whether these projects will be restored in the department's next five-year (2005-2009) capital plan.

OTHER ISSUES

Funds Shifted to Restore Council Projects. As part of sweeping cuts to the city's capital budget last year, the Bloomberg Administration eliminated almost all of the Council's unspent 2002 "Reso A" funds for education—about $47 million. Reso A projects are added to the capital plan by the City Council during the budget adoption process. Reso A funds are typically used for educational enhancements such as upgrading science labs and creating classroom media centers, as well as rehabilitating school playgrounds. DOE has agreed to restore slightly over 50 percent of the total cut to Council-funded projects by tapping new federal funds and shifting funds in the interim from its 2003 repair program, also known as the capital improvement program. These federal funds have not been realized yet; therefore several capital improvement projects scheduled under the department's current five-year capital plan are at risk of being deferred or eliminated.

Additional Reporting Requirements for Some Projects. On June 5, 2002, the City Council introduced a bill, Intro. 215-A, requiring the Department of Education to submit quarterly reports to the Council on the status of all school capital projects funded with Reso A discretionary dollars. This year, the city's capital commitment plan provides $31.1 million for more than 300 Reso A school improvement projects.

The Mayor vetoed this bill on February 27, 2003. If the veto is overridden, DOE would have to provide detailed information for each Reso A project, including the total amount appropriated, the total estimated cost, the total amount expended, the projected or actual start and completion dates, an explanation for any work delays of 60 days or more, and a contact number for the person who is overseeing the capital work. Under the legislation, no such reporting is required for non-Reso A projects, although they account for a much greater share of the school capital budget.

Currently, the Council relies on reports produced by the SCA, including the Extent of Completion Report, to determine the status of Reso A projects. This report does not provide financial information for a project, nor does it provide a schedule with start and completion dates. Further, the Extent of Completion Report does not list Reso A projects separately but intersperses the projects with all other capital improvement projects scheduled for each borough.

Reforming Public School Construction. The Mayor and the Chancellor have proposed several reforms to reduce the city's school construction costs by about 25 percent (from $438 to $325 per square foot). The school construction functions performed by DOE's Division of School Facilities would be folded into the SCA. The city anticipates that having the SCA's president oversee the division would improve accountability and make the school construction process more efficient. Headcount for the SCA and the School Facilities Division is being reduced by 50 percent (450 positions) and 15 percent (150 positions), respectively in 2003. The SCA's total operating budget for 2003 has been cut by $22 million (21.8 percent), although how much is due to the headcount reductions is unknown. In addition, the number of bidders for school construction work would be expanded by eliminating obstacles that discourage participation (for example, by streamlining the contractor pre-qualification process) and simplifying project specifications (for example, by standardizing school designs).

END NOTE

[1] This information was obtained from the supplemental capital commitment plan for education. Project-level information is accounted for differently in the supplemental volume than in the main Capital Commitment Plan.

Department of Employment (DOE)

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for DOE for 2004 is $90.6 million. Federal funds comprise the greater part of the agency's budget—92 percent in 2004. DOE's proposed full-time headcount for 2004 is 164, with two positions funded by the city. The Mayor's Preliminary Budget contains only one significant action for the agency:

- Reducing city funds for the Summer Youth Employment Program (SYEP), saving the agency $1.7 million (20 percent) from the level planned in last June's Financial Plan for each year beginning in 2004. Some of this reduction ($1.2 million) would be offset by claiming state and federal welfare funds.

2004 Budget Summary
Dollars in millions

ExpenseBudget	
June 2002 Financial Plan	*$92.06*
Program Cuts	($0.44)
All Other Changes, Net	($0.94)
January Plan	*$90.68*
Headcount	
June 2002 Financial Plan	164
January Plan	164

EFFECTS OF BUDGET PROPOSALS

Reducing City Funds for SYEP. The Mayor's Preliminary Budget recommends a baseline program reduction of $1.7 million in city funds for SYEP beginning in 2004. The Bloomberg Administration hopes to tap state and federal welfare funds—Temporary Assistance for Needy Families (TANF)—to restore $1.2 million of the program cut proposed for each year from 2004 through 2007. The likelihood of drawing new state resources for SYEP, however, is very uncertain. Although state TANF dollars were used to support SYEP in past years, the Governor has indicated in his 2003-2004 Executive Budget that these funds will not be available for the program as of 2004. The state had been helping the city by providing SYEP with stop-gap funding to make up for federal funding lost with the passage of the federal Workforce Investment Act (WIA) in 1998. While WIA does provide year-round youth employment services, it does not provide funding for a separate summer program and the state had previously agreed to support SYEP only until WIA's year-round youth programs were fully implemented. The loss of funding is expected to reduce the number of summer jobs available through SYEP from 35,000 last year to 15,650 this summer.

RELATED ISSUES

Absorbing Budget Cuts and Restructuring SYEP. The funding environment for summer jobs program has been changing since 1998. After scrambling in recent years in an effort to maintain a program similar to the pre-WIA years, DOE's plans for 2004 and beyond now anticipate a much smaller program largely conforming to the priorities imposed by WIA.

Last summer, the program was funded at $44 million—$11 million in federal funds, $15 million in state funds, and $18 million in city funds. The program served roughly 35,000 young people. For this coming summer, the Governor's Executive Budget would eliminate all state funding for the program and the Mayor's Preliminary Budget would cut city funds for SYEP by 70 percent. Taken together these actions would reduce the program's total operating budget by 60 percent to $18 million; $13 million would come from federal WIA funds and $5 million from city funds.

The 2004 federal WIA funds will be used to provide summer jobs to roughly 10,000 young people who are still attending school and participating in WIA year-round programs, while the remaining city funds will enable 5,650 other youth to participate in a stand-alone summer program. In all, 15,650 youth would be served this summer, less than half the number served by the program last year.

Driven in part by loss of state and federal resources for SYEP, DOE considered programmatic changes, although the agency has since backed off. In November 2002, the agency issued a Request for Proposal (RFP) to contractors to provide services for a restructured SYEP. In the RFP, the agency had proposed significant changes to the program including reducing the number of contractors to eight from over 50, shifting almost all of the agency's administrative responsibilities for the program to the eight contractors, and limiting program eligibility further by restricting program services to residents of targeted high-need areas (defined by poverty level) within each borough. The RFP prompted significant concern and led the agency to withdraw the proposal and extend service contracts using the current program structure for another year.

WIA Budget and Reauthorization. The President's proposed budget for the federal fiscal year 2004 provides $6.4 billion for employment and training programs; this is 2 percent less than the budget request for 2003. The proposed budget also contains several reforms for the workforce development system that would be implemented by amending the Workforce Investment Act, which is up for reauthorization this year. Key proposed reforms include: a) consolidating the WIA Adult, Dislocated Worker, and Employment Services grant programs into a single block grant to give states' the ability to target resources more effectively; b) minimizing the overlap between the U.S. Departments of Labor (DOL) and Education by eliminating DOL funds for in-school youth programs and redirecting those resources to out-of-school youth (dropouts, youth involved in criminal behavior, and youth aging out of foster care); and setting common performance measures and higher goals for all WIA programs.

The elimination of federal DOL funds for WIA programs that serve youth ages 14 to 18 who are still in school would pose an additional obstacle for the city's summer youth employment program. These funds now comprise the largest share (72 percent) of the funding for SYEP; as noted above, this summer the city expects to use WIA funds to provide 10,000 in-school youth with work experience that links academic and occupational learning. In addition to summer employment, the WIA in-school youth funds are used to provide full-year services to young people that include tutoring, leadership development, dropout prevention, and career exploration and preparation services. This year, DOE has contracted with 51 vendors to provide these types of services to approximately 12,000 youth.

Department of Health and Mental Hygiene

PRELIMINARY BUDGET OVERVIEW

IBO projects that DOHMH will spend $1.3 billion from all sources in 2004, with 40 percent provided by the state and federal governments. Under the Preliminary Budget, DOHMH is slated for $13 million in program cuts in 2004, as compared with last June's financial plan. Key budget actions include:

- Savings of city-funded expenditures include $3.3 million in specific program cuts, productivity gains of about $2 million, and administrative savings of $3.8 million.
- Savings of $2.5 million in city funds are anticipated from conversion of select mental hygiene programs to Medicaid funding, including certain community mental health programs to Home Community-based Services, alcohol treatment to chemical dependency program designation, and the implementation of federal Medicaid salary sharing for appropriate titles.
- The cost to the city for the Early Intervention (EI) program for 2004, a city-state program providing contracted services for developmentally delayed children less than three years of age, is now projected to be $38 million above the estimate when the budget was adopted last June. The increase is due to greater than anticipated caseload expansion.
- The department will work with the Human Resources Administration to identify Early Intervention children who are eligible for Medicaid for a projected savings of over $16 million each for both the city and the state. The plan includes $33 million in federal Medicaid revenue to pay for EI services.
- Actions from 2003 that reduced staff by the equivalent of 73 full-time employees will lead to $2.7 million in reduced spending in 2004. The Plan also recognizes another $2.2 million in 2004 savings from the slow start-up of the Chief Medical Examiner's High Sensitivity DNA Lab, the early retirement program, and other technical adjustments.
- The Board of Health has approved increases in the minimum fines levied for certain Health Code violations. The increase in revenue is estimated at $2 million. In addition, if approved by the state legislature, increased fees for birth and death certificates would net $1.9 million in revenue during 2004.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$ 1,281.4*
Program Cuts	(13.1)
Reestimates	
Early Intervention City	37.7
Early Intervention State	11.2
All other Changes, Net	(2.7)
January Plan	*$ 1,314.5*
Headcount	
June 2002 Financial Plan	3,235
January Plan	3,056
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$ 166.8
January 2003 Plan	$ 143.5

EFFECTS OF BUDGET PROPOSALS

Program Cuts. City-fund savings of $3.3 million in specific programs are spread over a number of areas including: termination of cancer research and education contracts ($906,000); reductions in two asthma case management contracts ($200,000); termination of a contract for the Ridgewood-Bushwick lead safe house and Lead Poisoning Prevention Program savings ($500,000); and elimination of vacant positions and accrual savings in the Pest Control Program ($600,000). Productivity gains account for about $2 million in expected savings and other administrative actions will save an estimated $3.8 million.

Early Intervention Program. The program has become a focus of cost containment efforts in recent years. As increasing numbers of very young children with developmental disabilities join the program, the cost to the city has risen rapidly. Medicaid covers between 35 to 38 percent of children in the program and it is believed that a substantial number of those not covered are also eligible. The Preliminary Budget includes an initiative to have the Department work closely with the Human Resources Administration to enroll more EI recipients in Medicaid. Because Medicaid costs are shared with the state and federal governments, the shift will reduce total city spending.

Coincidently, the Governor's proposed 2003-2004 New York

State budget includes an initiative to reform the payment structure of the Early Intervention program. While the program currently provides services to families at no cost, the Governor's proposal would require parents to pay a portion of the EI costs, with the required contribution increasing with family income, up to a maximum of 20 percent of the cost. Providers would have to directly bill Medicaid and all insurers would be required to cover the first $5,000 in EI costs. The state's Division of the Budget has estimated that city and state costs would be reduced by 20 percent through this initiative. If this proposal becomes law, the city could reduce its EI costs below the levels projected in the Preliminary Budget.

Headcount. Between the Adopted and Preliminary Budgets, authorized headcount declined by 179 positions. The early retirement program, personal services accruals, and the current hiring freeze have all contributed to the lower projected headcount for 2004. Reductions were spread across all program areas and include hiring fewer workers than anticipated due to the slow start-up of the new Office of the Chief Medical Examiner High Sensitivity DNA Laboratory.

Increasing Revenue. The Board of Health approved changes to the fines schedule and adjudication procedures for violations of the city's Health Code. Fines were increased for certain critical violations by licensed food establishments, minimum fines for operating without a license were increased, and fines for failure to appear at an Administrative Tribunal hearing were doubled. The city anticipates that the higher fines will increase revenue by $2 million. In addition, the city will ask the State Legislature to increase the fees for Birth and Death Certificates from $15 to $20. The Preliminary Budget assumes these higher fees will yield $1.9 million of additional revenue in 2004.

CAPITAL PLAN

The Department of Health and Mental Hygiene's capital plan provides funds for the construction, rehabilitation, and modernization of departmental buildings, and for the purchase of equipment. The 2003 Adopted Capital Commitment Plan provides a total of $166.8 million through 2006. The new commitment plan calls for a $23.3 million (14 percent) reduction in spending through 2006. The Plan eliminated expenditures for various projects, as opposed to stretching out the time frames to any great extent, and cut funding for supplies and equipment for certain non-public hospitals and health-related organizations.

Department of Homeless Services (DHS)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2004 DHS budget is $662.2 million, an increase of 8 percent over the projected 2004 budget of $613.5 million in the June 2002 Financial Plan.

- DHS expects to spend $24.9 million on additional shelter capacity for both single adults and families in 2004.
- DHS will spend $31.2 million on a variety of initiatives to move families out of the shelter system and into permanent housing.
- DHS anticipates that more families in the shelter system will receive public assistance, and has reduced its budget by $11.3 million in anticipation of higher reimbursements from the federal government.
- DHS will eliminate the Family Rental Assistance Program, which will save $628,000 annually.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$613.5*
Expand Shelter Capacity	24.9
Permanent Housing Initiatives	31.2
Eliminate Family Rental Assistance	(0.6)
Higher PA-eligible Caseload	(11.3)
Lower Rates	(3.2)
Attrition	(5.0)
All Other Changes, Net	12.7
January Plan	*$662.2*
Headcount	
June 2002 Financial Plan	1,591
January Plan	1,586
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$122.2
January 2003 Plan	$85.6

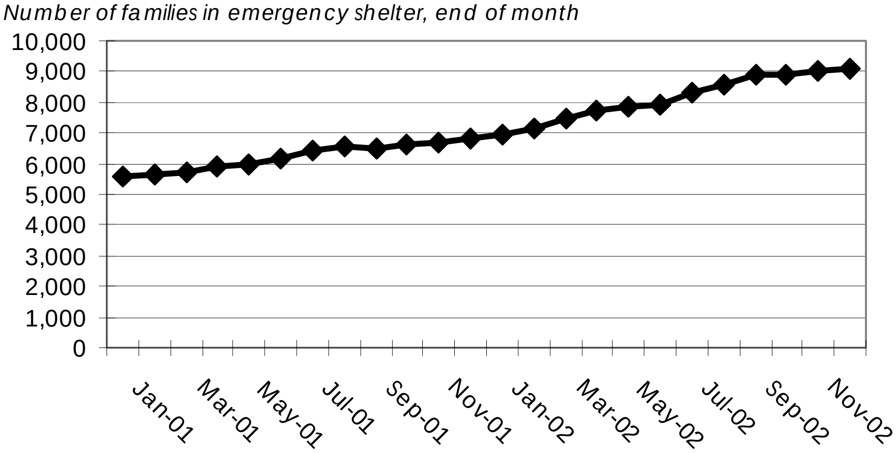
EFFECTS OF BUDGET PROPOSALS

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 December 2002, there were more than 38,000 people in the New York City shelter system, an all-time high. The DHS preliminary budget for 2004 adds emergency shelter beds for both adults and families in an attempt to keep up with the rising shelter census. DHS will add about 1,200 new family shelter units in 2004, at a cost of $19.5 million in 2004. The agency also proposes adding 250 winter shelter beds and 150 additional slots—either beds or drop-in center placements—for single adults, at a total cost of $5.4 million.

Although the cost for most single adult shelter beds is shared evenly between the city and state, these new placements will be entirely city funded, because the city has exceeded the state's cap on shelter reimbursement.

Number of Families Seeking Shelter Steadily Rising
Number of families in emergency shelter, end of month



SOURCES: IBO, Department of Homeless Services.

DHS is anticipating some savings in emergency shelter costs, for which $123 million was budgeted in 2003. The agency has negotiated lower nightly rates on a case-by-case basis with some hotel and scatter-site apartment owners, and will save $3.2 million annually as a result.

Permanent Housing Initiatives. One way to reduce the size of the shelter system is to move homeless households into permanent housing. DHS has proposed spending $31.2 million in 2004 and beyond to expand the Emergency

Assistance Rehousing Program (EARP), which provides bonuses to landlords who provide permanent apartments for families, and to hire additional housing specialists, who help homeless families identify appropriate apartments. DHS gave 1,731 EARP bonuses in 2002, at a cost of $7.1 million; the 2003 budget is $12.6 million. These initiatives are expected to yield savings over time in terms of reduced emergency shelter needs.

DHS would also cut one permanent housing program, the Family Rental Assistance Program. This program provides two years of rental assistance to working families who leave the shelter system. It has been underutilized since its inception—there are currently 10 families receiving assistance and 30 families with pending applications—because families generally prefer Section 8 or other housing subsidies without time limits. If this program is eliminated, DHS will continue to serve the 40 families already receiving or applying for assistance. Savings will be $628,000 annually.

State and Federal Assistance. The state pays for half of the cost of providing shelter to single adults, up to a state-imposed cap of $82 million. The federal government covers half of the shelter cost for families receiving public assistance, and the city and state each pay 25 percent. For families not receiving public assistance, the city and state each pay half of the shelter cost.

The city is working to increase the proportion of homeless families who are receiving public assistance. Currently about 75 percent of families receive assistance, and DHS expects to increase that to about 85 percent. In November, the city was able to substitute $8.3 million in state and federal aid for city funds. In the January plan, the city cut an additional $11.3 million from the DHS budget on the assumption that the agency would reach the 85 percent target, and will receive federal and state aid in this amount.

The state cap on shelter reimbursements was historically about $82 million, but was reduced to $72 million several years ago. The state restored the shelter cap to the $82 million level in November 2002, allowing DHS to claim more in reimbursements in the November 2002 plan. Because the state funds will partially offset city spending, the net effect on the DHS budget is a $5 million increase in 2004.

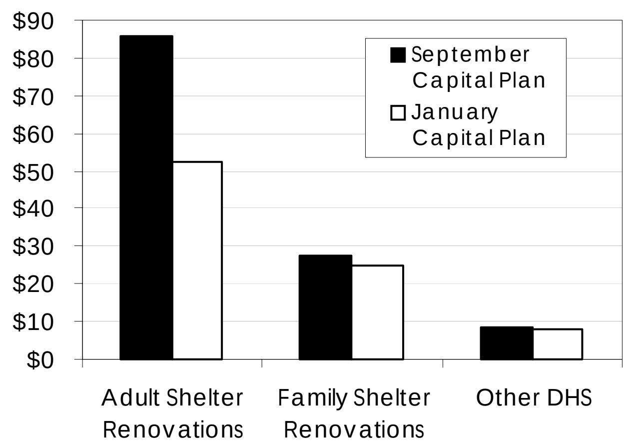
Other Changes. Other changes to the DHS budget include personnel reductions, and a $2.4 million increase in spending on security. The size of the DHS staff will shrink as people leave and are not replaced, which is anticipated to save a total of $5 million annually, about half of which is city funds. Spending on security, on the other hand, will increase, as security contracts are adjusted to reflect prevailing wages.

CAPITAL PLAN

The DHS four-year capital plan was cut by $36.6 million, or 30 percent. The total four-year capital plan is now $85.6 million, virtually all of which will be used to repair and maintain city-owned shelters. Funding for renovations of family shelters was cut 9 percent, to a four-year total of $24.9 million. In contrast, renovations planned for adult shelters—which account for more than 60 percent of the four-year capital plan—were cut 39 percent, to $52.2 million. Funding for replacing the 30th Street Men's Shelter was cut from $15.8 million to $6.3 million in the plan.

DHS Capital Commitments, 2003-2006

Dollars in millions



SOURCES: IBO; Capital Commitment Plans.

Department of Youth and Community Development (DYCD)

PRELIMINARY BUDGET OVERVIEW

The preliminary budget for DYCD for 2004 is $117.7 million, $34.3 million less than the budget for this year. Seventy percent of the agency's proposed budget for 2004 is slated to support youth programs, while the rest will support community development programs. In 2004, federal and state funding is expected to make up 30 percent and 12 percent of the agency's operating budget, respectively. IBO's projections of federal and state funding for the agency in 2004 are greater than the Bloomberg Administration's by $4.6 million, increasing our estimate of the agency's budget to $122.3 million. DYCD's proposed full-time headcount for 2004 is 262, with 133 positions funded by the city. The Mayor's Preliminary Budget proposes cutting the agency's 2004 budget by $14.1 million (11 percent) from the level planned last June for each year from 2004 through 2007. Key actions in the proposed budget include:

- Eliminating city funds for various youth and community development programs, including those funded with City Council discretionary dollars, for a total savings of $8.9 million each year beginning in 2004.
- Reducing city funds for the Beacons and TASC after-school programs, saving the agency $5.7 million annually beginning in 2004.
- Reducing administrative costs, saving the agency $348,000 a year beginning in 2004.
- Using youth program surplus funds to help close city budget gaps—$217,000 each year starting in 2004.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$131.77*
Program Cuts	($14.60)
All Other Changes, Net	$0.54
January Plan	*$117.71*
IBO Repricing (see text)	$4.60
IBO Reestimate	$122.31
Headcount	
June 2002 Financial Plan	265
January Plan	262

EFFECTS OF BUDGET PROPOSALS

Eliminating City Funds for Various Programs. The Mayor's Preliminary Budget proposes eliminating $8.9 million a year in city funds for various youth and community development programs beginning in 2004. The Bloomberg Administration recommends eliminating $3.2 million in City Council initiatives funded with the Council's discretionary appropriations. The proposed budget also reduces city funds for the Citizenship New York City (CNYC) program by $2.7 million. CNYC, initiated in 1998, provides outreach and assistance to immigrant New Yorkers seeking to become United States citizens. In 2002, the program helped 12,887 immigrants file naturalization applications with the U.S. Immigration and Naturalization Service. DYCD hopes to tap other sources of funding (including federal) to maintain the program and avoid service reductions, although at the moment these funding sources have not been identified.

The proposed budget also eliminates $600,000 for the New American Youth Initiative, a new program offering immigrant and refugee youth a range of support services including ESOL (English for Speakers of Other Languages) classes, civics classes, and counseling services. The remaining $2.4 million reduction in youth and community development programs involve cuts to various community-based programs, such as the Sports and Arts Foundation, City Sports, and the Institute for Student Achievement.

Reducing City Funds for After-School Programs. The Mayor's Preliminary Budget proposes reducing city funds for school-based after-school programs by $5.7 million (10 percent) beginning in 2004. An additional cut of $500,000 by the Department of Education brings the total to $6.2 million. DYCD funding for Beacon centers would be cut by $4.7 million a year beginning in 2004, affecting after-school services delivered at 65 of the city's public schools. These school-based community centers offer a mix of programs for youth, including academic support and enrichment and recreation activities, and for adults, high-school equivalency and English as a Second Language classes.

The proposed budget would also cut agency funding for the After-Three Program, run by The After-School Corporation (TASC), by $1.1 million a year beginning in 2004. The After-Three Program also operates in city public schools and offers young people primarily academic support and enrichment services. Due to the complexity of the funding arrangement for After-Three Programs, it is unclear how many program sites would be affected by the loss of city funds.

The After-Three Program will also lose $500,000 (or 6 percent) a year in city funds provided by the Department of Education (DOE) beginning in 2004. The budgetary actions proposed for DYCD and DOE would reduce the city's support for TASC to $17.5 million a year starting in 2004. Because the city helps TASC meet its matching requirement with the Open Society Institute (OSI), a loss of city tax levy would hamper the organization's ability to leverage private sector support for after school programs. OSI provides TASC up to $25 million for the provision of after-school services throughout New York State, but it imposes a 3-to-1 matching requirement.

Using Youth Program Surplus Funds. The Mayor's Preliminary Budget proposes replacing city funds with previously unspent, or surplus, state funds for youth services—$217,000 each year starting in 2004. The state funds primarily support the agency's Youth Development and Delinquency Program (YDDP). In 2002, the total operating budget for the city's Youth Development and Delinquency Program was $28.2 million and state funds accounted for nearly 40 percent of the total. YDDP programs serve youth ages 6 to 21 through a broad spectrum of before- and after-school, weekend, and vacation initiatives that promote positive youth development. The Bloomberg Administration has used surplus YDDP funds to close city gaps before; previous gap-closing efforts included $749,000 in 2003 and $4.8 million in 2002. The Governor's 2003-2004 Executive Budget proposes cutting state aid for YDDP by 10 percent; therefore it is unclear whether there will be surplus state funds available in future years.

Health and Hospitals Corporation (HHC)

PRELIMINARY BUDGET OVERVIEW

The New York City Health and Hospitals Corporation (HHC) projects expenditures in 2004 of $4.3 billion while revenues are projected to total $4.1 billion, leaving an operating gap of $200 million. HHC expects to start 2004 with a positive opening cash balance of $340 million, however, which is sufficient to avoid a deficit for the coming year.

The city makes an annual lump-sum payment to HHC. The Preliminary Budget for 2004 provides for a lump-sum payment of just over $850 million in city funds to HHC which includes: $750 million for the city's share of Medicaid costs at HHC facilities (the Medicaid payment includes $560 million for reimbursement of Medicaid services provided by HHC plus a mandated contribution of $190 million for Bad Debt and Charity Care) and $100 million for other expenses including debt service. The projected lump-sum payment to HHC has been reduced by $13.5 million since last June's Financial Plan due to an expected decline in the city's payment for HHC's debt service.

HHC's third-party payments, which include the city's Medicaid share, are projected to total $3.6 billion in 2004. Besides the city's lump-sum payment, other third-party payments to HHC projected for 2004 include: state and federal Medicaid reimbursements of $1.6 billion; state-administered Bad Debt and Charity Care payments of $360 million (this in addition to the $190 million for charity care included in the city's lump-sum payment); Medicare reimbursements ($500 million); and collections from HMOs and other payers totaling $315 million. In addition, HHC will receive $202 million in 2004 under the federally funded Community Health Partnership program, which helps hospitals transition from Medicaid fee-for-service to mandatory managed care. Payments to HHC under the partnership will fall to $78 million in 2006 and 2007, and then decline further as the state retains an increased share of the program funds and distributes less to hospitals.

Key Preliminary Budget actions affecting the 2004 budget include:

- HHC debt service payments from the city will decline by a total of $13.5 million in 2004.
- The Department of Health and Mental Hygiene (DOHMH) contract with HHC was reduced by $6 million between the June 2002 Financial Plan and Preliminary Budget for 2004, and the agreement by which HHC provides mental hygiene services to prisoners was increased by $5 million.
- HHC expects to save $25 million in 2004 due to early retirements; 1,000 workers are expected to participate in the program, with half being replaced.
- The corporation estimates a net loss of more than $100 million in 2004 if the Governor's proposals to cut Medicaid spending are implemented.

2004 Budget Summary
Dollars in millions, city funds

Expense Budget	
June 2002 Financial Plan	*$866.40*
Debt service payments	(13.5)
January Plan	*$852.90*
Headcount	
June 2001	31,544
June 2002	32,023
Capital Commitments	
Totals, 2003-2006	
September 2002 Plan	$696.90
January 2003 Plan	$658.60

EFFECTS OF BUDGET PROPOSALS

Debt Service Reduction. The city's payments to HHC for debt service will be reduced by $13.5 million in 2004, compared with the levels forecast last June. HHC hopes to reduce their debt service costs by refinancing. If these debt service savings are not realized, the corporation will have to cover the difference.

Reduction in DOHMH Contracts with HHC. Expenditures for certain services provided by the corporation on behalf of DOHMH have been reduced in the Preliminary Budget, including: a decline of $225,000 in mental health contracts; savings of $1.3 million through restructuring at Family Health

Clinics; and a $250,000 reduction in payments to offset the cost of providing outpatient drugs to uninsured patients.

Staffing Changes. Between June 2001 and June 2002, full-time headcount increased by 1,043, from 31,544 to 32,023. A portion of the rise came from the addition of 350 per diem nurses to offset the current severe nursing shortage. Also, HHC replaced some of the 800 staff lost in the 2001 early retirement program. The current early retirement program is projected to save $25 million in 2004 if, as expected, 1,000 employees take early retirement and HHC replaces 500 of them to maintain required staffing levels in critical patient care categories.

OTHER ISSUES

Medicaid Malpractice-Debt Service Swap. In 2002, HHC entered into an agreement with the city to pay for the corporation's medical malpractice costs in exchange for the city paying the debt service on bonds originally issued prior to 2001. (The agency is still responsible for the cost of debt service on new debt.) In 2002, HHC's medical malpractice costs were capped at $172 million and the city paid $176 million in debt service in exchange. For 2004, malpractice costs for HHC have been capped at $185 million. If costs are higher, the city will pick up the difference. Under the terms of the swap, if HHC is able to hold costs below the cap, the corporation will have the benefit of the savings.

HHC has retained a malpractice claims organization, hired in-house risk management staff, and created a computerized claims/risk management database in the first phase of its efforts to reduce malpractice costs. The corporation is considering the feasibility of overlaying additional insurance coverage over the existing city indemnification. The mechanism would provide access to the New York State Excess Medical Malpractice Pool and theoretically could be structured to better align incentives for cost-effective early settlements.

State Budget Actions. If the Governor's 2003-2004 state budget and associated legislation are adopted in their current form, HHC would be affected by cuts in Medicaid reimbursements and the re-imposition of an assessment on hospital revenues. Under the proposals, HHC—like other hospital providers across the state—would no longer receive enhanced payments as average lengths of stay are reduced, incur a 5 percent reduction in per diem rates, and have most specialty clinic rates capped. Most critical for HHC would be a change in the reimbursement formula that compensates teaching hospitals for the additional costs associated with graduate medical education and the use of interns and residents to provide patient care. HHC facilities, along with the state's other medical institutions, would also pay a 0.7 percent assessment on total revenues from inpatient and outpatient services. HHC estimates that the net effect of the proposals would be a loss of $100 million in state fiscal year 2003-2004 and $200 million in 2004-2005.

The Uninsured. Each year, HHC provides health services to over half a million of the estimated 1.7 million city residents who lack health insurance. During the first half of fiscal year 2003, 39 percent of HHC's adult outpatients and 20 percent of children receiving outpatient services were uninsured (excluding emergency department visits). HHC is making concerted efforts to enroll eligible patients in public health insurance programs, with special emphasis on its own Medicaid managed care plan, MetroPlus. As of January 2003, MetroPlus had almost 140,000 enrollees compared to 80,000 a year earlier. A fast growing segment of MetroPlus members are enrolled through the Family Health Plus (FHP) program for parents and childless adults. Although the Governor's Executive Budget proposal to reduce eligibility levels from 150 percent to 133 percent of the federal poverty level will eliminate some potential FHP recipients, it is not expected to slow the overall growth of FHP because HHC continues its aggressive efforts to enroll patients in the remaining large pool of uninsured whose income are at or below the proposed eligibility levels.

Trends. Between 2003 and 2007, HHC projects total expenditures to increase by 9.4 percent and total receipts to increase by 6.8 percent. Annual operating deficits will grow from $200 million in 2004 to $500 million by 2007. HHC assumes that federal and state actions will produce additional revenues of $175 million in 2004, rising each year to $300 million by 2007. But even under the assumption that HHC will enjoy these projected revenue increases, its opening cash balance is expected to shrink to $40 million by 2007, compared to $340 million at the start of the current fiscal year. There is little chance that the large Medicaid and Medicare claims settlements that produced the accumulation of cash during the late 1990s will be repeated. If current trends continue and the additional state and federal resources are not available, HHC will soon have insufficient resources to cover its expenses without city subsidies above the current lump-sum payment.

CAPITAL PLAN

HHC has made great strides in the past several years in its ten-year capital program, replacing antiquated hospital facilities and upgrading clinics, emergency rooms, and specialty units. The city's new Capital Commitment Plan has reduced the total contribution to the HHC capital program for 2003 through 2006 by $38.3 million (5.5 percent), leaving a total of $658.6 million. Appropriations for major reconstruction projects are maintained at the levels of the September 2002 Plan, although commitments for improvements of certain facilities throughout the city and for the purchase of ambulances were reduced.

Human Resources Administration (HRA)

PRELIMINARY BUDGET OVERVIEW

The Preliminary Budget for 2004 proposes total agency spending by the Human Resources Administration of $5.9 billion—$5.5 billion of which is for public assistance programs and Medicaid payments—an increase of $78 million from the level forecast for 2004 in last June's Financial Plan. The increase results from $131 million in proposed new needs and other adjustments, of which $127 million are city funds. The budget also includes savings proposals as part of the Program to Eliminate the Gap (PEGs) that would reduce city funds by $55 million. These would be offset somewhat by swapping $2 million in city funds for $2 million in new federal and state funds, resulting in net PEG reductions of $53 million in total funds.

IBO estimates that total HRA spending for 2004 will be $6 million more than forecast in the Preliminary Budget. We project an additional $73 million in Medicaid spending—on top of the large Medicaid increases recognized in the Preliminary Budget—and $28 million more in federal categorical grants, offset by $95 million in lower public assistance spending. Key Preliminary Budget actions include:

- A savings of $34 million in total funds—including $13.6 million in city funds—from eliminating more than 1,500 positions, primarily as a result of the early retirement program.
- A replacement of $5.7 million in city funds with federal funds from improved methods of claiming reimbursement for administrative expenses.
- A replacement of $5 million in city funds with federal Medicaid funds for medical services for inmates served by HHC.
- A $4.1 million savings in city Medicaid funds from implementing a new state pre-approval process for some AIDS medications.
- An increase of $74.3 million in city funds due to projected growth in Medicaid expenses resulting from increasing enrollment in the new Family Health Plus program.
- An increase of $30 million in city funds to expand the subsidized employment program to help shift public assistance recipients into the job market.
- An increase of $10.8 million in city funds to cover the city's portion of expected costs from the proposed increase in the shelter portion of the public assistance grant.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$5,846*
Expenditure Reestimates	(11)
Other PEGS	(42)
New Needs	148
All other Changes, net	(17)
January Plan	*$5,924*
IBO Repricing (see text)	6
IBO Reestimate	$5,930
Headcount	
June 2002 Financial Plan	12,541
January Plan	10,950
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$142
January Plan	$124

EFFECTS OF BUDGET PROPOSALS

Personal Service Reductions. Since the 2003 Adopted Budget, the agency has reduced its 2004 headcount by 1,591, or about 13 percent. The vast majority of the reductions are a result of the recent city early retirement program, which means that the agency has lost many of its most experienced personnel. It faces major management challenges in implementing these reductions in ways that do not result in significant service reductions.

Expansion of Subsidized Employment Program. The Preliminary Budget includes $30 million in city funds to expand a subsidized employment program that has been centered in the parks department. The new funds will allow the HRA to increase the number of participants and will likely involve placements with other city agencies. The program provides job skills and experience to long-term welfare recipients and facilitates their transition to unsubsidized employment. It could help to further reduce the public assistance rolls.

Shelter Grant Increase. The budget includes $10.8 million in new funds to cover the city's portion of the proposed increase in the shelter portion of the public assistance grant. This increase has been suggested by state officials as a part of their effort to reach a settlement in the Jiggetts case, in which the plaintiffs claim that the present shelter grant is inadequate for the New York housing market.

Increased Funding for Public Assistance and Medicaid. The Preliminary Budget includes $5.5 billion in funds for public assistance and Medicaid, or 91 percent of the total agency budget of $5.9 billion. These two entitlement programs also account for 95 percent of all city funds in the agency's budget. The budget acknowledges expected increases in city costs for these programs. For a detailed discussion of these changes, see the public assistance and Medicaid sections of this report.

CAPITAL PLAN

HRA's four-year Capital Commitment Plan has been reduced to $124 million from $142 million since the September plan, a 13 percent reduction. Planned commitments for 2003 have been reduced from $67 million to $63 million. The January plan preserves projects intended to upgrade agency computer and telecommunications systems as well as agency construction and renovation projects, although at somewhat lower levels of funding. 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 decreased from $72 million to $61 million.
- Continuation of a wide variety of construction and renovation projects intended to improve agency facilities including the Office of Employment Services facility near Union Square, the Medicaid center on West 34th Street, and several job centers throughout the city. Overall four-year commitments for design, construction, renovation and furniture for agency facilities have been cut from $69 million to $63 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. With little change in the caseload expected, the Bloomberg Administration projects that federal, state, and city expenditures for public assistance grants will reach $1.1 billion in 2003 and remain largely unchanged in later years. The city's share of welfare spending is forecast to rise from $386 million in 2003 to $409 million in 2004 and then level off in later years. The 2004 increase largely reflects the greater city costs that result from moving families that hit their five-year limit for receiving federal benefits from the Family Assistance (FA) program—which has 25 percent city funding—to the state and local Safety Net Assistance program, which has 50 percent city funding.

Mayor's Projections. The budget includes separate caseload projections for the three categories of recipients: Family Assistance, which receives federal Temporary Assistance for Needy Families (TANF) funding, basic Safety Net Assistance (SNA) for single adults, and the new SNA-5-Year for those families who have reached their federal five-year limit. In December 2001, 82,000 Family Assistance recipients reached their five-year federal limit and were shifted to SNA-5-Year. By December 2002, the number of SNA-5-Year recipients had increased to 128,000. The Bloomberg Administration projects that this number will grow to 132,000 by June 2003 and then level off. The combined number of persons on either FA or SNA-5-Year is projected to decrease slightly from 335,000 in December 2002 to 332,000 by June 2003 and remain flat after that point. Similarly, the Bloomberg Administration expects the number of people on basic SNA to level off throughout the 2004-2007 period, after increasing modestly from 86,000 in December 2002 to 89,000 by June 2003.

IBO Projections. IBO projects that public assistance caseloads will remain largely unchanged through calendar year 2003 despite the current economic downturn and resulting job losses. Modest caseload decreases will resume in calendar year 2004 as the city's job market begins to gain strength. Based on these caseload projections we expect total expenditures for public assistance grants to decrease slowly from just over $1 billion in 2003 and 2004 to $940 million in 2005, and remain largely flat after that point. Similarly, we project that city expenditures will decrease slowly from $383 million in 2003 to $357 million in 2005 before leveling off in the remaining two years of the Financial Plan. IBO's projections for city-funded expenditures are lower than the Bloomberg Administration's forecast by $2 million in 2003, $28 million in 2004, and about $60 million in 2005 and later years.

CASELOAD TRENDS

The number of persons receiving public assistance in the city began a long and steady decline in March 1995. The start of the downward trend began with the implementation of new local welfare policies and continued during a period of 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 million 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, the new local policies played a major role in the caseload reduction over several years.

The strong local economy also contributed to the decline in the caseload. From the early part of calendar year 1995 through 2000, 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 current recipients to find jobs and leave the rolls, either through their own efforts or through the city's job-placement programs.

The recent economic downturn, however, has provided a more difficult challenge for the city's welfare reform policies. Since early 2001 the city has been experiencing a significant economic contraction, and the attack on the World Trade Center delivered an additional shock. The latest data indicate that the city has lost nearly 175,000 jobs over the last two years.

During the recession in the early 1990s, large job losses were associated with significant increases in the welfare rolls. 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. Welfare reform policies implemented in the intervening years have made it more difficult to move onto and stay on the welfare rolls. Therefore, it seemed likely that the relationship between lost jobs and caseload growth during the current recession would differ somewhat from the last recession. Nevertheless, the extent of difference has surprised many analysts—including those at IBO—who expected the large job losses experienced over the last two years to lead to significant short-term increases in the number of individuals receiving public assistance.

At this point in time, however, the current economic downturn has had only a modest impact on welfare caseloads. The number of people receiving basic SNA, which had dropped from 297,000 in March 1995 to a low point of 76,000 in September 2001, began a modest increase in the fall of 2001, reaching 87,000 in March 2002. It has since stabilized at that point. IBO projects that the SNA caseload will remain flat for the remainder of calendar year 2003. In calendar year 2004, we expect improvements in the job market to lead to a resumption of the longer term downward trend, with the number of SNA recipients declining to 77,000 by December 2004.

The impact of the economic downturn on the family caseload, which now includes both FA and SNA-5-Year, has also been modest. While the downturn has not led to caseload increases, it does appear to have significantly slowed the rate of decline. The family caseload dropped sharply from 863,000 people in March 1995 to 387,000 in September 2001, an average decrease of over 6,000 recipients per month. After a period of rapid shifts in late 2001 and early 2002, which included the movement of the first large cohort of families from FA to SNA-5-Year, the combined family caseload began a slower downward trend. From April 2002 through December 2002 the combined family caseload decreased from 353,000 to 335,000, an average decline of about 2,000 people per month. IBO projects that the downward trend will continue at a very slow pace for the remainder of the year. It will accelerate somewhat as the city's job market improves in calendar year 2004, with the combined family caseload reaching 293,000 in December 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 people from FA into New York's SNA-5-Year program. By December 2002 the number of recipients receiving SNA-5-Year had reached 128,000. After growing rapidly in the first few months of this program, the SNA-5-Year caseload has stabilized, with the number of individuals converting each month from FA roughly equaling the number leaving the program. We project that this stability will continue through calendar year 2003, followed by a modest caseload decrease in 2004.

Taken by itself, the shift from FA to SNA-5-Year will have 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 Family Assistance 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. The net incremental cost to the city of shifting up to 128,000 persons from FA to SNA-5-Year will reach $60 million in fiscal year 2003, and continue at that level in 2004.

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 targeted to low-income New Yorkers.

In the last few years state officials have projected MOE spending shortfalls. To reach the required MOE level they have stepped up state spending and forced local governments to spend more. 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 also bear more than their usual 25 percent of the FA cost, while the federal share dropped to under 50 percent. 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 against the MOE. Under federal rules, each additional dollar spent in shifting families to SNA-5-Year reduces the MOE shortfall by an equal amount. The city will still be responsible for satisfying its share of the statewide 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 affect the city's overall liability.

The increased state and local spending due to the movement of families from FA to SNA-5-Year are expected to 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, 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, those recipients shifting from FA to SNA-5-Year are assumed to have exhausted their cash benefit period and are immediately assigned to the voucher plan.) 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. While the city has begun to use vouchers to pay for the housing costs of SNA-5-Year recipients, the implementation of the debit card program has been indefinitely delayed as a result of technical problems.

TANF REAUTHORIZATION AND SURPLUS FUNDS

An issue of extreme importance to both the state and city is reauthorization of the federal welfare system, currently under consideration by Congress. The welfare law was set to expire in September 2002 but has been extended through March

2003. 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—has been receiving more TANF dollars than are required to maintain the programs that were incorporated into the block grant. The excess is often referred to as the "TANF surplus."

Over the last few years New York 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 the city's welfare-to-work initiatives, including employment programs, child care, and transitional services. The city's Financial Plan assumes that the TANF block grant will be reauthorized at least at its current levels to continue funding these services. Recent indications suggest that current TANF funding levels are likely to be maintained as part of the reauthorization.

Of greater local concern are the increased work requirements for TANF recipients included in the welfare bill recently passed by the House of Representatives. If they become law, these increases in work quotas and required work hours could result in increased costs for work programs and child care for the city. It is not at all certain that the new law would provide enough additional funds to cover these new costs.

State fiscal problems have also created additional risks for the city's welfare budget. In state fiscal year 2002-2003 state officials inflated the TANF surplus to $2.5 billion by using up the entire $662 million reserve fund that had been specifically set aside from prior years' TANF surpluses. They then used these one-time funds for new fiscal relief initiatives to help close the state budget gap. Since these reserve funds will no longer be available, the Governor's Executive Budget for 2003-2004 includes a reduced TANF surplus of $1.8 billion, requiring cuts in either some of the programs funded with TANF for the first time this year or some of the on-going TANF funded programs. While the Governor's proposals would largely preserve current TANF allocations for child welfare and child care, they do include reductions in funding for employment programs for welfare recipients. These reductions in employment funds, coming on top of similar reductions over the last few years, could create problems for the city at a time when federal welfare-to-work requirements are likely to be increased.

MEDICAID

PRELIMINARY BUDGET OVERVIEW

The fiscal year 2004 Preliminary Budget projects city-funded Medicaid expenditures administered through the Human Resources Administration (HRA) to total $3.4 billion, $69 million higher than the level forecast at the adoption of the fiscal year 2003 budget last June. (Additional city-funded Medicaid spending is administered by the city's Health and Hospitals Corporation.) The June forecasts for 2005 and 2006 were also increased by $82 million and $87 million, respectively. Important budgetary changes for 2004 include:

2004 Medicaid Budget Summary
Dollars in millions, city funds

Expense Budget	
January 2002 Financial Plan	
Through HRA	*$3,282*
Through HHC	*$750*
Reestimates	7
All other Changes, Net	62
January Plan	
Through HRA	*$3,351*
Through HHC	*$750*
IBO Repricing (see text)	73
IBO Reestimate	
Through HRA	$3,424
Through HHC	$750
Total	$4,174

- An increase of $74 million in the expected cost of Family Health Plus, the Medicaid expansion program for low-income working adults that began in the city in January 2002.
- Increases in projected enrollment resulting from a joint effort by HRA and the Department of Health and Mental Hygiene to enroll eligible children from the Early Intervention Program (EI) into Medicaid will add another $6.6 million to the fiscal year 2004 budget.
- Several initiatives aimed at slowing the use of some services will reduce city-funded spending by $5.3 million.
- Another $6.6 million of net budget savings will result from shifting city costs to the state and/or the federal government.

IBO's forecast for city-funded Medicaid spending through

HRA is $3.4 billon in 2004, $73 million (2 percent) higher than the Preliminary Budget estimate. We project higher pharmacy costs and somewhat higher increases in enrollment over the period of the plan. We also expect costs to grow more quickly, with increases averaging 4.8 percent annually from 2004 through 2007.

The city's contribution for Medicaid services delivered at the New York City Health and Hospitals Corporation (HHC) is handled differently from the reimbursements to other service providers. For all providers except HHC, HRA is billed by the state for the city's share of the reimbursable costs. In the case of HHC, the city makes a direct payment to HHC for the city's share of Medicaid costs for reimbursable services delivered at HHC facilities, while the state makes payments to HHC for the state and federal shares. In 2004, the city payment to HHC for Medicaid costs is budgeted at $750 million and is included in the city's lump-sum payment of $850 million to HHC. Combining HRA payments and HHC direct payments, IBO estimates the city's total 2004 Medicaid liability at $4.2 billion.

BACKGROUND

Medicaid is a joint federal-state program created in 1965 to pay for a wide range of health and long-term care services for certain low-income populations, including children, individuals with disabilities, the elderly, and some very poor adults. Currently, parents with incomes below 150 percent of the federal poverty level (FPL) and single adults and childless couples with incomes below 100 percent of FPL are eligible for Family Health Plus, the Medicaid expansion program. The share of the program costs borne by the federal government varies by state using a formula that is heavily influenced by a state's per capita income. Along with 11 other high-income states, New York State's Medicaid program has the minimum Federal Medicaid Assistance Percentage at 50 percent of expenditures. Unlike other states, New York requires all localities, including New York City, to pay a substantial portion of the non-federal costs of the program. Localities must pay 25 percent of acute care expenditures and 10 percent of long-term care expenditures for their resident beneficiaries.

EFFECTS OF BUDGET PROPOSALS

Early Intervention Initiative. In conjunction with the Department of Health and Mental Hygiene, HRA will work to enroll more EI recipients in Medicaid. The program provides services to young children with developmental disabilities. Currently, the cost is shared equally by the state and the city. Despite the resulting $6.6 million increase in costs to HRA, transitioning these children into Medicaid will reduce city-funded spending because the federal government would pick up 50 percent of the costs if the children are served through Medicaid.

Discouraging the use of services. The Preliminary Budget includes two proposals to save money in 2004 by requiring approval in advance before using specific services. The first would require pre-approval of a certain AIDS drug to reduce inappropriate use. The city expects to save $4.1 million. In addition, the city plans to introduce a system of prior authorization for Medicaid transportation services ($1.2 million in savings).

State and federal funding initiatives. The city plans to take advantage of federal rules to bill Medicaid for certain services provided by skilled medical personnel ($1.1 million in savings). The Preliminary Budget would also shift to the state responsibility for certain Medicaid transportation costs ($1.9 million in savings). Finally, the city will seek reimbursement for providing transportation for methadone maintenance clients through Medicaid ($3.6 million in savings).

OTHER ISSUES

Increases in Medicaid Enrollment. Between September 2001 and November 2002 Medicaid enrollment increased by 528,000 to over 2.3 million city residents. A major contributor to this increase was the Disaster Relief Medicaid (DRM) program, created immediately after World Trade Center attack which incapacitated Medicaid's computer system. DRM featured a one-page application and minimal documentation requirements and by January 2002 more than 340,000 individuals had signed up for four months of coverage. The city's Human Resources Administration set in motion a transition process that attempted to enroll as many DRM participants into regular Medicaid as were eligible. The process was essentially completed in December 2002 and reports indicate that only 38 percent of DRM clients kept their required Medicaid interview appointments. Data is not yet available showing how many of those who went through the transition process were found eligible for regular Medicaid. (The rate of participation in the transition process is somewhat lower than that reported in previous studies which have found that about 50 percent of Medicaid enrollees drop off the rolls at their annual renewal.) January 2003 brought the resumption of the regular recertification process which had also been suspended since September 2001. With these recent changes, data from the coming months will be crucial to understanding what DRM and the lack of recertification have meant to enrollment trends.

An additional boost to Medicaid enrollment is the Family Health Plus (FHP) program, a managed care initiative begun in New York City in January 2002 that seeks to enroll low-income working parents and other adults whose incomes are above regular Medicaid eligibility levels. By the end of 2002, over 100,000 individuals were enrolled, some of whom transitioned from Disaster Relief Medicaid to FHP. The Governor's 2003-2004 state budget proposal contains a number of Medicaid cost control initiatives (see below); one reduces the income eligibility for FHP from 150 percent of FPL to 133 percent for parents with children, reducing the number of individuals eligible for the program. The income eligibility level for single adults and childless couples would presumably remain at 100 percent of FPL.

Finally, the local economic downturn has probably contributed to enrollment growth. National studies indicate that a 1 percentage point increase in the unemployment rate translates into a 3.6 percentage point increase in Medicaid enrollment as job losses reduce the income of many households to the point where they can qualify for Medicaid. Since December 2000, the city's unemployment rate has grown from 5.3 percent to 8.6 percent in February 2003. During that same period, Medicaid enrollment grew by 32 percent, or more than twice the increase suggested by the unemployment rate/enrollment relationship noted above. While DRM and other policy changes account for much of the enrollment increase, this suggests that job losses in the city are also contributing to the caseload growth.

Managed Care Enrollment. The city has made some progress in enrolling beneficiaries in mandatory managed care programs. Phase IV of the managed care initiative began in September 2002 and includes northeast Brooklyn and northern Manhattan. In January 2001, 27 percent of those targeted for managed care enrollment (some Medicaid recipients are excluded) were enrolled with one of the managed care providers (22 percent of total enrollment). By January 2003, 64 percent of non-excluded beneficiaries were in managed care (40 percent of total enrollment). At that time, 11 percent of managed care enrollees were in Family Health Plus.

Impact of New York State Actions on City Medicaid Spending. In January 2002, the state legislature passed the Workforce Development Act raising Medicaid reimbursement rates to fund wage increases for certain health care workers. At the time, the state anticipated funding the increases by increasing the Federal Medicaid Assistance Percentage from 50 percent to 53 percent. There is little indication that the federal government will approve the increase, however, and the city is not factoring the savings into its projected 2004 Medicaid spending. The projected cost of the reimbursement increases associated with the 2002 Health Care Reform Act is $60 million for 2004.

The Governor's proposed 2003-2004 state budget contains a number of actions designed to reduce state Medicaid spending by $1.2 billion. The most significant change for New York City's budget is the proposal that localities—including the city—increase their local share of Medicaid expenditures for hospital, outpatient, and clinic services to 37 percent from the current 25 percent. In exchange, the state would take over the entire local share (25 percent) of pharmaceutical costs. Although other counties are expected to gain under the proposal, IBO estimates the swap would result in a loss to New York City of $220 million dollars a year.

In contrast, IBO estimates that other cost-savings strategies and revenue enhancements contained in the Governor's Medicaid plan would net the city $160 million in savings. Among these savings are: $80 million in reduced payments to hospitals and clinics; $21 million from the transfer of children whose family incomes are at the upper end of eligibility to the Child Health Plus program, for which there is no local share; $20 million in savings from reduced eligibility for Family Health Plus; $27 million in savings on nursing home expenditures; and between $10 million and $20 million in savings by reducing payments to physicians for certain services provided to Medicaid beneficiaries who are also eligible for Medicare.

Not all of the state's cost-containment initiatives would save the city money. The proposed provider assessments on hospitals and companies providing in-home services would not reduce the city's Medicaid expenditures, and the proposal to cap payments to local governments, including the city, for certain services provided to the mentally disabled would lead to higher city costs.

The provider assessments and other proposals would also have a significant impact on HHC. Under the proposals, hospitals would pay a 0.7 percent assessment on total revenues for inpatient and outpatient services, no longer receive enhanced payments as length of stays are reduced, incur a 5 percent reduction in per diem rates, and have most specialty clinic rates capped. The state would also change the formula by which hospitals are reimbursed for the indirect extra costs associated with the use of interns and residents to provide patient care. The Health and Hospital Corporation estimates that the proposals would reduce its Medicaid reimbursements by a total $100 million in the state fiscal year 2003-2004 and by $200 million in 2004-2005. According to a study by the Greater New York Hospital Association, more than half of the statewide reduction in these payments would be borne by HHC.

Our estimate of the overall cost to the city—including HHC—of the Governor's proposed changes in the state's fiscal year 2003-2004 budget is $160 million. Although the city would not necessarily have to make a direct payment of $100 million in 2004 to cover HHC's loss, the resulting deficits could not be sustained indefinitely by HHC and would lead to real losses in services and/or increase in costs for the city and its residents.

Federal Proposals. In Washington, concerns over the rising costs of Medicaid and Medicare have pushed these issues high on the federal policy agenda. The Bush Administration has put forward the outlines of a proposal to offer states control over Medicaid benefits and program requirements for enrollees in optional categories not mandated by federal law. Because of the many expansions of New York State's Medicaid program, a high percentage of enrollees are in these optional categories, including many nursing home residents. In exchange for increased payments during the first seven years of the program, states choosing this option would have their federal payments reduced for the following three years. The federal government would no longer offer open-ended reimbursement for states' Medicaid expenditures, turning the program into something akin to a block grant.

There are many elderly Medicaid beneficiaries also covered by Medicare, the so-called dually eligible. Since Medicare does not cover prescription drugs or long-term care, but New York State's Medicaid program does, the state's costs for the dually eligible are high. Federal proposals to establish prescription drug coverage under Medicare would relieve the state and city of a portion of these costs. The current debate over providing a prescription drug benefit for Medicare participants is split between those who would encourage seniors to switch to managed care plans in order to be covered for these costs and those who would provide coverage through the regular Medicare program. Questions remain about the extent to which the state and city would benefit from a Medicare prescription drug benefit, particularly for costs incurred by the dually eligible in long-term care facilities.

Department of Buildings (DOB)

PRELIMINARY BUDGET OVERVIEW

The preliminary DOB budget for fiscal year 2004 is $49.9 million, up from the projected 2004 budget in the 2003 adopted Financial Plan of $46.0 million.

- No program cuts are proposed for DOB in 2004.
- The department will spend an additional $2.9 million to raise inspector salaries in 2004.
- DOB will also spend $445,000 to increase its technical capacity.

2004 Budget Summary

Dollars in millions

Expense Budget	
June 2002 Financial Plan	$46.0
New Needs	4.2
Other Changes, Net	(0.4)
January Plan	$49.9
Headcount	
June 2002 Financial Plan	791
January 2003 Plan	784

EFFECTS OF BUDGET PROPOSALS

The Department of Buildings has long been plagued with management problems and corruption scandals. The Mayor and DOB Commissioner have pledged to make the agency more effective. The $4.2 million in new needs included in the November and January plans are intended to address some of the agency's problems.

Staffing. DOB has included $2.9 million in its 2004 budget to increase inspector salaries. In 2002, the agency spent $14.7 million on inspector salaries, including 236 full-time staff and some additional part-time staff (excluding the 15 plumbing inspectors arrested at the end of 2002 in a bribery scandal). It is generally believed that low inspector salaries have contributed to corruption and led to high turnover rates. The department plans to raise salaries, although the precise value and structure of the increase is still to be determined. The agency also plans to spend close to $400,000 to convert some per diem staff to full time; the department feels this will help it get better control over its personnel budget.

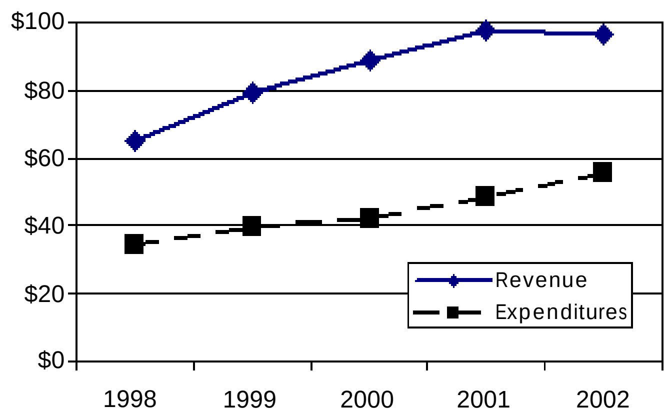
Nine full-time and three part-time staff people are being transferred to the 311 Call Center. The DOB budget will fall by about $350,000 to reflect this transfer.

Technological Capacity. DOB will spend $445,000 in 2004 on a variety of initiatives to increase its technological capacity. In particular, DOB will hire a Help Desk Technician for each of the agency's borough offices, and spend about $200,000 on computer hardware, software, and Internet connections.

Finally, DOB added $180,000 to its budget to develop new regulations and inspection schedules for high-rise buildings, and $335,000 to hire additional lawyers to speed the processing of violations. Eventually this latter initiative is expected to be revenue neutral as it results in greater fine collections.

Department of Buildings Revenue and Expenses

Dollars in millions



SOURCES: IBO; Comptroller's Annual Financial Report (various years).

Revenue. The revenue raised through DOB activities more than covers the agency's costs. In fiscal year 2002, for example, DOB generated about $96.6 million in fees from trade licenses and construction permits, fines, and other revenues. DOB has not been subject to the same percentage cuts as other city agencies because the net effect of such cuts would generally reduce revenue, as well as adversely affect public safety.

Department of Environmental Protection (DEP)

PRELIMINARY BUDGET OVERVIEW

The preliminary 2004 Department of Environmental Protection budget is $700.6 million, an increase of 0.6 percent over the 2004 budget as projected in the June 2002 Financial Plan.

2004 Budget Summary
Dollars in millions

Expense	
June 2002 Financial Plan	*$696.8*
Transfers to 311 Call Center	0.8
January Plan	*$697.6*
IBO Repricing	3.0
IBO Reestimate	$700.6
Headcount	
June 2002 Financial Plan	6,064
January Plan	6,045
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$7,292
January 2003 Plan	$7,459

EFFECTS OF BUDGET PROPOSALS

Unlike most agencies across the city, DEP's expense budget was not cut for 2004. Overall, most of DEP's work is mandated by federal laws regarding discharges, wastewater control and overall water quality. City funds account for only 5 percent of DEP's budget—including the Environmental Control Board and the Bureau of Environmental Compliance, which inspects in-progress asbestos abatements for all city-owned properties, investigates air quality and noise complaints, and monitors facilities containing hazardous waste. These activities are viewed as being "fee and fine" supported and are thus rarely targeted for budget cuts.

The majority of DEP's budget is financed by charges to system users to pay for the operation and capital financing of the city's water and sewer system. Water and sewer charges are projected to produce revenue of $1.74 billion in 2003. From this revenue, the New York City Water Board will pay the city $742 million for system operations, and $124 million as a lease payment for the city-owned water and sewer infrastructure. Another $833.7 million will go primarily for debt service on Municipal Water Finance Authority-issued debt, and for water board and authority expenses. The remaining revenue funds reserve accounts.

Other DEP revenue is derived 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 2003 through 2006, DEP's capital plan totals $7.5 billion, a 2.3 percent increase from the September 2002 plan. Nearly 50 percent of the capital plan is devoted to water pollution control projects ($3.6 billion). Water supply and distribution projects (including trunk and main replacements and water quality preservation) make up the next largest category of spending ($2.8 billion, or roughly 37 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. Currently, the water authority has $11.5 billion in outstanding debt, with an additional $800 million to be issued before the end of 2003. All the debt issued by the water authority 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.

The largest increase in capital funding for 2003-2006 is for reconstruction of several shafts to water mains in the upstate watershed—from $51 million in September to $127 million in the January plan. In addition, $25 million was added for reconstruction of the Port Jervis water pollution control plant in the Delaware watershed. Finally $21 million was added for construction of new sewage treatment plants in the west-of-Hudson watershed. The Port Jervis project and the new sewage treatment plant projects are required under a memorandum of agreement between the city and upstate communities governing actions required to avoid the need to construct a filtration plant for the 90 percent of the city's water supply derived from the Catskill-Delaware watershed.

DEP also added $10 million in construction costs for 2003 for work on the inner harbor combined sewer overflow abatement facility.

Revisions to DEP Capital Plan. The Mayor has directed DEP to review its capital plan focusing on expenditures mandated by federal and state law, and a revised plan is expected later in March. Spending on mandated programs is currently projected to rise to 68 percent of DEP's capital spending by 2006, from 65 percent in 2003. The resulting debt service incurred on bonds issued to finance these projects is the driving factor behind the steadily increasing water and sewer rates paid by city residents.

Department of Housing Preservation and Development (HPD)

PRELIMINARY BUDGET OVERVIEW

The preliminary HPD budget for fiscal year 2004 is $356.4 million, down 2.4 percent from the amount projected in the Financial Plan adopted last June. IBO estimates that the 2004 HPD budget will be $371.5 million, $15 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 assumes federal assistance will be consistent with past years.

- The budget would reduce or eliminate 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 2004.
- HPD will reduce its staff of more than 2,600 by 14 people, and leave over 80 positions unfilled, for a total savings of $4 million in 2004 and beyond.
- HPD's capital budget would be cut from $1.8 billion to $1.4 billion, or 19 percent, over four years, including reductions in homeownership programs such as Partnership Housing, *in rem* maintenance and privatization, and the Third Party Transfer Program.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	$365.3
Program Cuts	(4.7)
Funding Swaps	(0.3)
Reestimate	(0.6)
Unspecified Reduction (Headcount)	(4.0)
Other Changes, Net	0.6
January Plan	$356.4
IBO Repricing (see text)	$15.1
IBO Reestimate	$371.5
Headcount	
June 2002 Financial Plan	2,646
January Plan	2,602
Revenue PEGs	$6.3
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$1,752.6
January 2003 Plan	$1,428.6

EFFECTS OF BUDGET PROPOSAL

City Council Initiatives. The only programmatic cuts to the HPD expense budget are the six City Council initiatives that would be 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—receive all their funding from the City Council. The cuts to these programs would effectively eliminate public funding for them. The Bloomberg Administration proposed eliminating these programs last year, but the Council restored funding, as it has when these programs have been threatened in previous years.

Staffing Changes. About 150 HPD staff took advantage of the early retirement package offered by the city in the fall of 2002. Roughly half these positions were tax-levy funded, and half were funded through the federal Community Development Block Grant (CDBG). Fifty-three of the CDBG positions, including 10 code enforcement personnel, are considered essential to the agency's work, and will be filled immediately. Fourteen positions funded by city tax-levy dollars will be eliminated, saving the agency about $700,000 annually. The approximately 80 other vacant positions will remain unfilled, for total savings of $4.0 million.

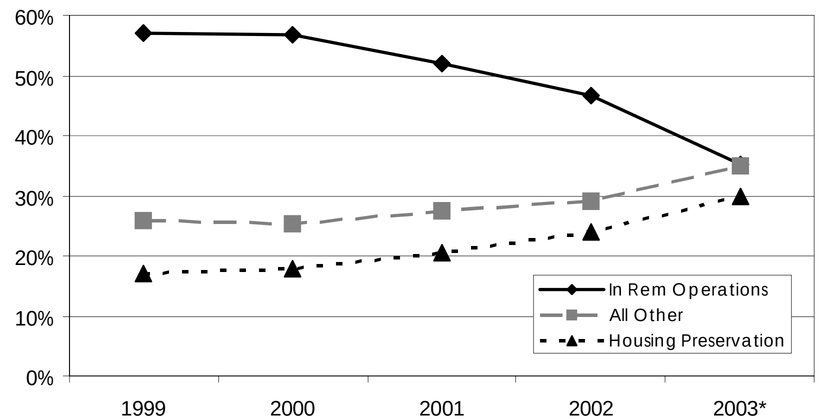
Revenue. HPD anticipates receiving $5.3 million in 2004 from the sale of the Cathedral Gardens site near St. John the Divine Cathedral in Morningside Heights. The agency will issue a Request for Proposals to develop the site. Other revenue increases are anticipated from additional 421-a application fees and retroactive rent surcharges from a settlement reached with the Manhattan Plaza Mitchell-Lama development.

CDBG SPENDING

Each year nearly 40 percent of HPD's budget is funded by federal Community Development Block Grants—a projected

$149 million in 2003. The agency historically has received over 60 percent of the city's total CDBG allocation. CDBG funds are crucial to several key areas of HPD spending, most notably housing preservation (including code enforcement) and anti-abandonment programs. The community development funds also have been used to fund new spending needs, including lead-based paint remediation under Local Law 38, and building demolitions (the costs for which were shifted from the capital budget into the expense budget subsequent to a Comptroller's directive).

HPD'S Share of Total CDBG Spending



SOURCES: IBO; Office of Management and Budget.
NOTE: *Budgeted

For years, well over half of HPD's CDBG-supported spending was for the maintenance and operation of city-owned *in rem* (tax foreclosed) buildings. In the past two years, however, the share of the agency's CDBG funds used for this purpose has declined dramatically in tandem with the rapid privatization of the *in rem* stock. The agency has shifted these freed-up CDBG resources into other program areas, notably code enforcement (including the emergency repair program). In addition to housing programs, some of the freed-up CDBG funds have been, and will be, used for non-housing purposes.

Projected Allocation of CDBG Funds, 2004-2007
Dollars in millions

	2004	2005	2006	2007
HPD	$146.8	$139.9	$145.9	$145.9
ACS	22.1	22.1	3.3	3.3
DHS	6.2	6.2	4.1	4.1
Other	90.4	89.4	89.3	89.3
TOTAL	**$265.5**	**$257.6**	**$242.6**	**242.6**

SOURCES: IBO; City of New York, *Financial Plan Fiscal Years 2003-2007.*

In fiscal year 2003, the city received a waiver from the federal Department of Housing and Urban Development allowing New York to spend 25 percent of its CDBG grant, rather than the usual 15 percent limit, on human services programs—equivalent to about $20 million annually. The city expects to receive similar waivers in 2004 and 2005, and therefore the proportion of community development funds allocated to social services such as day care and assistance to homeless families will rise.

Over the longer run, however, the city projects maintaining HPD's CDBG funding at its recent levels. Between 2004 and 2008, HPD proposes to use $35 million in freed-up CDBG dollars to fund two new homeownership programs as part of the Mayor's five-year housing plan announced in December 2002. Although it is hard to predict with certainty the amount that will be available as a result of fewer *in rem* buildings to operate, roughly $40 million to $50 million over these five years would seem a reasonable estimate—enough to fund the new initiatives, and perhaps to increase CDBG support for other HPD program areas as well.

CAPITAL PLAN

HPD's capital plan faces much more significant changes than does the expense budget. The HPD capital commitment plan was cut by $324 million over four years, a reduction of 19 percent—slightly larger than the citywide drop of 16 percent. The city-funded portion of HPD's plan would fall from $1.3 billion to just over $900 million, a drop of 28 percent. The federally funded piece of HPD's capital plan, on the other hand, is projected to increase slightly, from $466 million to $504 million.

The city's capital spending in the last two fiscal years (2001 and 2002) has been considerably higher than in the previous decade. Even with the current cuts to the capital plan, total capital spending would continue at a somewhat higher rate than the average for the five years between 1996 and 2000. This is also true of housing capital spending. The other significant factor for housing capital spending is the steady privatization of the remaining city-owned stock of *in rem* buildings. Although the schedule for in rem disposition has been stretched out somewhat in the current plan, by 2007 this begins to free up significant amounts of capital resources for other housing purposes. In

Changes to the HPD Capital Plan, 2003-2006
Dollars in millions

	September	January	Change	Percent Change
In Rem Maintenance & Privatization	$863.5	$730.3	($133.2)	-15.4%
Housing Preservation Programs	549.6	358.9	(190.7)	-34.7%
Supportive Housing	127.4	198.7	71.3	56.0%
Homeownership Programs	122.4	74.4	(47.9)	-39.2%
Neighborhood Development	58.0	44.4	(13.6)	-23.4%
All Other HPD	31.8	21.9	(9.9)	-31.1%
TOTAL	**$1,752.6**	**$1,428.6**	**($323.9)**	**-18.5%**

SOURCE: IBO.

December of 2002, Mayor Bloomberg released a five-year housing plan outlining a variety of new programs to address the city's housing shortage which takes advantage of the resources—both public and private—that will start to become available. The January 2003 capital commitment plan includes $98 million in funding for these new programs through 2006.

Changes in Funding for Housing Preservation Programs, 2003-2006
Dollars in millions

	Adoption	January	Change	Percent Change
Third Party Transfer	$288.6	$157.3	($131.3)	-45.5%
Article 8A Loan Program	89.4	75.3	(14.0)	-15.7%
Participation Loan Program	90.9	65.8	(25.1)	-27.6%
Small Homes Reconstruction Loans	29.0	24.4	(4.7)	-16.0%
Lead Paint Hazard Abatement	23.3	13.6	(9.7)	-41.6%
Article 7A	22.5	10.9	(11.6)	-51.4%
Demolition	5.1	0.2	(4.9)	-95.9%
Other	0.8	0.3	(0.5)	-63.9%
New Partners	-	11.0	11.0	NA
TOTAL	**$549.6**	**$358.9**	**($190.7)**	**-34.7%**

SOURCE: IBO.

In Rem *Privatization.* The budget for maintenance and privatization of the *in rem* stock—including both occupied and vacant units—would fall by $133.2 million over four years, to $730 million. This reduction in planned spending is accomplished by spreading out the rehabilitation of *in rem* units. HPD had anticipated that the occupied *in rem* stock would be fully privatized by 2007, but the current capital plan pushes the date back to 2011.

The January plan shifts a substantial portion of the funding for *in rem* disposition from the Neighborhood Entrepreneurs Program (NEP) and the Neighborhood Redevelopment Program (NRP) into the Tenant Interim Lease (TIL) Program, which turns city-owned buildings into tenant cooperatives. In September 2001, the HPD capital plan called for spending about $1 billion on these *in rem* disposition programs between 200. This shift increases planned spending for TIL by almost $286 million through 2011, relative to the September 2001 capital plan.

Housing Preservation. Existing housing preservation programs would be reduced 35 percent, to $348 million over the four-year plan period. Funding for the Third Party Transfer Program, which funds the rehab of buildings seized by the city for tax arrears and transfers them to new ownership, was reduced by 45 percent over four years, to $157.3 million, including $53.5 million in federal grants. HPD had anticipated that the transfer of buildings would take 12 months on average, but in practice the transfer process has taken about 18 months. As a result, the agency has stretched out the funding schedule. HPD does not expect this change to negatively affect the number of buildings transferred.

Other housing preservation programs that provide loans for rehab of privately owned buildings, including the Article 8A and Participation Loan programs and the Small Homes Reconstruction Loan program were also cut back. The Mayor's housing plan introduced a new preservation program, dubbed New Partners, to encourage the rehab and return to market of vacant units, which was funded at $11 million through 2006.

Homeownership. Proposed spending for homeownership programs would fall by $48 million, or about 39 percent. This includes a cut to Partnership Housing from $20 million to $5.5 million. Although subsidies will still be available for Partnership Housing in urban renewal areas, the citywide program has been virtually eliminated. The majority of the remaining funds targeted to Partnership Housing have been allocated by the City Council and Bronx Borough President for use in the Bronx. It is expected that the New York City Housing Partnership will continue to develop new units using private funding.

The drop in proposed spending for homeownership programs also includes a $25 million reduction in funding for site acquisition in urban renewal areas. HPD designates blocks in urban renewal areas for acquisition, and then negotiates with owners in order to purchase the sites. If owners reject HPD's offer, the agency can use its eminent domain powers to acquire the land. Eminent domain cases are typically resolved in the courts, making it difficult for HPD to accurately budget for acquisition. The January plan reduces the total for acquisition in an attempt to make the budget more accurately reflect funds needed for acquisition disputes that are likely to be resolved in the near future. This reduction is not expected to have any programmatic impact.

New Initiatives. The Mayor's housing plan is a roughly $3 billion strategy to rehabilitate and build 65,000 units over five years. Two-thirds of the $3 billion total is the "HPD maintenance of effort"—essentially existing HPD programs, including all of the capital programs described above. The plan includes $500 million in increased spending by the Housing Development Corporation (HDC), and will not flow through the city's budget. An additional $200 million is the 10-year value of private equity leveraged from an estimated $26.7 million in city Low Income Housing Tax Credits. This private equity also will not flow through the city's budget. The remaining $362 million are city capital funds and federal grants that will be freed up from the reduction in the city-owned *in rem* stock and redirected to other purposes, including new supportive housing, funding for land acquisition and clean up, and new rental construction.

The city has begun to include these programs in the HPD capital budget. The January 2003 Capital Commitment Plan includes $98 million for the period 2004 through 2006. An additional $29 million is planned for 2007 and 2008, bringing the total in the Capital Commitment Plan to $127 million. Two homeownership loan programs, with a total planned budget of $35 million, will be funded through the expense budget. Finally, the $200 million New Venture Incentive Program, which will provide loans to developers for site acquisition and environmental remediation, will be funded by HDC through 2007, at which point HPD will take over the program, and pay back HDC's up-front costs.

Department of Transportation (DOT)

The proposed 2004 budget for the Department of Transportation is $428.8 million. This is a very small decline (less than 1 percent) from the $431.7 million projected for 2004 in the June 2002 Financial Plan. City funding is down 2.6 percent, however, to $291 million, while the budget expects state funding of $29.9 million (up 13 percent) and federal funding of $12 million (up 6.1 percent) to make up much of the difference.

Typically, actual state and federal funding for DOT is considerably higher than the levels contained in either the proposed or adopted budgets. Despite their current fiscal difficulties, indications are that Albany and Washington will maintain transportation aid at close to their actual 2003 levels. IBO projects that actual state and federal funding will be $51 million greater than currently projected, giving a total budget for DOT of $479.9 million.

Highlights of the operating budget include the following:

- Changes in the organization and fare structure of the private bus companies subsidized by the city will bring in $16.8 million in additional revenue. However, the reversal of an earlier decision to suspend weekend bus service will cost $4.2 million, and wage and benefit increases for the employees of the bus companies will cost the city $15.2 million. The net result is a cost increase to the city of $2.6 million.
- Various revenue initiatives will bring in $20.3 million in 2004, including increased collections from parking meters and city-owned garages, as well as additional bus-shelter advertising revenue.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$431.7*
Net Program Reductions	(23.2)
New Needs	18.0
Agency Transfers	(0.6)
Other Adjustments	2.9
January Plan	*$428.8*
IBO Repricing	51.1
IBO Reestimate	$479.9
Headcount	
June 2002 Financial Plan	4,002
January Plan	4,072
Revenue PEGs	$20.3
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$5,207
January 2003 Plan	$4,104

EFFECTS OF BUDGET PROPOSALS

Subsidized Private Buses. The Mayor's proposed budget contains several changes in the fare structure of the private buses subsidized by DOT. One change is the elimination of the off-peak discount for cash fares on local routes. Currently, the cash fare on these routes is $1.50 during peak hours, and $1 off-peak. Users of pay-per-ride MetroCard do not receive this discount—$1.50 is deducted from their cards at all times. The proposed budget eliminates the off-peak discount beginning April 1, 2003. While no further local fare increase is contemplated in the proposed budget, DOT has scheduled public hearings on an increase in the base fare on private local buses to $2 before the end of the current fiscal year.

DOT's budget proposal also includes a plan to raise the fare on private express buses, to $4 from $3. This increase was scheduled for July 2003 in the November Financial Plan, but has been moved up to April. An earlier proposal to end weekend express bus service on the private lines has been rescinded.

The private buses operate under "cost plus" contracts that essentially obligate the city to pick up any operating expenses not covered by fares or state aid. The fare restructuring measures contained in the proposed budget are expected to generate $16.8 million in additional revenue in 2004. However, the decision not to terminate weekend express bus service will increase costs by $4.2 million, and a collective bargaining increase negotiated in 2002 will add another $15.2 million. The city thus faces a potential increase of $2.6 million in its subsidy to the private bus companies. If, as expected, fares on local private buses are raised to match NYC Transit's new fare structure, the additional revenue generated will lead to an overall decrease in the city subsidy.

Regional Transportation Initiatives. Last year the proposed budget contained a reference to "Congestion Pricing, EZ-Pass Initiatives" beginning in 2004. No detailed information was made available concerning these initiatives, but they were expected to include tolling of the East River bridges. The city now proposes "Regional Transportation Initiatives," the main components of which are transferring responsibility for the private buses to the Metropolitan Transportation Authority (MTA), and tolling city bridges that are currently free. While the city has not released a detailed proposal, there is some expectation that the city might transfer the operation and maintenance of tolled bridges—most likely the four East River crossings that are currently not tolled—to the MTA. The MTA would then be responsible for the operating expenses of these bridges, and could use surplus toll revenues to fund its new bus service as well as other transit projects. The initiatives have begun to generate public debate, especially the proposal to toll the East River bridges.

The Mayor's Financial Plan projects savings to the city of $200 million in 2004, $600 million in 2005, and $800 million in 2006 from the combination of tolling and eliminating the private bus subsidy. IBO's estimate of toll revenues, based on tolls similar to existing MTA tolls on East River crossings, is $320 million per year for the East River Bridges alone, and $520 million annually if the Harlem River bridges are also included.

Revenue Initiatives. Various revenue initiatives will bring in $20.3 million in 2004, including increased collections from parking meters and city-owned garages, as well as additional bus-shelter advertising revenue.

DOT Revenue Initiatives for 2004

Dollars in thousands

Increase Midtown commercial parking rates	$ 4,102
Eliminate obsolete parking meter rates	3,651
Charge for meter parking on Sunday	3,493
Additional bus-stop shelter revenue	2,635
Additional on-street parking meter revenue	2,000
All other	3,124
Total	**$ 20,296**

SOURCES: IBO; Mayor's Office of Management & Budget.

CAPITAL PLAN

The department's January 2003 Capital Commitment Plan for 2003-2006 totals $4.1 billion, a decline of around 21 percent compared with the $5.2 billion of commitments contained in the September 2002 Capital Commitment Plan. Around 75 percent of the latest plan—$3.1 billion—is city-funded. City-funded commitments have declined 29 percent since the September plan, while commitments with other sources of funds have increased 17 percent. As was the case with the September plan, the largest commitments in the February 2003 plan are for highway bridges ($1.4 billion), highways ($1.2 billion), and waterway bridges ($800 million). Together, highways and bridges make up around 84 percent of total capital commitments.

The highway bridge capital program has been cut by 33 percent since adoption, from $2.1 billion to $1.4 billion. City commitments are down by almost $800 million (a 42 percent drop), while commitments with other funds are up $113 million (a 53 percent increase). Highway commitments are down 20 percent, from $1.5 billion to $1.2 billion. Practically the entire decline is due to the decrease in city funds, from $1.3 billion to $1.0 billion.

While the declines in highway bridge and highway commitments are significant, a more detailed examination reveals that cuts in some key programmatic areas are relatively small. City commitments for sidewalk construction during 2003-2006 have dropped only 12 percent, from $226 million in the September 2002 plan, to $199 million in the January 2003 plan. City commitments for in-house repairing and resurfacing of streets have declined 12.5 percent since the September plan, from $304 million to $266 million. Finally, while city commitments for highway bridge painting are down sharply, from $173 million in the September plan to $52 million in the January plan, the bulk of the September plan commitments were at the end of the plan, in 2006.

Total commitments for waterway bridges have declined 5 percent since adoption. This decline is the net result of non-city commitments increasing 22 percent, while city commitments have fallen by 9 percent. There have been no changes in the amounts or timing of commitments for the Willis Avenue Bridge over the Harlem River. Small declines in city commitments for the Manhattan, Queensboro, and Williamsburg bridges are compensated by increases in non-city funds, with the result that total commitments are up slightly since adoption. For the Brooklyn Bridge, total commitments have fallen 19 percent. While city commitments have increased 9 percent, non-city commitments have been slashed two-thirds (from $43.2 million to $14.5 million), and have been shifted from 2004 to 2005. The contract affected by the changes in non-city commitments is for painting of the bridge approaches.

MTA New York City Transit (NYC Transit)

OPERATING BUDGET OVERVIEW

New York City Transit is the largest component agency of the Metropolitan Transportation Authority (MTA). The MTA is a state public authority. However, NYC Transit receives substantial financial assistance from the city, and its operations have a direct impact on the lives of city residents.

- The approved operating budget of NYC Transit for 2003, including projected debt service, is $4.33 billion. This represents an increase of 3.1 percent over the estimated expenses for 2002.
- On March 6, 2003 the MTA Board approved fare and toll hikes in order to close a cumulative $951 million MTA operating deficit for 2003 and 2004. NYC Transit's share of the gap was nearly $700 million. The new fare and toll schedule will become effective in May 2003 and is expected to provide over $1 billion in additional revenue to the MTA in 2003 and 2004. Combined with savings from closing 62 token booths currently open part-time and other limited service cuts, the fare increase will allow NYC Transit to close its budget gap.
- New York City's direct contributions to NYC Transit's operating budget include a $158 million grant, $45 million in reimbursement for transportation of school children, and $14 million in reimbursement for the senior discount fare. The amount of the subsidy is unchanged in city fiscal year 2004. There is also a city subsidy for paratransit, which IBO projects will be around $20 million in 2003.
- The city plans to reduce its annual base capital contribution to NYC Transit by 30 percent, from $105 million to $74 million, beginning in city fiscal year 2004.

Budget Summary (before fare increases)
Dollars in millions

	2002 (prelim. actual)	2003 (projected)	2004 (projected)
Operating Budget			
Expenses	**$4,195**	**$4,327**	**$4,544**
Revenues			
Farebox and miscellaneous revenue	$2,334	$2,317	$2,355
Grants, tax-supported subsidies, Surplus bridge and tunnel tolls	$1,452	$1,543	$1,513
Total revenues and subsidies	**$3,786**	**$3,860**	**$3,868**
Operating budget balance (revenues less expenses)	($409)	($467)	($676)
Opening cash balance	$26	$27	$0
Adjustments to reflect actual cash flows	$410	$217	$200
Closing cash balance [surplus/(deficit)]	**$27**	**($223)**	**($476)**
Capital Program			
Annual capital commitments, excluding network expansion	$3,813	$1,427	n.a.
Total 2000-2004 capital program, including network expansion	$12,111	$12,875	

SOURCE: IBO; NYC Transit
NOTE: The MTA's fiscal year coincides with the calendar year.

EFFECTS OF BUDGET PROPOSALS

Fare Hikes and the MTA Budget Gap. In December 2002, the MTA board approved NYC Transit's budget for 2003, including a $223 million operating deficit in 2003, projected to rise to $476 million in 2004 for a total of $699 million over the next two years. The board's vote came with the understanding that some combination of fare hikes and service cuts would be implemented to close the gap. On March 6, 2003 the MTA approved fare increases for NYC Transit that are expected to bring in $723 million in additional revenue through the end of 2004. Savings measures will include closing 62 token booths currently open on a part-time basis, changes in cleaning and maintenance schedules, and subway and bus schedule adjustments to reflect usage. The agency also projects savings from revising downward its projection of demand for paratransit use.

The new fares for local buses and subways include a 33 percent increase in the base fare, to $2 per ride, with smaller percentage increases for discount fare cards: $21 for the seven-day pass (up 24 percent, from $17), and $70 for the 30-day pass (up 11 percent, from $63). Customers who spend at least $10 on a per-ride MetroCard will receive a bonus of 20 percent in additional value. In other words, for every five rides purchased, they will receive a sixth ride free. Under current policy, there is a 10 percent bonus on purchases of $15 or more. The MTA calculates that once the new fare structure is in place, customers will pay an average of $1.30 per ride. This is an increase of 25 percent over the average $1.04 per ride that customers currently pay.

Labor Settlement. NYC Transit reached a new labor settlement with the Transport Workers Union (TWU) in December 2002 that will cost the agency an estimated $430 million over three years. Under the terms of the settlement, union members will receive a $1,000 lump-sum payment in 2003, and a wage increase of 3 percent in both 2004 and 2005. The cost of these measures will be around $150 million over three years. The labor settlement also requires NYC Transit to provide $280 million over three years to guarantee the solvency of the union's health plan.

NYC Transit has budgeted for a $130 million increase in labor costs in 2003, and a $244 million increase in 2004, for a total of $374 million in additional labor expenses over the next two years. The budget contains some money for a labor settlement, but a portion of the budgeted increase will pay for higher pension costs and selected service increases. The budgeted increase in labor costs thus appears adequate to accommodate a share of the total contract costs, but not the entire amount.

Tax-Supported Subsidies. Tax-supported subsidies are expected to remain flat at around $1 billion in 2003. These subsidies, including several property-related taxes as well as a portion of the state petroleum business tax, have been surprisingly resilient given the softness of the city and state economies. Two of the taxes—the mortgage recording tax and the real property transfer tax, known collectively as the "urban tax"—are collected only within New York City. The MTA classifies the revenue collected from the urban tax as a subsidy from the city, although the money does not flow through the city's budget. Revenues from the urban tax are expected to drop 12 percent, to $133 million from $151 million, between 2002 and 2003. In contrast, receipts from the petroleum business tax will rise.

Bridge and Tunnel Toll Surplus. The amount of toll revenue from MTA Bridges and Tunnels, another MTA component agency, available to subsidize NYC Transit is projected at $280 million in 2003, a slight decline from the previous year's figure of $286 million. These surplus revenues are first used to pay debt service on bonds that are issued by MTA Bridges and Tunnels but fund NYC Transit projects. Any remaining revenues are transferred to NYC Transit's operating budget. As a result of the MTA's recent debt restructuring, debt service on bridge and tunnel projects that support transit will be $81 million in 2003, less than half the level of 2002. Surplus toll revenues transferred to NYC Transit's operating budget will thus be $199 million, a sharp increase from the $121 million transferred in 2002. Beginning in 2004, however, MTA Bridges and Tunnels will require more toll revenue to pay for debt service on bridge and tunnel as well as transit projects. For these reasons, the MTA 2002-2004 Financial Plan projects that the toll surplus available for NYC Transit's operating budget will be close to zero in 2004. However, the decision to raise tolls beginning in May 2003 should lead the MTA to revise these projections upward.

Franchise Bus Operations. While no major cuts in city or state aid to the MTA are anticipated for now, the city is actively seeking to reduce its financial commitment to transit. One option that the city has considered and may formally propose in the future is to turn the operation of bus service—currently provided by private companies under a franchise with the city—over to NYC Transit, eliminating the $100 million city subsidy paid annually to the companies. Although the MTA is unlikely to absorb the current routes without some increase in the city's operating subsidy, the city could save substantially if it no longer had responsibility for these bus routes.

Paratransit. The MTA paratransit program, Access-a-Ride, has expanded rapidly in recent years. The cost of the program is expected to be $159 million in 2003, an increase of 21 percent over the preliminary 2002 cost of $131 million. The number of trips made on paratransit reached 2.2 million in 2002, a 10 percent increase over the previous year, but substantially below the 2.5 million level that had been projected. The city provides partial reimbursement for the Access-a-Ride program based on a formula. IBO projects the city payment at around $20 million in 2003.

CAPITAL PLAN

The MTA capital plan for 2000-2004 was amended twice in 2002. In May, $162 million was added for World Trade Center and security-related expenses. In December, $591 million was added for additional security projects. The total value of the MTA capital plan, including bridges and tunnels, now stands at $18.9 billion. Roughly $12.9 billion of the total corresponds to NYC Transit.

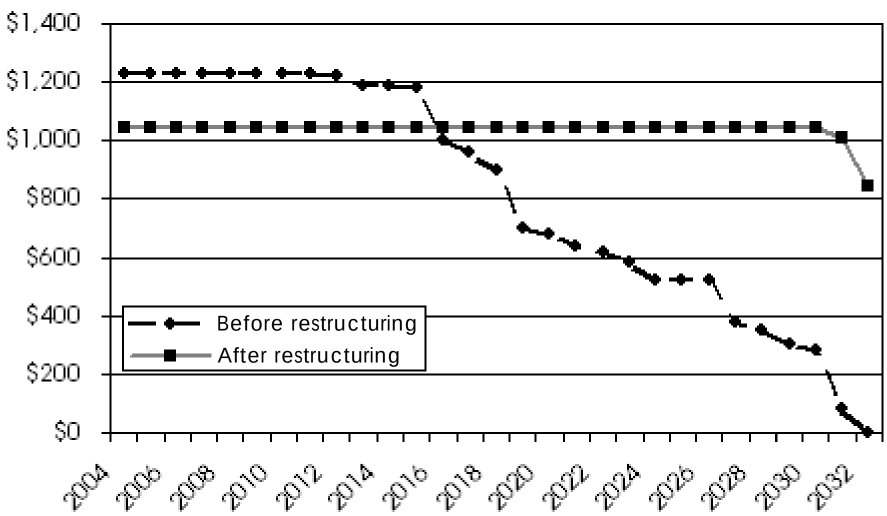
Debt Restructuring. At the end of February 2002 the MTA received legislative approval for new bond resolutions that allowed the authority to carry out its long-planned debt restructuring. The MTA has now replaced nearly all of its "old" debt with new bonds. The restructuring will generate substantial financial resources for the MTA, through interest rate savings, lower annual debt service payments in the short run, and the release of reserve funds that are not required under the new bond covenants. In its latest amended plan, the MTA projects that the debt restructuring will provide $4.5 billion for capital projects, up from $3 billion projected in 2000. The augmented debt restructuring thus closes almost the entire $1.6 billion funding gap that opened up when the Transportation Infrastructure Bond Act failed to pass in November 2000.

The downside to the debt restructuring is that almost all of the MTA's long-term obligations are now 30-year bonds that have been issued since 2000. MTA documents show that debt service on these existing obligations will remain stable at around $1 billion per year until after 2030. The result is that the MTA will have less debt service capacity in future years.

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 correspond to future capital programs.

City Capital Funding to Decline. The city has in recent years committed around $105 million annually to NYC Transit's capital program, plus $1 million to the Staten Island Railway, another MTA component agency. In addition, the city has an arrangement with the MTA by which the authority gave the city $345 million from its sale of the New York Coliseum in exchange for the city issuing an equivalent amount of debt on behalf of the MTA.

MTA Debt Restructuring Raises Debt Service in Future Years
Annual MTA debt service, dollars in millions



SOURCES: IBO; MTA.

Beginning in 2003, the city is reducing its annual commitment to the MTA by 30 percent, to $75 million. The city's January 2003 Capital Commitment Plan commits $525 million to the MTA in 2003, and $75 million annually starting in 2004. The reason for the large 2003 commitment is that it includes funds from the Coliseum swap, plus commitments postponed from 2001 and 2002.

Civilian Complaint Review Board (CCRB)

PRELIMINARY BUDGET OVERVIEW

The preliminary CCRB budget for 2004 is $10.2 million, down $1.6 million (or 14 percent) from the amount provided for in the June 2002 Financial Plan.

Key changes include:

- Budgeted staffing at the CCRB for 2004 would be reduced by a total of 23 positions, which saves $1.4 million. The savings will be realized by the elimination of staff positions that have either never been filled or recently vacated by attrition.
- A smaller staff and a rising number of complaints has led CCRB to project that the average case processing times for fully investigated cases will increase by 40 percent in 2004, from 270 to 380 days per case.
- The CCRB's preliminary budget of $10.2 million for 2004 includes $1.3 million to shift 18 prosecutorial staff positions from the New York City Police Department, thereby giving CCRB responsibility for prosecuting police officers it has found to have committed misconduct.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$11.80*
Staff reduction savings	(1.1)
Other agency reductions	(0.4)
January Plan	*$10.20*
Headcount	
June 2002 Financial Plan	203
January 2003 Plan	180

EFFECTS OF BUDGET PROPOSALS

Staff Reduction Savings. A total of 23 staff positions are being cut from CCRB's budgeted staffing for next year, with total savings of $1.4 million. The agency, which tends to have relatively high turnover among its investigative staff, lost 14 out of 175 staff members in the five months from July through December 2002. As of December 2002, actual staffing at the agency totaled only 161. Given that 18 of the 180 positions now budgeted for the agency for next year are to be transferred from the NYPD, the CCRB will in effect achieve the savings by not filling existing vacancies.

Increased Time to Complete Investigations. CCRB projects that the reductions in its budget and staff, combined with a rising caseload, will increase the average number of days needed to fully investigate cases by 40 percent, from an average of 270 days to 380 days. The projected increase in the time needed to fully investigate cases would also mean that fully one-third (instead of the current 10 percent) of cases in which officers are found to have committed misconduct would be 15 months old or more before being forwarded to the police commissioner for prosecution and/or imposition of formal discipline. Except in rare cases, police officers cannot be disciplined if more than 18 months has elapsed from the date of occurrence of a substantiated CCRB complaint.

Increasing the timeliness with which complaint cases are investigated helps to improve the board's chances for reaching a conclusive determination as to whether or not a given allegation of misconduct is to be found credible. Delays in investigating complaints, on the other hand, reduce the chance of conclusive outcomes as a result of increased difficulty in finding witnesses, gathering evidence, etc.

IBO has found that increases in CCRB's funding and staffing in recent years have corresponded with a number of positive outcomes in agency operations. The increase in the number of conclusive investigations has grown in linear fashion with the number of CCRB investigators. Also, formal discipline has been imposed in a growing number of cases referred from the CCRB to the police commissioner, in large measure due to CCRB's success in conducting more timely investigations. In 2001, the police commissioner disciplined officers in 57 percent of the cases substantiated by the CCRB, up from 32 percent in 1997 (see IBO, *Rise in CCRB Funding Leads to More Completed Investigations*, July 24, 2002).

Thus, a decline in the CCRB staff, particularly in the investigative staff, at the same time that the number of complaints appears to be rising, risks a reversal of some of these recent trends.

Other Agency Reductions. Additional savings at CCRB are to be realized by reducing office leasing costs by $272,000, as well as by eliminating a planned expense of $150,000 for a management consultant study of agency operations.

Department of Correction (DOC)

PRELIMINARY BUDGET OVERVIEW

The 2004 preliminary budget for the Department of Correction is $842.0 million, down $89.1 million (or 9.6 percent) from the projected 2004 level in the June 2002 Financial Plan.

Key changes include:

- Reduction of 826 uniformed personnel positions for savings of $46.3 million, made possible by the leveling off of the number of inmates in DOC custody, closing of underutilized facilities, and other staffing efficiency improvements.
- A nearly 75 percent reduction in the agency's Substance Abuse and Intervention Division (SAID) program is proposed in the 2004 Preliminary Budget, including cutting 83 civilian positions and terminating a contract with a nonprofit provider of drug-treatment services to inmates in DOC custody.
- Also proposed is the elimination of the agency's General Equivalency Diploma program through termination of a $1.3 million contract with John Jay College.
- The Preliminary Budget proposes merging the Department of Probation with DOC, which would save $582,000 annually at DOC through elimination of duplicative positions.
- The 2003-2006 Capital Commitment Plan has been reduced by $190 million (or about 30 percent) since last September's plan, from $640 million to $450 million. The department will proceed with construction of a new 448-cell Central Punitive Segregation Unit (CPSU) at a cost of $119 million.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$931.1*
Staff Reduction Savings	(81.6)
Cut Inmate Programs	(7.4)
DOC/Probation Merger Savings	(0.6)
Add Discharge Planning Positions	0.5
January Plan	*$842.0*
Headcount	
June 2002 Financial Plan	
Uniformed	10,655
Civilian	1,836
January Plan	
Uniformed	9,829
Civilian	1,587
Revenue PEGs	
Telephone/Commissary Revenue	$0.2
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$640.0
January 2003 Plan	$450.1

EFFECTS OF BUDGET PROPOSALS

Staff Reductions Savings (Uniformed). The Mayor's plan calls for total uniformed staffing at the agency to fall to 9,829, the lowest staffing level since 1989. Continued reductions in the number of corrections officers has been made possible by the lower inmate population, closure of facilities, and other efficiencies. The 2004 budget would reduce the number of uniformed correction officers by 826 positions, for savings of $46.3 million.

After reaching an all-time high of 21,449 in 1992, the number of inmates in DOC custody declined to a low of 13,934 last year, rising to 14,523 during the first half of the current fiscal year. DOC's spending projections assume that the inmate population will remain at about the 14,500 level.

The reduction in uniformed staffing also stems from savings attained by closing vacant or underutilized facilities. Last year the agency closed its jail in the Brooklyn Navy Yard as well as two converted Staten Island ferry boats that had been moored off Rikers Island since the 1980s. The 2004 Preliminary Budget reflects the agency's decision to close the Queens House of Detention, saving $18.9 million. DOC will also realize staffing efficiencies through consolidations and closures of underutilized sections of jails.

The agency's expenditures on uniformed personnel will be further reduced by $28.5 million in 2004 as a result of a decrease in the average tenure of the force, which has resulted from a greater-than-expected number of departures of experienced (and more highly paid) officers in recent years.

Staff Reductions Savings (Civilian). Savings totaling $6.8 million in 2004 will result from eliminating 249 civilian positions next year, reducing budgeted civilian staffing from

1,836 to 1,587. The actual number of civilians employed by the agency as of January 2003 is 1,555; savings will be attained primarily by not filling already vacant positions.

Curtailment of Substance-Abuse and Adult-Education Programs. A significant reduction in DOC's Substance Abuse and Intervention Division is proposed in the 2004 Preliminary Budget. The $8.2 million SAID budget would be cut by $6.1 million, including eliminating 83 civilian positions and terminating a $2.6 million contract with Narco Freedom, a nonprofit provider of drug-treatment services to inmates in DOC custody. In 2002, a total of 10,700 inmates participated in SAID programs while in DOC custody, 3,640 of whom had been served by Narco Freedom.

Also proposed is the elimination of the agency's General Equivalency Diploma program through termination of $1.3 million contract with John Jay College. The contract had provided services to 8,400 inmates each year.

DOC is planning to add 12 additional discharge planning staff in part to compensate for the service impacts associated with the planned cuts in drug-treatment and adult-education programs. Discharge planners will attempt to maximize the extent to which inmates have access to community-based services upon their release from custody.

Savings from Planned Merger of Probation and Correction. The Preliminary Budget calls for both the Department of Probation and Department of Correction to enjoy savings from a planned merger of the two agencies. The savings would result from the elimination of 14 otherwise duplicative positions at DOC (in addition to 13 at the Department of Probation.) The Preliminary Budget assumes annual DOC savings from the merger of $582,000.

Federal Aid. The Mayor's plan assumes that the city will continue to receive $30 million in federal reimbursement for costs of incarcerating illegal aliens convicted of criminal offenses. However, the proposed 2004 federal budget would eliminate the federal program that provides the reimbursement, known as the State Criminal Alien Assistance Program. If the program is eliminated, the city will have to find the $30 million in city resources to make up the lost federal aid.

CAPITAL PLAN

Planned capital commitments over the 2003-2006 period have been reduced by $189.9 million (or about 30 percent) since last September's plan, from $640.0 million to $450.1 million. Delayed or cancelled projects include infrastructure improvements on Rikers Island as well as planned renovations to an assortment of DOC facilities.

The agency is proceeding with plans to commit $119 million for construction of a new 448-cell Central Punitive Segregation Unit 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. The agency contends that the new CPSU will provide a number of operational advantages over the existing facility in safely housing this particularly incorrigible subset of its inmate population.

Department of Juvenile Justice (DJJ)

PRELIMINARY BUDGET OVERVIEW

The preliminary DJJ budget for 2004 is $100.9 million, down $4.5 million (or 4.5 percent) from the amount provided for in the June 2002 Financial Plan. Over one-half of DJJ's annual budget (or about $55 million) represents payments made by the city to the state for juveniles housed in residential facilities operated by the state's Office of Children and Family Services. The agency spends over $30 million for secure detention and over $10 million annually for non-secure detention.

Key changes include:

- Budgeted staffing at DJJ would be reduced by a total of 66 out of 825 positions, which is projected to reduce agency expenditures by $2.6 million. The savings would be realized primarily by not filling currently vacant staff positions.
- The Preliminary Budget calls for annual savings of $750,000 through 2006 by canceling plans to expand community-based programs that provide preventive and post-detention services to youth and their families.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$ 105.40*
Staff Reduction Savings	(2.6)
Non-Secure Detention Savings	(1.2)
Delay Expansion of Preventive Programs	(0.8)
January Plan	*$ 100.90*
Headcount	
June 2002 Financial Plan	825
January Plan	759
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$ 19.50
January 2003 Plan	$ 13.00

EFFECTS OF BUDGET PROPOSALS

Staff Reduction Savings. A total of 66 staff positions are being cut from DJJ's budgeted staffing for next year, reducing planned staffing from 825 to 759, with total savings of $2.6 million. As of December 31, 2002, actual staffing at the agency totaled 745. Therefore, DJJ will be able to achieve the savings primarily by leaving vacant most of its currently unfilled positions. The staff reductions are possible due to the decline in the number of juveniles in detention. The average daily number of juveniles held in secure detention declined from 357 in 2001 to 284 in 2002, and then to 263 during the first four months of the current fiscal year.

Non-Secure Detention Savings. The Preliminary Budget would reduce contract spending on non-secure detention by $1.2 million, savings also made possible by the overall decline in the number of juveniles in non-secure detention. Non-secure detention is provided in group homes providing "structured residential care" for juveniles awaiting case dispositions in Family or Criminal Court. The average daily number of juveniles in non-secure detention declined from 140 in 2001 to 134 in 2002, and then to 108 during the first four months of this fiscal year.

Cutbacks in Programs. The Preliminary Budget calls for saving $750,000 next year (and through 2006) by eliminating planned contract spending with four community-based programs that provide preventive and post-detention services to youths and their families. This reduction would bring DJJ's total planned spending on community-based intervention services down to $575,000. As a result, the number of juveniles served next year by the programs is expected to drop from about 1,100 in 2002 to 750 by 2004.

CAPITAL PLAN

Planned capital commitments for DJJ over the 2003-2006 period are about $13 million, down $6.5 million from September 2002. Nearly all planned commitments for the agency are for renovations and upgrades to the agency's three main existing facilities, which include the Brooklyn (Crossroads) and Bronx (Horizon) secure detention facilities, as well as the much older Spofford facility in the Bronx (recently renamed the Bridges Juvenile Center). The Spofford/ Bridges facility remains in use as an intake and admissions center, as well as a transfer point for youth awaiting transfer to state facilities. Of particular note is the decision made last June to drop plans for adding 200 secure detention beds by expanding the Crossroads and Horizon facilities by 100 beds each, at what would have been a cost of about $78 million.

Department of Probation (DOP)

PRELIMINARY BUDGET OVERVIEW

The preliminary DOP budget for 2004 is $73.7 million, down $9.3 million (or 11 percent) from the June 2002 Financial Plan.

Key changes include:

- The Preliminary Budget calls for cutting $4.8 million from DOP's budget by eliminating 91 positions. Total agency staffing would fall to 1,311 by the end of fiscal year 2004. As recently as June 2000, the agency had a full-time staff of 1,645.
- A number of programs at the agency would also be cut, including community-based response teams, job training, drug treatment, and night shift field services, saving $3.9 million.
- The agency is undertaking a significant restructuring of adult probationer supervision. A key feature of the plan calls for conserving agency staffing resources by recommending to courts that "early discharge" be awarded to probationers with substantial records of complying with conditions of probation. For probationers who display an unwillingness to comply with the terms of their probation, the agency will recommend that probation be revoked and jail or prison time be imposed.
- The Bloomberg Administration proposes merging the Department of Probation and the Department of Correction as of July 1, 2003, for savings of $367,000 at DOP.

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$83.0*
Staff Reduction Savings	(4.8)
Program Reductions	(3.9)
Planned Savings from Merger with DOC	(0.4)
All Other Changes, Net	(0.2)
January Plan	*$73.7*
Headcount	
June 2002 Financial Plan	1,488
January Plan	1,311

EFFECTS OF BUDGET PROPOSALS

Staff Reduction Savings. The Preliminary Budget calls for a total of $4.8 million (consisting of $3.3 million in city funds and $1.5 million in foregone state reimbursements) to be cut from DOP's budget by eliminating 47 probation-officer trainee positions, four executive/administrative positions, and 41 other positions left vacant by early retirements. Total agency staffing would fall to 1,311 by the end of fiscal year 2004. As recently as June 2000, the agency had a full-time staff of 1,645.

Changes to Adult Probationer Supervision. At a February 25, 2003 City Council hearing, Probation Commissioner Horn testified that restructuring of adult probationer supervision is one step the agency is taking to accomplish its mission with diminished resources. The proposed restructuring would seek to conserve agency resources by recommending to courts that "early discharge" be awarded to probationers with substantial records of complying with conditions of probation. In the first four months of the current fiscal year, 1,079 probation cases were removed from DOP's workload via early discharge, more than 10 times the number from the comparable period in 2002.

The Commissioner asserted that the freeing up of staff resources made possible by the restructuring plan will allow for increased supervision of probationers deemed "high risk," including more frequent visits to these probationers' homes, job sites, and schools, as well as strict enforcement of drug-testing requirements. Also featured in the restructuring effort will be an intense focus on all probationers' first year of supervision, with supporting services offered and violations pursued aggressively. The Commissioner testified that the willingness (or unwillingness) of probationers to move away from a criminal lifestyle is typically quite observable during their first year of probation. For those who fail to respond to DOP's service efforts or otherwise resist supervision, the agency will recommend to judges that probation be revoked and jail or prison time be imposed.

Some observers, including a number of judges, have voiced concern about the potential for overuse of early termination of probationary sentences. They argue that lengthy probationary oversight is often the main reason many individuals avoid returning to criminal lifestyles.

Eliminate Community-Based Response Teams. A total of $1.5 million (consisting of $1.0 million in city funds and $0.5 million in foregone state reimbursements) is to be cut by eliminating 24 staff positions that had comprised the agency's Community-Based Response Teams. The teams were made up of police officers and armed probation officers who visited probationers in their homes and in general aggressively enforced the conditions of probation for offenders living in specially targeted communities.

Reduce Funding for Job Training and Drug Treatment. The Preliminary Budget would reduce expenditures on job-training and drug-treatment slots by a total of $1.8 million. The provision of drug-treatment services to probationers has already begun trending downward. In the first four months of the current fiscal year, 740 probationers were placed in substance abuse treatment services, down from 1,242 during the same period last year.

Reduce Night-Shift Field Services. The department's Field Services Unit is charged with the execution of probation warrants. The Preliminary Budget would cut a total of $0.6 million (consisting of $0.4 million in city funds and $0.2 million in state reimbursements) by cutting 10 staff positions from the unit's night shift. The unit would be left with total staffing of 79 positions.

Savings from Planned Merger of Probation and Correction. The Bloomberg Administration has proposed merging the Departments of Probation and Correction, with total savings of $949,000. The savings would result from the elimination of 13 otherwise duplicative positions at DOP (in addition to 14 at the Department of Correction.) The Preliminary Budget anticipates DOP savings of $367,000, consisting of $252,000 and $115,000 in city and state funds, respectively.

New York City Fire Department (FDNY)

PRELIMINARY BUDGET OVERVIEW

The Mayor's Preliminary Budget proposes spending $1.042 billion for FDNY in 2004, a decrease of $30 million, or 2.8 percent, from the level forecast in last June's Financial Plan. The 2004 proposal includes several initiatives aimed at reducing operating expenses and increasing revenues in the fire department.

- The Financial Plan included savings of $26.8 million in 2004, primarily through the elimination of fifth firefighter posts in 49 engine companies ($12.0 million) and closing eight fire companies ($10.8 million). Although the fire department is still expected to meet its savings targets, these specific actions have been temporarily deferred while alternatives are under study.
- The budget anticipates an increase in several fire department revenue sources, including: Increasing the tax on fire insurance premiums ($13.2 million); charging nonprofit organizations fees for fire inspections ($3.0 million); conducting additional and overdue inspections ($2.9 million).
- The department expects an additional $1.9 million in ambulance transport fees.

2004 Budget Summary *Dollars in millions*	
Expense Budget	
June 2002 Financial Plan	*$1,072*
Eliminate 5th Firefighter Post	(12.0)
Eliminate 8 Fire Companies	(10.8)
Spending reestimates	(20.4)
Staff Chiefs	1.5
All other changes, net	12.3
January Plan	*$1,042*
Headcount	
June 2002 Financial Plan	
Civilian	4,459
Uniformed	11,157
January Plan	
Civilian	4,343
Uniformed	10,667
Revenue PEGs	
Increase Fire Insurance Premiums Tax	$1.9
Additional EMS Revenues (net)	13.2
Extend Inspection Fees to Non Profits	3.0
All Other	5.6
Total	**$23.6**
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$491.4
January 2003 Plan	$324.7

EFFECTS OF BUDGET PROPOSALS

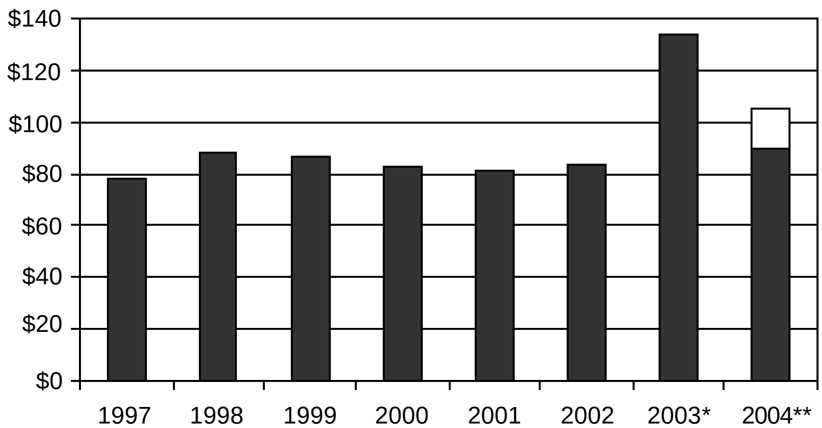
Delayed Initiatives. The implementation of several proposals to lower FDNY spending has been delayed due to continuing negotiations.

- *Eliminate the fifth firefighter post in 49 engine companies.* Under a 1996 contract provision, the city can cut the five-member teams when the FDNY sick-leave rate exceeds 7.5 percent for one year. This proposal would save a projected $12 million in 2004. The Dinkins Administration went to court in the early 1990s in order to win the 1996 provision. Later the Giuliani Administration put the fifth firefighter back on many trucks.
- *Close eight fire companies.* Closing down the eight companies would reduce the department's operating budget by $10.8 million in 2004. The city has postponed this initiative and, with the City Council, has agreed to name a blue ribbon commission to decide the fate of the firehouses. The firefighters' unions want the panel to seek cuts elsewhere and are seeking corporate sponsors for the eight targeted firehouses.
- *Eliminate battalion aides.* The department had also proposed eliminating 49 firefighter and 27 emergency medical technician (EMT) positions that are currently assigned as aides for Battalion Chiefs, replacing them with personnel on light, or restricted, duty, beginning in 2003. Union rules, however, prohibit light-duty personnel from filling these positions, so the anticipated 2004 savings of $9.2 million from this initiative will also not be realized.

Fire Marshals Program Savings. FDNY will cut Fire Marshals from 148 to 110 and Supervising Fire Marshals from 23 to 12 to save $2.5 million in 2004. Part of the plan is to reduce the number of automatic investigations the marshals undertake after there has been a fire. Fire marshals termination of probationary sentences. They argue that lengthy probationary now would respond to all-hands and second-alarm fires only if the fire chief requests an investigation.

Other. The uniformed pension fund will assume the $1.6 million cost of running the department's pension unit. Other proposals are expected to yield $5.5 million in personal services savings and $1.0 million in other than personal service savings in 2004.

FDNY Uniformed Overtime Spending
Dollars in millions



SOURCE: IBO
NOTES: *Budgeted. **Including IBO reestimate.

Overtime. The FDNY overtime budget proposal for 2004 is $90.3 million. IBO estimates that the department will require an additional $15 million in 2004. Excluding World Trade Center-related overtime, current year uniformed overtime spending is projected to reach $134 million, nearly $50 million more than the average over the last five years. High levels of attrition and absence rates are driving the increase. The FDNY's 8.5 percent absence rate is driven by a 6.5 percent "line-of-duty injury" rate largely attributable to the department's response to the WTC terrorist attack. IBO expects that continued high rates of attrition and absence in 2004 will keep overtime spending at a high level.

Insurance Premiums. In the November 2002 Financial Plan, FDNY had anticipated collecting an additional $2.3 million in revenues from the 2 percent tax on insurance premiums. In the January plan, the FDNY proposed to increase the tax rate from 2 percent to 4 percent. This increase would result in an additional $13.2 million annually for the FDNY. The increase would require state legislation.

Inspections. FDNY officials have proposed an increase in the number of fire inspections they perform, targeting high-rise buildings and overdue inspections. Since 9/11, there have been increased requests for inspections, many of which were overdue, so there is currently a backlog that the FDNY is working on. It is projected that these additional inspections would produce $2.9 million in fee revenues in 2004. FDNY officials have also proposed an end to the inspection fee waivers the department grants to educational and religious institutions, which would bring in $3.0 million in revenue annually. Since these inspections take place regardless of the occurrence of a fire, the proposed decrease in fire marshal staff will not affect these inspection programs—a fire marshal only being involved in an inspection after a fire has occurred.

EMS Revenue Increase. Based on actual collections to date, FDNY expects to realize an additional $2.0 million in ambulance transport revenue. This revenue will be used to offset city funds. The increase results from a rise in the Medicare reimbursement rate and a recent increase in ambulance transport fees.

CAPITAL PLAN

The FDNY's capital plan was reduced 34 percent, from $491.4 million in the September capital plan to $324.7 million in January. The bulk of the decline in capital commitments can be attributed to several items:

- $12 million decline in spending on two new fireboats—FDNY will propose the purchase of one larger boat instead in the next capital plan;
- $52 million cut from general facility improvement spending citywide;
- $24 million decrease in spending on the citywide emergency response system by delaying replacement of fire alarm boxes; and
- $40 million reduction in planned spending on a new training facility for fire department cadets.

New York City Police Department (NYPD)

PRELIMINARY BUDGET OVERVIEW

The preliminary NYPD budget for 2004 is $3.2 billion, down $66 million—2 percent—from the level budgeted in the June 2002 Financial Plan. IBO estimates that an additional $50 million will ultimately be needed in 2004 to cover uniformed police overtime costs.

- The Preliminary Budget proposes a reduction of 1,900 in uniformed staffing next year compared to the June 2002 plan. Peak police staffing would be 37,210; projected attrition over the course of the year would reduce the force to 34,774 by June 30, 2004, the lowest staffing level since 1993.
- Budget cuts have led the department to scuttle plans, originally proposed in the spring of 2002, to replace 800 retiring police officers with civilian workers, thereby freeing up more officers for patrol and other duties. The number of civilian personnel employed by the NYPD in fact declined by over 500 from January through December 2002, from 9,344 to 8,840.
- The department proposes hiring an additional 300 traffic enforcement agents (TEAs) at a cost of $16 million. The new TEAs would issue an additional 1.7 million parking summonses, generating $85 million in parking fine revenues, for a net gain to city coffers of $69 million.
- The Mayor's Preliminary Budget for next year includes $241 million for overtime expenditures. IBO projects that an additional $50 million will ultimately be required to meet the agency's overtime expenditures in 2004. The agency is on pace to spend about $315 million in police overtime this year (excluding World Trade Center-related overtime).

2004 Budget Summary
Dollars in millions

Expense Budget	
June 2002 Financial Plan	*$3,290*
Uniform Staff Reductions	(74)
Other Uniformed Savings	(71)
New Traffic Enforcement Agents	16
Reduce Civilian Staffing	(22)
Custodial (Part-Time) Staff Reduction	(3)
Reduce Vehicle Replacements	(30)
Collective Bargaining Increases	108
Other Changes (Net)	10
January Plan	*$3,224*
IBO Repricing (Additional Overtime)	50
IBO Reestimate	$3,274
Headcount*	
June 2002 Financial Plan	
Uniformed	36,674
Civilian	9,736
January Plan	
Uniformed	34,774
Civilian	9,532
Revenue PEGs	
Additional Parking Fines	$85
Capital Commitments	
Total, 2003-2006	
September 2002 Plan	$497
January 2003 Plan	$330

EFFECTS OF BUDGET PROPOSALS

Uniformed Staff Reduction. A primary source of savings in the NYPD next year ($74 million) will result from the proposed reduction of 1,900 in uniformed police staffing. Peak police staffing of 37,210 would occur on the first day of fiscal year 2004 (July 1, 2003) with the hiring of about 300 attrition-replacement officers. Anticipated attrition over the course of the year would then reduce uniformed staffing to 34,774 by June 30, 2004, the lowest staffing level since 1993.

The police force is getting not only smaller, but younger. The agency's expenditures on uniformed personnel will be reduced a further $71 million in 2004 owing to a decrease in the average tenure of the force, which in turn results from greater than expected numbers of experienced (and more highly paid) officers leaving the force in recent years.

Civilian Staff Reductions. Although the January 2003 Financial Plan calls for hiring an additional 300 traffic enforcement agents next year, total NYPD civilian staffing in 2004 would remain below what was expected in the June 2002 Financial Plan. At that time, the department proposed hiring 800 civilians to replace retiring police officers, allowing that many more of the remaining officers to be deployed to law enforcement duties.

In fact, the actual number of NYPD civilian personnel declined by over 500 from January through December of 2002, from 9,344 to 8,840. With the addition of 300 traffic enforcement agents, as well as replacement of a portion of the civilian positions currently vacant, total NYPD civilian staffing is set to rise to 9,532 by the end of 2004. By comparison, budgeted civilian staffing for 2004 as of the June 2002 plan was 9,736. The department will save $22.3 million from not filling vacant non-TEA civilian slots. Hiring the new TEAs will cost $16 million, for a net savings of $6.3 million.

A February 1999 analysis by the City Comptroller's office concluded that the city could gainfully utilize the services of up to almost 9,900 civilian personnel, with each civilian hired up to that level making possible the redeployment of a police officer performing a function that could be adequately and less expensively performed by a civilian.

A reduction in the number of part-time custodial assistants in police facilities is to save another $3 million.

More Parking Tickets, Higher Fines. The January plan calls for hiring an additional 300 civilian traffic enforcement agents at a cost of $16 million. The additional agents would write 1.7 million more parking tickets per year, generating $85 million in parking fine revenues, for a net gain of $69 million.

The number of tickets processed by the city's Parking Violations Bureau (PVB) has declined significantly in recent years, from over 11.3 million in fiscal year 1993 to 8.1 million in 2002. The plan projects that the increase in parking fines that took effect in October 2002, combined with the new agents and greater number of tickets, will boost PVB revenues to $533 million in 2004—a 40 percent increase from the roughly $380 million collected in both 2001 and 2002.

Increasing the number of NYPD traffic enforcement agents by 300 (from about to 1,800 to 2,100) is considered necessary in order to accomplish the planned increase in summons issuing, particularly in light of the planned decrease in the number of police officers on the force. In recent years, about two-thirds of parking tickets issued by the NYPD were written by traffic enforcement agents (i.e., civilian personnel), with the remaining one-third written by police officers. The share written by TEAs has increased since September 11, as a smaller uniformed police force has had to assume a greater range of duties.

Reduce Vehicle Replacements. By keeping police vehicles in service longer the department expects to save $30 million next year. Although police cars and other vehicles are costly, their useful life is typically less than the five years that would allow the city to issue debt to pay for them, and must therefore be paid from the agency's expense budget.

CAPITAL PLAN

Planned capital commitments from 2003 through 2006 have been reduced by $167 million (or about 34 percent) since September, from $497 million to $330 million. The most notable reduction involved the removal of $94 million from the four-year plan for construction of a back-up 911 call center. The agency is now in the process of weighing several options concerning the back-up 911 site, one of which is to house at the same location planned for the Office of Emergency Management (OEM) command center. The original OEM site was located at the World Trade Center and was destroyed in the September 11, 2001 terrorist attack. Also removed from the four-year Capital Commitment Plan was $23 million for construction of a new 120 Precinct station house on Staten Island as well as $21 million for construction of a new 40 Precinct station house in Brooklyn.

Appendices

Appendix A

IBO Expenditure Projections

Dollars in millions

	2003	2004	2005	2006	2007	Average Change
Health & Social Services						
Social Services	$ 5,955	$ 6,005	$ 6,128	$ 6,288	$ 6,464	2.1%
Children Services	2,361	2,267	2,275	2,275	2,275	-0.9%
Health	2,265	2,308	2,380	2,427	2,455	2.0%
Homeless	640	665	669	668	669	1.1%
Other Related Services	551	403	403	403	403	-7.5%
Subtotal	11,772	11,648	11,855	12,061	12,266	1.0%
Education						
DOE (excl. Labor Reserve)	12,603	12,396	12,558	12,751	12,943	0.7%
CUNY	432	423	423	423	423	-0.5%
Subtotal	13,035	12,819	12,981	13,174	13,366	0.6%
Uniformed Services						
Police	3,444	3,285	3,317	3,315	3,315	-0.9%
Fire	1,152	1,057	1,056	1,054	1,054	-2.2%
Correction	874	841	850	844	844	-0.9%
Sanitation	969	950	965	965	965	-0.1%
Subtotal	6,439	6,133	6,188	6,178	6,178	-1.0%
All Other Agencies	5,711	5,538	5,651	5,831	5,904	0.8%
Labor Reserves						
Department of Education	49	47	57	57	57	n/a
All Other Agencies	326	288	290	293	293	n/a
Debt Service	3,321	3,871	4,961	5,076	5,295	12.4%
Pensions	1,784	2,611	3,246	4,074	4,567	26.5%
Fringe Benefits (exculding DOE)	2,643	2,789	2,976	3,183	3,390	6.4%
Anticipated State and Federal Actions	-	975	275	275	275	n/a
Total Expenditures	$ 45,080	$ 46,719	$ 48,480	$ 50,202	$ 51,591	3.4%

SOURCE: IBO.

NOTES: Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditures are net of intra-city sales.

Appendix B

Contributors to this report:

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Theresa Devine	Economic outlook, property tax
Neil Dorosin	Education
James Doyle	Public health, HHC, Medicaid
Elisabeth Franklin	Sanitation
Michael Jacobs	Personal income tax, hotel occupancy tax; business services, finance department
Paul Lopatto	Public assistance, children's services
Bernard O'Brien	Police department, CCRB, correction, probation, juvenile justice
Molly Wasow Park	Housing, homeless, buildings
Merrill Pond	Environmental protection, fire department, debt
Alan Treffeisen	Transportation, NYC Transit
Ana Ventura	Education (capital), youth services, seniors, employment
Elizabeth Zeldin	Parks, cultural affairs, libraries, consumer affairs; real property transfer and mortgage recording taxes

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