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Analysis of the Mayor's Preliminary Budget for 2006

IBO's Reestimate of the Mayor's Preliminary Budget for 2006 and Financial Plan through 2009

IBO

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Preface

This report provides IBO's analysis of the Mayor's Preliminary Budget for 2006 and Financial Plan through 2009. As in our past Preliminary Budget reports, 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. Additionally, the report includes agency-by-agency reviews of changes in capital spending.

In this year's report, we also introduce a new presentation of the budget based on programs. This approach restates agency budgets in terms that are more meaningful and familiar to users of city services—and their elected officials—than the standard format of the city budget.

Our approach differs from the usual budget presentation in three ways:

- We present agency budgets organized by programs, functions, or activities, rather than simply by unit of appropriation or by personal services (PS) and other than personal services (OTPS). A program is defined as a discrete activity of the agency. We have generally relied on agencies' own characterizations of their programs and activities in selecting program categories. In so doing we were guided by numerous sources, including agency Web sites, the *Mayor's Management Report*; the annual *Message of the Mayor* that accompanies the Executive Budget; and conversations with agency staff, staffs of elected officials, advocacy groups, and other interested parties.

- We present year-over-year spending changes, rather than the standard approach of showing changes from one Financial Plan to the next. Comparing program spending levels from one year to the next provides a clearer picture of agency priorities and choices. As in the past, IBO reestimates of the Mayor's spending projections for 2005 and 2006 account for anticipated state and federal categorical aid, as well as expected changes in city-funded spending levels.

- We also have included in a number of agency sections pertinent data from the *Mayor's Management Report* and other sources on the outputs and outcomes of agency operations—seeking to link budgetary resources to the results produced.

Because many of the sections contained in this report—in particular the overview and accompanying revenue and expenditure tables—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. Readers also should be aware that unless otherwise noted, years refer to the city fiscal year.

As we have done for the past three years, we also produced a companion volume to this report, *Budget Options for New York City*. Released in February, the latest report presents more than 70 options for reducing costs or generating revenues, along with pros and cons associated with each measure.

This year IBO staff was asked to undertake the new and considerably more difficult task of presenting the Preliminary Budget in programmatic terms. The staff's expertise and hard work—and their patience as we developed new ways to sort and analyze data—made the report possible. A list of staff contributors and their areas of responsibility are included at the end of the report. The push for a program-based budget presentation, along with the long-term planning needed to make it happen, came from IBO's Deputy Directors: Preston Niblack, Frank Posillico, and George Sweeting. And faced with unusually tight deadlines, Doug Turetsky and Nashla Rivas Salas edited and produced the volume with their usual professionalism and aplomb.

Ronnie Lowenstein
Director

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Overview

Based on IBO's projection of a continued surge in tax revenues, we now anticipate that the city will end the current fiscal year with a surplus of $2.5 billion—the largest budget surplus since fiscal year 2001. This surplus—roughly $500 million more than the Mayor anticipated in the Preliminary Budget he presented in January—will be used to prepay some debt service and other fiscal year 2006 expenditures. Even with the expiration of the increases in the sales tax and the personal income tax for high income filers, which together will cost the city $650 million in revenue in 2006, IBO projects the city will end next fiscal year with a surplus of more than $470 million.

IBO's review of the Mayor's Preliminary Budget for 2006 and Financial Plan through 2009 finds the city on surer fiscal footing than just three years ago. There are still some issues that could cause considerable budgetary pressures, most notably contract settlements with municipal labor unions, less federal and state assistance than anticipated, and the eventual resolution of the Campaign for Fiscal Equity lawsuit. But if these issues are resolved favorably, near-term budget gaps do not appear as daunting as in the recent past.

Some key highlights of our analysis and reestimate of the 2006 Preliminary Budget and Financial Plan include:

- Spurred by the continuing economic recovery and the ongoing strength of the local real estate market, tax revenues will total just over $29 billion in 2005—$1.5 billion more than anticipated under the budget adopted last June.
- Due to the expiration of temporary sales and personal income tax increases adopted in 2003, city tax revenues are expected to fall in 2006 to $28.9 billion.
- Without a large surplus from 2006 to cover the ongoing imbalance between revenues and expenditures, a budget gap of nearly $3.5 billion emerges in 2007.
- The property tax will drive much of the tax revenue growth over the Financial Plan period, rising from $11.5 billion in 2005 to $15.3 billion in 2009.
- City spending will grow at a relatively modest annual rate of 2 percent under the Mayor's plan through 2009. Much of the rise comes from just a few costly items: principally Medicaid, debt service, and pensions and other fringe benefits for municipal employees.

BUDGET SURPLUSES AND GAPS

If the budget plan is adopted as proposed, IBO projects the city will end this year with a surplus of $2.5 billion, which will be used to prepay some 2006 expenditures. With our expectation of a significantly smaller surplus of $474 million in 2006, a budget gap of nearly $3.5 billion emerges in fiscal year 2007. But unlike most Financial Plan projections in which budget gaps grow over time, IBO projects the opposite here—the gap shrinks to just over $3 billion in 2008 and falls to $2.2 billion in 2009.

The 2006 surplus could be erased, and the 2007 gap widened, depending upon the terms of labor agreements reached with the police, teachers, fire, sanitation, and correction officers unions currently working under expired contracts as well as all the other municipal unions whose contracts begin to expire this coming June. There also is some uncertainty that the city will garner $750 million in anticipated state and federal budget relief for next year, especially given the fiscal difficulties in Albany and Washington. Nor is it certain the city will achieve all of its $325 million pension savings expected in 2006. In addition, policy changes proposed in Albany and Washington, such as the overhaul of the federal tax code and Medicaid cutbacks,

Total Revenue and Expenditure Projections
Dollars in millions

	2005	2006	2007	2008	2009	Average Change
Revenues						
Taxes	29,042	28,900	29,923	32,045	33,753	3.8%
Other Revenues	7,523	6,660	6,016	5,840	6,025	-5.4%
State / Federal Grants	15,583	14,067	14,255	14,354	14,369	-2.0%
Total Revenues	52,148	49,627	50,194	52,239	54,147	0.9%
Expenditures	52,148	49,153	53,676	55,246	56,370	2.0%
IBO Surplus / (Gap) Projection	**$ -**	**$ 474**	**$ (3,482)**	**$ (3,007)**	**$ (2,223)**	

SOURCE: IBO.
NOTES: IBO projects a surplus of $2.5 billion for 2005, $485 million above the Mayor's forecast. The surplus is used to prepay some 2006 expenditures, leaving 2005 with a balanced budget. Estimates exclude intra-city revenues and expenditures.

also could have budgetary consequences for the city.

ECONOMIC AND REVENUE ESTIMATES

IBO forecasts that the local economy will continue to grow over the next four years, although job growth will be relatively modest. A gain of 0.9 percent, or 32,400 jobs, is expected in calendar year 2005, followed by gains averaging 1.0 percent, or 37,000 jobs, annually in 2006-2009. IBO anticipates the city will reach its pre-recession employment peak of 3.8 million jobs in calendar year 2009.

Much of the job growth will be in the education, health, and social service sectors, as well as professional and business services. Tourism and leisure-related activities are also expected to generate a considerable number of new jobs, and job growth is also projected for information services. But the outlook for employment growth in the city's finance industry—the highest paying sector on average—is far weaker. IBO estimates annual growth rates of less than 1 percent for this key sector of the local economy, which is not expected to return to its pre-recession employment levels for well over a decade from now.

The outlook for city tax revenues is much more positive. Spurred by the city's continued economic recovery and the ongoing strength of the local real estate market, IBO now projects that tax revenues will total just over $29 billion in 2005—$1.5 billion more than anticipated under the budget adopted last June. Much of this increase stems from large jumps in collections from the real property transfer and mortgage recording taxes, both of which are expected to generate extraordinarily high revenues this year.

In 2006, IBO estimates total tax revenues will decline by more than $140 million. The decline is caused by two factors: the expiration of the temporary personal income and sales tax increases enacted in 2003, and the expectation that rising interest rates will cause property transfer tax revenues to fall by more than one third, or $630 million.

IBO projects that total tax revenue growth will resume in 2007 with revenues reaching $33.8 billion by 2009. Over the 2005-2009 period annual growth will average 3.8 percent.

Much of the ongoing growth in tax revenues is led by the property tax. IBO projects property tax revenue to rise at an average annual rate of 7.4 percent, growing from $11.5 billion in 2005 to $15.3 billion in 2009. Business taxes also are expected to rise steadily, though at more modest rates than the property tax, in 2005-2009. Personal income and sales tax revenues are expected to take a bumpier trajectory. IBO projects that both personal income and sales tax revenues will decline by more than $200 million in 2006 due to expiration of the temporary tax increases and then resume steady growth in 2007 through 2009.

EXPENDITURE ESTIMATES

IBO estimates that total city spending will grow at an average annual rate of 2.0 percent under the Mayor's latest Financial Plan, rising from $52.1 billion in 2005 to $56.3 billion in 2009. This modest average increase (somewhat understated because of one-time spending in 2005 for a $1 billion federally funded insurance program) is largely fueled by just a few costly items: principally Medicaid, debt service, and pensions and other benefits for the city's workforce. Spending for most city programs and services remains flat under the budget plan through 2009.

The main reason why projected agency growth is flat is that there is no provision for future raises. Contracts with District Council 37 and other unionized civilian employees will start to expire at the end of this fiscal year. The Mayor insists raises must be paid for with "productivity enhancements" or givebacks. IBO estimates that each 1 percentage point raise for all unionized municipal employees costs the city $218 million.

Much could depend on the outcome of the Public Employment Relations Board decision on police officers' wage demands. The officers as well as other uniformed services and teachers are currently working without contracts. The board is expected to soon deliver a binding police settlement decision, which may influence the outcome of negotiations with other unions. Both the firefighter and the teacher unions are in mediation. The budget plan includes only enough money to cover a settlement of police, teacher, firefighter, sanitation, and correction officer contracts based on the same terms reached in 2003 with District Council 37. IBO estimates that each 1 percentage point increase above those terms for uniformed employees and teachers whose contracts have expired will cost the city $149 million.

While the Mayor's budget plan does not include large increases in agency spending, it also does not include many substantial—or controversial—spending cuts. Although the plan does include cuts to libraries, cultural programs, some senior services, and after-school programs, overall the budget

Pricing Differences Between IBO and the Bloomberg Administration

Items that Affect the Gap

Dollars in millions

	2005	2006	2007	2008	2009
Gaps as Estimated by the Mayor	**$ -**	**$ -**	**$ (3,718)**	**$ (3,565)**	**$ (3,179)**
IBO Pricing Differences					
Revenues					
Taxes					
Property	5	58	257	399	671
Personal Income	156	(48)	102	218	118
General Sales	153	105	90	114	108
General Corporation	2	(6)	(54)	(111)	(129)
Unincorporated Business	20	2	5	7	12
Banking Corporation	73	36	(18)	-	(32)
Real Property Transfer	(16)	23	(45)	68	138
Mortgage Recording	131	93	(34)	37	71
Hotel Occupancy	4	11	17	25	30
Commercial Rent	(5)	(7)	(4)	3	9
Cigarette	2	(2)	(3)	(3)	(2)
	525	265	313	757	994
STaR Reimbursement	(3)	(67)	72	(51)	81
Total Revenues	**522**	**198**	**385**	**706**	**1,075**
Expenditures					
Public Assistance	23	54	65	65	65
Medicaid	54	21	19	28	57
Department of Education	(39)	(126)	(126)	(126)	(126)
Overtime					
Police	(63)	(89)	(94)	(94)	(94)
Fire	(12)	(22)	(17)	(17)	(17)
Department of Buildings	-	(4)	(4)	(4)	(4)
Board of Elections	-	(9)	-	-	-
Campaign Finance Board	-	(34)	8	-	-
Total Expenditures	**(37)**	**(209)**	**(149)**	**(148)**	**(119)**
Total IBO Pricing Differences	**485**	**(11)**	**236**	**558**	**956**
Prepayment Adjustment	(485)	485	-	-	-
IBO Surplus / (Gap) Projection	**$ -**	**$ 474**	**$ (3,482)**	**$ (3,007)**	**$ (2,223)**

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

for 2006 appears focused on preserving certain key service areas, and minimizing the service cuts in other areas to the extent possible. Police, fire, and sanitation department uniformed staffing, for example, will essentially remain stable at roughly current levels. The single largest agency PEG (program to eliminate the gap) measure is in the police department, and consists largely of substituting federal homeland security funds for city funds and a reestimate of average salary costs.

The gap-closing measures that are proposed for 2005 and 2006 rely heavily on revenue initiatives, many of them nonrecurring, such as property sales or settlements of past tax liabilities. A number of agencies expect to increase summons issuance and hence fine revenues, and/or to do a better job at collecting fines. Altogether, agencies anticipate an additional $128 million in revenues this year, $51 million next year, and approximately $25 million in ongoing revenues.

Where spending is expected to grow substantially is in a few discrete portions of the budget that are largely outside the city's near-term control. These are the largely the costs that continue to drive the city's spending upwards at a rate that exceeds revenue growth.

But even here it appears that some rapidly rising costs will begin to stabilize—albeit at higher levels. For example, pension contributions for city workers are expected to rise from $3.1 billion in 2005 to $4.5 billion in 2008, when the city will have finished making up for the funds' investment losses during the last recession. Pension contributions are expected to decline slightly, to just under $4.5 billion, in 2009.

Likewise, the growth in Medicaid spending also may be easing. IBO estimates Medicaid spending will climb from nearly $4.9 billion in 2005 to $6.1 billion in 2009. While still a steep rise, it would have been even higher if not for the state takeover of Family Health Plus costs now being phased in. With the Governor's proposals of benefit cuts and a swap of a portion of local sales tax for a state takeover of some Medicaid costs, the climb in the city's Medicaid burden may ease even more. But under at least some of the Governor's proposals there could be ramifications for other portions of the city budget. Lower Medicaid reimbursements could put further strain on the already shaky budget of the city's public hospitals and could seriously affect the entire health services industry, which is one of New York City's primary employers.

Other fast-rising costs include debt service, expected to grow from $5.0 billion in 2005 to $5.8 billion in 2009, and fringe benefits such as health insurance for city workers (excluding education department employees), which are projected to grow from $3.0 billion in 2005 to $3.9 billion in 2009

While pension, Medicaid, debt service, and fringe benefits expenditures are largely driving the city's current spending growth, another factor (besides future labor settlements) could add substantially to local costs: resolution of the Campaign for Fiscal Equity lawsuit. Given the Governor's decision to appeal the most recent court ruling, it is unlikely the city will face additional spending related to the lawsuit in 2006. But the case could ultimately lead to a large increase in city-funded spending on schools. The court-appointed panel in the suit determined that spending should increase over four years so that it will be $5.6 billion higher (adjusted for inflation) than in the current year. The city's portion of that new spending could be well over $1 billion annually when fully phased in.

CONCLUSION

Just three years ago, as the city reeled from the combined effects of a recession and September 11, fiscal commentators and editorial writers warned of an impending fiscal crisis and harkened back to the city's near bankruptcy in the 1970s. That picture has changed considerably, in part because of the budgetary decisions of the Mayor and City Council. IBO expects the city to end this fiscal year with a large surplus, and we expect 2006 to close with a relatively small surplus as well.

But the city continues to wrestle with an underlying imbalance resulting from a small number of fast-growing expenditures: pensions, Medicaid, debt service, and fringe benefits for city workers. While the rate of growth of some of these expenditures may be moderating, revenue growth cannot keep pace and budget gaps emerge in 2007 through 2009.

These gaps could widen—or emerge as early as 2006—because of two potentially substantial costs on the horizon: settlements with the city's labor unions and resolution of the Campaign for Fiscal Equity lawsuit. It is unlikely that the lawsuit will be resolved before fiscal year 2007. But with uniformed service workers and teachers currently working with expired contracts and pacts with the rest of the city's unions beginning to expire in June, large new costs could arise as soon as this year. Moreover, continuing to keep city spending level for most programs and services—regardless of labor settlements—may prove to be difficult.

Revenue

Economic Outlook

RECENT DEVELOPMENTS

Recent economic data provide much positive news for the U.S. and New York City economies. The U.S. Department of Commerce reported in February that real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of 3.8 percent in the fourth quarter of calendar year 2004. Although this was a slight drop from 4.0 percent in the third quarter, real GDP grew by 4.4 percent for the calendar year, up from 3.0 percent in 2003 and 1.9 percent in 2002. Personal consumption expenditures, private investment and government spending have fueled this continued economic recovery. Private-sector employment growth finally picked up somewhat, reaching 1.3 percent for the year. Corporate profits grew by 12.8 percent in 2004. Inflation edged up slightly, but remained low. The Federal Reserve Bank raised short-term interest rates several times, but they remain low compared to those of a few years ago.

Not all news at the national level is positive, however. The dollar continues to fall. The U.S. trade deficit for calendar year 2004 reached a record $600 billion. The federal budget deficit is expected to exceed $400 billion this federal fiscal year. And data from the U.S. Bureau of Labor Statistics (BLS) for January 2005 show that the private sector still had 771,000 fewer jobs than it had in January 2001.

The local economic recovery also continues. Preliminary data from the BLS for December 2004 show a gain of 38,600 private-sector jobs from 12 months earlier, including a gain of 2,200 jobs in the securities industry.[1] Most sectors added jobs, with professional and business services leading the way with a gain of 14,500 jobs. Personal income grew by 6.0 percent in calendar year 2004, up from just 1.4 percent in 2003. Seasonally adjusted household data for New York City show an unemployment rate of 6.2 percent for December, down sharply from 8.4 percent in January 2004. On the downside, IBO expects securities industry profits to total $12.2 billion for 2004, down from $16.7 billion in 2003, and securities employment in December 2004 was still 38,900 below its peak in December 2000.

NATIONAL ECONOMIC OUTLOOK

IBO projects moderate growth for the national economy for the forecast period. Real GDP is expected to grow 3.4 percent this year and then average 3.3 percent in 2006-2009. Thus, the forecast does not include the rapid expansionary growth that typically follows recessions. Moreover, projected growth rates remain well below the surging growth of the late 1990s.

Similarly, IBO's forecast for payroll employment is one of continued moderate growth. IBO expects employment growth to be strongest in 2005 at 1.7 percent (2.2 million jobs), followed by slower growth averaging 1.3 percent (1.8 million jobs) annually for 2006 through 2009. The U.S. unemployment rate is expected to decline gradually, reaching 4.8 percent in 2009.

Given this moderate growth scenario and recent actions by the Federal Reserve Bank, IBO expects the U.S. inflation rate to be 2.2 percent in 2005 and then stay in the 2.1 percent to 2.4 percent range through 2009.

LOCAL ECONOMIC OUTLOOK

IBO expects modest growth in New York City payroll employment throughout the forecast period. On a year-over-year basis, a gain of 32,400 jobs (0.9 percent) is expected in 2005, followed by gains averaging 37,000 jobs (1.0 percent) per year in 2006-2009. IBO expects the city to reach its pre-recession employment peak in 2009.

IBO projects steady employment growth throughout the forecast period for several major industries. Employment in professional and business services should grow briskly, adding more than 11,600 jobs (2.0 percent) per year. The expected gain by 2009 is 46,500 jobs. Leisure and hospitality and information are expected to experience moderate job growth rates of 1.4 and 1.6 percent per year, respectively. Construction employment is expected to contract through 2007 but then expand. Employment growth in health, education and social assistance will remain strong, with a total gain of 59,500 jobs (8.7 percent) by 2009.

The outlook for employment in financial activities is one of slow growth. IBO expects financial activities to add jobs at a slow rate of 0.5 percent (2,200 jobs) per year. Within financial activities, securities employment is expected to grow 0.8 percent (1,400 jobs) per year. Neither is expected to come close to its 2000 employment peak by 2009. As of December 2004, securities employment was down 38,900 jobs (19.4 percent) from its December 2000 level.

Manufacturing and transportation are expected to continue

IBO versus OMB Economic Forecasts

	2004	2005	2006	2007	2008	2009
National Economy						
Real GDP Growth						
IBO	4.4	3.4	3.2	3.5	3.6	3.1
OMB	4.4	3.5	3.2	3.2	3.1	3.2
Non-farm Employment Growth						
IBO	1.0	1.7	1.4	1.1	1.4	1.4
OMB	1.0	1.7	1.2	0.8	0.8	0.9
Inflation Rate (CPI-U)						
IBO	2.7	2.2	2.2	2.4	2.1	2.1
OMB	2.7	2.2	1.7	2.0	2.2	2.3
Personal Income Growth						
IBO	5.1	4.2	4.4	4.7	4.7	4.6
OMB	5.2	4.9	5.4	5.2	5.5	5.8
Unemployment Rate						
IBO	5.5	5.5	5.4	5.2	4.9	4.8
OMB	5.5	5.4	5.5	5.6	5.6	5.6
10-Year Treasury Bond Rate						
IBO	4.3	5.0	5.7	5.7	5.5	5.7
OMB	4.3	4.7	5.2	5.4	5.9	6.4
Federal Funds Rate						
IBO	1.3	3.0	4.3	4.9	4.5	4.5
OMB	1.3	3.0	3.6	4.1	4.5	4.7
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	20.7	32.4	39.9	29.2	39.1	39.9
OMB	20.6	43.9	37.4	34.3	35.8	40.7
Employment Growth						
IBO	0.6	0.9	1.1	0.8	1.1	1.1
OMB	0.6	1.2	1.0	0.9	1.0	1.1
Inflation Rate (CPI-U-NY)						
IBO	3.5	1.9	1.7	2.2	2.0	2.1
OMB	3.5	2.7	2.2	2.3	2.4	2.4
Personal Income ($ billions)						
IBO	327.7	347.2	365.0	384.6	405.2	426.3
OMB	333.0	349.0	367.0	384.0	404.0	428.0
Personal Income Growth						
IBO	6.0	6.0	5.1	5.3	5.4	5.2
OMB	5.7	4.9	5.2	4.7	5.3	5.8
Manhattan Office Rents ($/sq.ft)						
IBO	48.50	49.68	50.92	52.11	53.41	54.72
OMB	47.37	47.89	48.28	49.1	50.41	52.89

SOURCES: IBO, OMB.
NOTES: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York / Northern New Jersey region. Personal income is nominal.

losing jobs in the years ahead. Of the 181,000 private-sector jobs lost in New York City between calendar years 2000 and 2003, more than one out of four was in manufacturing. IBO expects manufacturing employment to continue on its downward trend, losing 2,700 jobs this year and another 4,000 jobs (3.5 percent) by 2009. In transportation and warehousing, a small job gain this year is expected to be followed by losses in 2006-2009, leaving the industry with 1,900 (1.8 percent) fewer jobs than 2004.

IBO forecasts continued strong growth of 6.0 percent for personal income this year and growth ranging from 5.1 percent to 5.4 percent in 2006 to 2009. Growth of 5.1 percent in wages and salaries this year will help fuel the strong growth in personal income expected in 2005. Investment earnings also are expected to grow strongly in the later years of the forecast period.

Profits in the securities industry are expected to rise to $14.7 billion in 2005 and then grow steadily, reaching $15.3 billion in 2006, $16.2 billion in 2007, $17.6 billion in 2008 and $19.1 billion in 2009. IBO's projections for 2005 and 2006 are higher than the $14.4 billion and $14.7 billion forecast by the Bloomberg Administration in the Preliminary Budget for these years, respectively. Office asking rents are expected to remain close to their current levels in the year ahead.

Differences between IBO and the Mayor's Office of Management and Budget (OMB) forecasts for New York City are greatest this year, with IBO expecting considerably less job growth, a lower rate of inflation, and significantly more personal income growth (albeit from a slightly lower level.) With the exception of the forecast for office rents, the two forecasts are much closer for 2006 and beyond. Expected job gains by 2009 are close.

Risks to IBO's forecast include potential changes in tax policy at the federal level, rising interest rates, and significant growth in the federal deficit in the years ahead.

END NOTE

[1]IBO's forecast has been completed shortly before the March 2005 release of the annual benchmarking of payroll employment data by the New York State Department of Labor.

Taxes and Other Revenues

INTRODUCTION

The city's revenue outlook, particularly from tax sources, has greatly improved over the course of the 2005 fiscal year, fueled by continued recovery of the local economy and unanticipated strength in real estate markets. IBO projects that revenues from all sources (taxes, fees, fines and other city miscellaneous revenues, state and federal categorical aid and other revenues including unrestricted aid) will total $52.1 billion in 2005, an increase of 10.2 percent from 2004. For 2006, total revenues are projected to equal $49.6 billion, a decline of 4.8 percent; the decline is attributable to the sunset of temporary tax increases enacted in 2003, our forecast of a dramatic decline in the property transfer taxes as an increase in interest rates cools the real estate market, and the expected sharp fall in several non-tax revenue sources. Thereafter, total revenues resume growing, reaching $54.1 billion by 2009. Overall, revenues from all sources are expected to grow from 2005 through 2009 by 1.9 percent annually, on average. The tax revenue portion of total revenues will grow at a faster rate, averaging 3.8 percent annually, over the same period.

The bulk of this chapter presents IBO's forecast of tax revenues, which is built up from our forecasting models for 10 major tax sources. The chapter also includes a brief

IBO Revenue Projections

Dollars in millions

	2005	2006	2007	2008	2009	Average Change
Tax Revenues						
Property	$ 11,541	$ 12,403	$ 13,323	$ 14,405	$ 15,342	7.4%
Personal Income	5,966	5,752	5,839	6,277	6,557	2.4%
General Sales	4,358	4,151	4,301	4,498	4,699	1.9%
General Corporation	1,756	1,811	1,862	1,912	2,007	3.4%
Unincorporated Business	979	998	1,045	1,096	1,151	4.1%
Banking Corporation	514	474	415	432	408	-5.6%
Real Property Transfer	869	578	526	669	761	-3.3%
Mortgage Recording	949	610	499	603	664	-8.5%
Utility	309	311	310	309	309	0.0%
Hotel Occupancy	255	275	294	316	336	7.1%
Commercial Rent	440	450	465	485	504	3.5%
Cigarette	128	119	115	112	110	-3.7%
Other Taxes and Tax Audits	978	968	929	931	905	-1.9%
Total Taxes	*29,042*	*28,900*	*29,923*	*32,045*	*33,753*	*3.8%*
Other Revenues						
STaR Reimbursement	781	667	835	723	876	2.9%
Miscellaneous Revenues	4,931	3,374	3,138	3,175	3,201	-10.2%
Unrestricted Intergovernmental Aid	562	562	562	562	562	0.0%
Other Categorical Aid	907	975	957	963	969	1.7%
Inter fund Revenues	357	347	339	332	332	-1.8%
Anticipated State / Federal Actions	-	750	200	100	100	n/a
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total City-Funded Revenue	***36,565***	***35,560***	***35,939***	***37,885***	***39,778***	***2.1%***
State Grants	8,959	9,041	9,236	9,328	9,341	1.0%
Federal Grants	5,624	5,026	5,019	5,026	5,028	-2.8%
Federal - FEMA Insurance Program	1,000	-	-	-	-	n/a
Total Revenues	**$ 52,148**	**$ 49,627**	**$ 50,194**	**$ 52,239**	**$ 54,147**	**0.9%**

SOURCE: IBO.
NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax revenue. Estimates exclude intra-city revenues.

overview of the outlook for revenues from other sources.

TAX REVENUE FORECAST

Tax collections in 2005 have been soaring, thanks to the continued recovery in the city's economy and the strength of the city's property markets. IBO now projects that tax revenues will total $29.04 billion in 2005; $1.5 billion higher than what was anticipated by the city when this year's budget was adopted last June. Revenues in 2005 are expected to be 5.8 percent higher than their 2004 level, with much of the increase occurring in the property transfer taxes-together the real property transfer tax (RPTT) and the mortgage recording tax (MRT) are 14.8 percent higher this year than last.

The outlook for 2006 is quite different however, as the transfer taxes are expected to fall off by 34.7 percent ($630 million) in the face of rising interest rates, and the temporary tax increases enacted in 2003 sunset. The December 31, 2005 expiration of the higher income tax rates for high income households and the May 31, 2005 expiration for the one-eighth of a percent general sales tax surcharge along with the suspension of the clothing exemption, mean that the city will collect over $650 million less in tax revenue then it would have without the sunsets. Other taxes are expected to continue to show strong growth sufficient to offset most of these declines, however, leaving total tax revenues of $28.9 billion, a decline of 0.5 percent from 2005. Beginning in 2007, tax revenue growth is expected to resume, with revenues reaching $33.8 billion by 2009. Over the 2005-2009 period annual growth will average 3.8 percent.

IBO's tax forecast is much higher than the forecast presented by the Bloomberg Administration in the Preliminary Budget. Our outlook is $525 million higher for the current year and $265 million in 2006. The differences grow wider, reaching $994 million in 2009. For 2005, much of the difference is attributable to interpretations of current year collections. IBO's analysis of revenue already received from the personal income tax, the mortgage recording tax, the sales tax, and the general corporation tax all yield higher forecasts for the current year. In 2007 through 2009, much of the difference between the two forecasts is due to the property tax.

- IBO projects tax revenues for 2005 will be $29.0 billion, up 5.8 percent from 2004 and $1.5 billion from the level assumed when the budget was adopted in June.
- Revenue growth this year is fueled by the property transfer taxes which together are growing by 14.8 percent this year; taken together, revenue from these taxes has more than doubled since 2001 and this year they will account for more revenue than the general corporation tax.
- Revenues will fall by 0.5 percent in 2006 as the 2003 temporary tax increases sunset and the transfer taxes return to more normal levels, offsetting growth in other tax sources.
- Revenue growth resumes in 2007, with revenues expected to increase by 3.5 percent, followed by gains of 7.1 percent in 2008, and 5.3 percent in 2009.
- Baseline revenue growth will be sustained by the property tax which is expected to grow by an average of 7.4 percent annually from 2005 to 2009 due to higher property values and higher assessments.
- Business and personal income taxes are expected to grow at more modest average rates (2.3 percent and 2.9 annually, respectively) consistent with IBO's outlook for continued moderate growth in the local and U.S. economies.

REAL PROPERTY TAX

IBO projects that property tax revenues will grow to $12.4 billion in 2006, up 7.5 percent from the 2005 level. From 2006 to 2009, strong growth in property tax revenues is expected to continue, averaging 7.4 percent annually. A substantial pipeline of deferred increases for commercial properties and continued strong market growth for residential properties are expected to fuel this revenue climb. IBO's forecast for property tax revenues is more optimistic than the Mayor's budget office forecast, which projects growth of 7.0 percent in 2006 and average annual growth of 5.9 percent in 2007-2009.

Background. The amount of Class 1 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 2005 assessment roll, Class 1 homes account for 53.3 percent of market value in the city, but only 11.4 percent of assessed value for tax purposes and 14 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 2006. In January, the Department of Finance released the tentative 2006 assessment roll. Because of the timing of the assessment process, the market values on the 2006 roll largely reflect economic conditions in calendar year 2004, when the real estate market continued to show surprising strength in the face of the lingering effects of the local recession. After taxpayer challenges and other department adjustments are processed, the values will be finalized in May and used for setting 2006 tax bills. Market values on the 2006 tentative roll show an overall growth rate of 14 percent over 2005, with Class 1 showing the largest increase at 14.7 percent, followed closely by Class 2 at 14.2 percent; Class 4 market values grew 13.5 percent.

Outlook for Market and Assessed Values in 2006. IBO projects that total assessed value on the final 2006 tax roll will grow to $109.8 billion, 7 percent over the 2005 roll, which is considerably less than the percentage 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 2006 assessment roll grew by 14.7 percent, Class 1 assessed values show growth of only 4.1 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 6 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 Market and Assessed Values in 2006-2009. IBO expects assessments to grow strongly in 2006 to 2009, primarily due to sharp growth in market value for Class 2 and continued phase-in of recent increases in assessments for commercial property.

IBO projects that market values in Class 1 will grow by 14.7 percent for the 2006 assessment roll, and then grow by an average rate of 10 percent between 2006 and 2009. Class 2 market values are expected to rise by 14.2 percent on the 2006 assessment roll and then grow by an average rate of 9 percent in 2007-2009; very strong growth for Manhattan condominium buildings combines with more moderate growth for other Class 2 properties. Class 4 market values are expected to rise by 12 percent in 2006, as strong growth for Manhattan office buildings is accompanied by strong growth for other Class 4 properties. But in 2007-2009, class 4 market value growth is expected to slow to an average rate of just 3.2 percent, as slow growth for other Class 4 properties offsets moderate growth for Manhattan office buildings.

Despite strong growth in Class 1 market values through 2009, growth in Class 1 assessments is expected to be even lower than the 4.1 percent growth in 2006, averaging 3.7 percent in 2007 to 2009. Again, this is a result of the caps on assessment increases. In contrast, IBO expects strong growth in Class 2 market values to translate into strong growth of 8.5 percent in 2006 and then an average rate of 8.4 percent in 2007 to 2009. For Class 4, the pipeline from strong market growth in 2006 and previous years will keep assessments growing at 7 percent in 2006 and then an average rate of 6.9 percent in 2007 to 2009, despite slower growth in market values in those years. Overall, annual assessment growth for all classes of property will be 7 percent in 2006 and then average 7 percent in 2007 to 2009.

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, the City Council had observed an informal freeze in the average tax rate since 1992. IBO's property tax revenue forecast assumes that the 2005 average tax rate, which has the 18.49 percent increase fully phased in, will be maintained at 12.28 percent of the aggregate assessed value for tax purposes on the assessment roll.

The amount of property tax revenue in a fiscal year is determined not only by the levy, but also by the delinquency rate, abatements granted, refunds for disputed assessments, and collections from prior years. For this year, 2006, and 2007, total revenue will also reflect the property tax rebate for homeowners, which the Mayor's budget plan assumes will run for three years. Taking these other factors into account, IBO projects that property tax revenue for 2005 will total $11.5 billion, 0.8 percent above revenues for 2004. For 2006, revenue will grow by 7.5 percent to $12.4 billion. In 2007 to 2009, growth will average 7.4 percent, with revenue totaling $15.3 billion by the last year of the forecast period. The expiration of the homeowner rebate will contribute to revenue growth in 2008 and 2009.

Tax Policy Changes. Several recent changes have reduced projections of property tax collections.

Change in Class 1 Target Assessment Ratio. For the 2006 assessment roll, the Department of Finance has lowered the target assessment ratio (assessed value divided by market value) in Class 1 from 8 percent to 6 percent. Although the reduction has not been identified by the Bloomberg Administration as a policy change in its budget documents, it results in lower property tax revenue and a shift in tax burdens among Class 1 property tax payers.

As noted above, state law limits annual increases in Class 1 assessments to no more than 6 percent. However, the city has discretion to set the target assessment ratio for the class, which limits the maximum percentage of market value that an assessment can reach after accounting for whatever increase is permitted by the limit on assessment increases. While the rapid appreciation in market values in recent years (the median market value of Class 1 properties has grown 180 percent from 2002 to 2006) has been fairly widespread across the city, some neighborhoods have seen much lower rates of appreciation. Because of the assessment increase caps, median assessment ratios in rapidly appreciating neighborhoods have been falling and are now well below the new target assessment ratio of 6 percent. Assessments ratios have continued to grow as long as they are below the target assessment ratio in neighborhoods where market value appreciation has been less than the increases permitted under the assessment increase.

Lowering the target assessment ratio, which results in lower assessments for property owners who would have had assessment ratios between 6 percent and 8 percent under the old target to a maximum assessment of 6 percent of market value under the new target, creates greater equity within Class 1. The difference in assessment ratios and tax burdens, which had become quite marked, is narrowed. However, because of the complexity of the city's property tax system, it is not possible to make this change in isolation.

First, unless the city decides to raise the overall property tax rate, the lower Class 1 target will result in a loss of approximately of $31 million in tax levy in 2006 with additional losses in subsequent years. The revenue loss is due to the decline in foregone assessed value from properties that previously had assessment ratios over the new target, or that would have exceeded it this year. With lower assessments the levy also declines unless the tax rate also changes. In the future—assuming the new target remains in place—when appreciation slows and assessment ratios begin to rise again, as they did in the early and mid 1990s, they will not be able to rise as high as they would have with the higher target, resulting in less total assessed value for the city. Although tax rates could be raised to compensate, the city has generally avoided such action, particularly since state law precludes raising the rate on a single class without raising it for all four classes.

Second, the department's policy change will result in higher taxes for those in Class 1 whose assessments were not lowered as a result of the lower assessment ratios. Under another section of the state law, the share of the tax levy borne by each class is determined by its share of market values rather than assessments. Therefore, lowering the assessments within a class means that the class' tax rate will have to be higher to yield the same share of tax revenue from the class. IBO estimates that approximately 50,000 property owners got lower assessments this year than they would have with the old target in place, which reduces total assessments in Class 1 by about $250 million; saving them about $775 on average. With a higher Class 1 tax rate necessary to yield the same share of the tax levy, the other 630,000 property owners in Class 1 will pay about $60 more, on average, then they would have without the reduction in the target ratio.

Impact of Homeowner Rebate. The Mayor's Financial Plan assumes that owners of houses and apartments, provided they reside in these properties, will once again receive $400 rebates in 2006. OMB projects that over 420,000 house owners and over 180,000 cooperative and condominium apartment owners will receive the rebate, at a total cost of $256 million in 2006.

Uncertainty about Absentee Landlord Surcharge. The Adopted Budget for 2004 included a surcharge of 25 percent for owners of one- to three-family homes who rent out their properties. The Mayor's budget office expected the surcharge to generate $44 million in 2004. Subsequently, the Bloomberg Administration claimed that implementation of this absentee landlord surcharge would be extremely difficult and proposed that the surcharge be repealed. Before the 2004 bills came due, legislation was enacted that postponed the effective date of the surcharge until 2007. The Mayor's current revenue forecast assumes that the surcharge will be repealed before 2007 and projects no revenue from the surcharge.

PROPERTY-RELATED TAXES

Commercial Rent Tax. Between 1994 and 2002, 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 $380 million in 2002. As of June 1, 2001, the tax is now only assessed on commercial tenants in Manhattan south of 96th Street, with annual rents over $250,000 (liability is phased in for rents between $250,000 and $300,000). Tax liability is computed using an effective rate of 3.9 percent of the rent. Given the $250,000 threshold in place since 2001, many prior CRT payers with lower rents have been removed from the tax rolls. In 2003, about 7,300 businesses (some with more than one lease) remained subject to the tax. The median rent for these remaining taxpayers was approximately $525,000 per year.

Despite the decline in commercial occupancy during the city's recent economic downturn, CRT revenues have remained surprisingly strong. This was due in large part to the 18.49 percent property tax rate increase enacted in November 2002, which was passed through to many commercial tenants who have tax escalation clauses in their leases. CRT revenues grew from $377 million in 2002 to $426 million in 2004. With the impact of the property tax rate increase for the most part now fully reflected in existing rents and with rents for new leases expected to grow only moderately in the next few years, IBO projects slower growth in CRT revenues. The CRT is expected to yield $440 million in revenue in 2005, 3.3 percent above the 2004 level. IBO projects 2006 CRT revenue of $449 million (an increase of 2.3 percent). For 2007 through 2009, revenue growth will average 3.9 percent each year, with collections growing to $504 million by 2009. IBO's CRT forecast is slightly lower than the Preliminary Budget estimate for each year from 2005 to 2007 and then slightly higher for the remaining two years of the Financial Plan.

Mortgage Recording Tax and Real Property Transfer Tax. Revenues from these two taxes reached an all-time high in 2004, and are on track to set a new record again in 2005. IBO projects that revenues will decline sharply in 2006, and continue on a downward trend in 2007. The expected decline is due primarily to higher interest rates and an expected sluggishness in commercial real estate transactions IBO projects that mortgage recording tax collections will be $610 million in 2006, 35.7 percent below the expected 2005 level. Similarly, real property transfer tax revenue is expected to decline 33.5 percent, to $578 million. MRT and RPTT revenues are forecast to resume growing in 2008.

Compared to OMB, IBO forecasts considerably higher revenue for MRT in 2005 ($949 million vs. $818 million), and slightly lower revenue for RPTT ($869 million vs. $885 million). IBO's projections for 2005 reflect actual collections for this fiscal year; as of January, fiscal year-to-date collections already total $680 million, 72 percent of our forecast for the full year. IBO forecasts a slower but slightly greater decline in MRT and RPTT revenues after 2005 than does OMB, which projects that revenues fall sharply in 2006, but then climb slowly through 2009. IBO forecasts that MRT and RPTT revenues will hit their low point in 2007, and then rebound sharply. IBO's 2009 revenue forecast for the two taxes is $209 million above OMB's, although IBO's higher number is still 10 percent below actual collections in 2004.

These two closely related revenue sources are levied at opposite ends of residential and commercial real estate transactions. The real property transfer tax is levied directly on the sale price and is typically paid by the seller. The 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. The portion of a mortgage refinancing that involves new money ("cash out") is always subject to the MRT. Refinancing activity that involves a change of lender is usually subject to the MRT in its entirety, unless the first lender agrees to "assign" the mortgage to a second lender, in which case the tax is levied only on the new money.

Refinancing 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 general business cycle changes, the two transfer taxes are also highly sensitive to actual and anticipated changes in mortgage rates. Low mortgage rates effectively decrease housing costs, and thus increase incentives to purchase property. Low rates also provide incentives for mortgage refinancing. Conversely, higher mortgage rates deter mortgage refinancing, and discourage purchases by effectively raising property costs. During the past year mortgage rates increased slowly and then declined slightly toward the end of the year, but remain at historically low levels. IBO's forecast of mortgage rates calls for a gradual increase through 2007, when 30-year rates peak at around 7.5 percent and then begin to decline.

MRT and RPTT revenues have remained strong in recent years, even as the economy has gone through a downturn. The poor performance of the stock market during 2001-2002, combined with low interest rates, made investments in real estate relatively attractive. The low interest rate environment has also stimulated refinancing activity. While the stock market has rebounded strongly in recent months, IBO projects that corporate profits, another indicator of the overall business environment, will remain stagnant through 2007. This will have a dampening effect on commercial real estate transactions.

IBO projects that MRT revenues will reach $949 million in 2005 (16 percent above 2004), and RPTT revenues will be $869 million (13 percent above 2004). In 2006 the combination of slowly rising mortgage rates and sluggishness in commercial real estate will sharply depress MRT and RPTT revenues. MRT revenues are forecast to decline by 35.7 percent ($610 million) in 2006, and a further 18.2 percent (to $499 million) in 2007. Similarly, RPTT revenues are projected to fall 33.5 percent (to $578 million) in 2006, and another 9 percent (to $526 million) in 2007. Both taxes are expected to rebound in 2008, with MRT and RPTT collections rising to $603 million and $669 million, respectively. The growth is forecast to continue in 2009 with MRT collections reaching $664 million and RPTT climbing to $761 million.

PERSONAL INCOME TAX

Personal income tax (PIT) receipts have continued growing this fiscal year and are forecast to reach $6.0 billion in 2005, a 9.6 percent increase over the previous year.[2] Except for the introduction of an earned income tax credit against the city PIT—which will reduce 2005 receipts by an estimated $73 million—this year's revenue has been unaffected by tax policy changes, making the current growth all the more impressive.

The expiration of 2003's three-year tax increase next January will offset underlying economic growth and result in an estimated 3.6 percent decline in PIT collections in 2006, to $5.7 billion. Moderate collections growth is expected in 2007, when PIT receipts are forecast to reach $6.3 billion. Growth will be stronger in 2008 and 2009, in part due to an expected surge in capital gains realizations, and by the end of the Financial Plan period PIT revenue will reach $6.6 billion. With the exception of 2006, IBO's PIT forecasts exceed OMB's in each year, by $102 million to $218 million, with the largest difference in 2008.

Background and Recent Changes. The personal income tax is levied on the incomes of city residents. PIT liability is generally determined by two components: a base with a progressive rate structure, in which income in higher tax brackets is taxed at higher rates, and a 14 percent surcharge.[3] A temporary, three-year tax increase affecting upper-income filers enacted last spring, however, formally combined the base and surcharge into one rate structure. Prior to the increase, the combined tax rate (i.e., incorporating both the base rate and surcharge) was 2.907 percent for the lowest of the four brackets, compared with 3.648 percent for the highest bracket.[4] The increase for tax years 2003 through 2005 created two additional tax brackets at the top: a fifth bracket with a rates varying from 4.05 and 4.25 percent (depending on the year) and a top bracket for taxable incomes greater than $500,000 with a rate of 4.45 percent. These increases boost city revenue by an estimated $541 million in fiscal year 2005 and $274 million in 2006, when the increase is only in effect for half the year.

By fiscal year 2001, a number of tax cuts and credits enacted in the previous five years—including the elimination of the commuter tax, the STaR program's PIT credit and rate cut, a temporary reduction in the 14 percent surcharge, and the expiration of the 12.5 percent "criminal justice" 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 by 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. Stock market increases fueled PIT revenue by boosting both the capital gains realizations of city residents and the profits of securities firms which in turn increased their year-end bonus compensation to employees.

In the first half of calendar year 2001, however, the national economy weakened, Wall Street's bull market had ended, 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 investors' 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. And in 2003, as the local economy continued to lag behind the nation's anemic recovery and Wall Street's slump largely continued, PIT receipts edged down further to their lowest level since 1997.

PIT growth resumed in 2004, when receipts increased by 23.3 percent over the previous year. This strong upturn resulted from the resumption of local employment growth, the doubling of Wall Street profits from 2002 to 2003, and, most significantly, the tax increase enacted in the middle of 2003. The new withholding tables with higher rates for highly paid employees were set to "double" withhold from July through December 2003 because the tax increase was retroactive to January 2003. Moreover, the stronger 2003 Wall Street profits led to larger year-end bonuses, further boosting withholding during the period from December through February when bonus compensation is distributed. Estimated payments also rose strongly, especially from January 2004 on.

Revenue in the Current Year. Through February of this fiscal year, PIT collections are 14.3 percent greater than in the comparable period a year ago. With modest employment growth in calendar year 2004, withholding is up 7.2 percent so far this year, with especially strong growth in the December through February bonus-period thanks to an increase in securities firms' bonus compensation—evident in spite of a decline in 2004 Wall Street profits. With a slight downward adjustment in January of the withholding tables and the end of the bonus-paying season after February, withholding growth is expected to moderate in the coming months.

Revenue from quarterly estimated payments, the second largest component of the PIT, continues to swell, up 40.1 percent so far this fiscal year after increasing 50 percent in fiscal year 2004. Estimated payments are made primarily by self-employed city residents and taxpayers with substantial income from financial assets. The continued health of the financial markets has reinforced investors' expectation of earnings and in turn fueled their estimated payments. In the remainder of the current fiscal year, estimated payments will remain strong, particularly in April when the first installment payment for tax year 2005 liability will be made, largely on the basis of 2004 liability. Due to the underlying growth of the last two years in residents' total PIT liabilities, more payments with final returns are expected in March and April compared with last year, and early returns for 2004 provide some evidence of higher final returns payments this year.

When all PIT components are taken into consideration, IBO forecasts net PIT revenue (after refunds) to reach $6.0 billion in the current fiscal year, a projected 9.6 percent increase over 2004 revenues. (These and all other collections figures reported in this section include PIT receipts dedicated to the Transitional Finance Authority.) IBO's 2005 PIT forecast exceeds that of OMB by $156 million—2.7 percent of the total—due to higher forecasts of revenue from estimated payments and final returns relative to OMB's current projections.

The Forecast for 2006 and Beyond. IBO forecasts a 3.6 percent decline in PIT collections, to $5.7 billion, in 2006. The end of the temporary tax increase next January will reduce revenues and offset increases in liability expected from continued employment and income growth. As a result, withholding growth is estimated to be only 2.0 percent next year, despite accelerating employment growth in calendar year 2005 and 2006. Slower growth is also projected for capital gains, and IBO expects estimated payment will fall by 8.6 percent. Payments with final returns are also expected to decline. IBO's 2006 forecast is $48 million (0.8 percent) less than OMB's Preliminary Budget estimate, due primarily to lower forecasts for withholding (attributable to our weaker employment estimate for calendar year 2005) and estimated payments.

For fiscal year 2007, IBO forecasts moderate growth in PIT revenue—by 1.5 percent—due to the decline of employment growth among city residents in calendars year 2006 and 2007. The $5.8 billion forecast for the year is $100 million greater than OMB's, with IBO's relatively higher projection of estimated payments offsetting its lower withholding forecast. IBO expects PIT growth to pick up in 2008 and 2009 and average 6.0 percent annually. Estimated payments are projected to grow strongly in these years in large part because of an expected surge in realized capital gains in calendar year 2008, before the expiration of preferential tax rates under current federal law. IBO's forecasts for these years, $6.1 billion and $6.4 billion, exceed OMB's by $218 million and $119 million in 2008 and 2009 respectively.

BUSINESS INCOME TAXES

New York City levies three entity-level taxes on business net income, the general corporation tax (GCT), banking corporation tax (BCT), and unincorporated business tax (UBT). About 55 percent of total city business tax revenues are derived from "flow-through entities" (S-corporations taxed under the GCT; limited liability corporations, partnerships, and proprietorships taxed under the UBT) whose net income is for the most part subject only to personal income taxation at the federal and state levels. Conversely, insurance corporations are subject to federal and state but not city taxation.

After declining precipitously in the two years following the September 11 attack, business tax collections surged in 2004 and have continued to post strong gains in the current fiscal year. IBO projects that total business tax collections in 2005, $3.25 billion, will be $386 million (13.5 percent) higher than collections in 2004, and nearly $1 billion (42.3 percent) above the level of two years ago. Following these large advances, IBO projects business tax revenues to be essentially flat in 2006 and 2007 (growth will be only about 1 percent in each of these years), and to grow modestly (about 3.5 percent per year) over the last two years of the Financial Plan.

IBO's total business tax forecast is $95 million higher than OMB's in 2005 and $31 million higher in 2006, with IBO's stronger BCT projections accounting for most of the differences in these two years. After 2006, however, IBO's projected GCT growth slows down while OMB's speeds up, and as a result of this (plus slippage in IBO's banking tax forecast) IBO's total business tax forecast falls $150 million behind OMB's forecast by 2009.

General Corporation Tax. New York City's GCT is unusual in two respects: it is one of the few locally levied taxes on corporate income, and nearly half of the tax liability is borne by S-corporations. Over three-fourths of the tax is collected through an 8.85 percent tax on entire net income allocated to New York City; the remainder is collected through alternative tax bases: income plus compensation, capital allocated to the city, and a $300 minimum tax. (Almost 60 percent of GCT filers pay only the minimum tax.)

GCT revenue recovered strongly in 2004 from the post-September11 collapse of the previous two years, posting a 24.4 percent gain over 2003. Strong collections growth has continued in the current fiscal year. Although securities industries profits, ordinarily a bellwether of GCT revenue trends, tailed off in calendar 2004, through the first four months of collections accrued to fiscal year 2005 (September-December), net collections have run $165 million ahead of the same period the year before, better than 26 percent year-over-year growth. We expect growth to moderate over the rest of the fiscal year, so that by year's end GCT revenue will finish up 14 percent over fiscal year 2004. Projected net revenue for 2005, almost $1.76 billion, will still fall slightly short of the $1.78 billion peak reached in 2000, but it represents a better than $500 million improvement from the $1.25 billion trough of 2003.

Considerably slower growth in GCT revenue is forecast for 2006 and beyond. IBO projects $1.81 billion in net collections for 2006, a new high for the tax, but only $55 million (3.1 percent) more than in 2005. The measured expansion of the city economy (in contrast to the torrid growth of the late 1990s), a relatively moderate up tick in securities industry profits, and a rather flat prospect for corporate profits nationwide all point toward weak GCT growth in 2006. The picture remains much the same over the outyears of the Financial Plan, with growth rates of 2.8 percent, 2.7 percent, and 5.0 percent forecast for 2007-2009.

Unincorporated Business Tax. New York City imposes a 4 percent tax on the income of partnerships, proprietorships, and (since 1994) limited liability corporations. Again, this tax is unusual in that it is very rarely levied by a locality, and it is imposed on income that is not taxed at the business entity level by the federal and state governments. Instead, New York City somewhat attenuates the resulting double-taxation by providing a partial credit in its personal income tax for UBT liabilities of city residents. As of the most recent available data (tax year 2001), 48 percent of UBT collections were from partnerships, 33 percent from limited liability corporations, and 19 percent from proprietorships.

Probably because legal and business services account for about 50 percent of the tax, UBT collections have tended to be less cyclical (more stable in the face of economic shocks) than either GCT or BCT collections. Collections did not plummet in 2002 and 2003; instead growth was more or less flat. Conversely, this left less room for a big rebound in 2004 and 2005. Year-over-year growth was, however, a robust 9.1 percent in 2004, and additional growth of 7.8 percent (to $979 million) is forecast for 2005. The 2005 forecast actually encompasses a projected slowdown in collections growth over the latter half of the current fiscal year; through December, UBT collections were running 22 percent ahead of the previous year's pace.

The slowdown is projected to continue through 2006: IBO forecasts only 1.9 percent growth (to $998 million) for the coming fiscal year. Thereafter growth will pick up again slightly, averaging a little below 5 percent per year over the rest of the Financial Plan period. The reasons for the moderate outlook for the remainder of 2005 and beyond are similar to those for the GCT: relatively modest expected growth in the securities industry in particular and in the city economy (particularly those sectors driven by Wall Street) in general.

Banking Corporation Tax. New York City taxes banking corporations separately, but the principal rate and base of the BCT is similar to that of the GCT. Over four-fifths of collections are derived from a 9.0 percent tax on entire net income allocated to the city, the remainder from alternative net income, asset base, capital, and minimum tax bases. In 2004 about 43 percent of current year (non-audit) gross collections were from commercial banks, another 27 percent from foreign banks, and 30 percent from thrifts and others. The previous year, however, the shares were almost reversed: 30 percent commercial, 42 percent foreign, and 28 percent other (2003 was a more typical year).

BCT net revenues are notoriously unstable. Year-to-year swings typically approach and often far exceed 40 percent. Much of this volatility, however, may be traced to large fluctuations in refunds, the result of adjustments for overpayments and underpayments based on losses and gains not recognized until a year or more after they are incurred. Inclusive of refunds, yearly BCT net revenue changes averaged 37 percent over the last five years, including a decline of 33 percent in 2003 followed by an increase of 95 percent in 2004. Exclusive of refunds, current year gross collection changes were only half as volatile, averaging 19 percent and including a mere 6 percent drop in 2003 followed by a 21 percent rise in 2004.

Through the first four months of the current fiscal year, BCT net revenue have surged again, up 62 percent over the same period in 2004. (Again, the change in current year gross collections is less sharp, up 45 percent fiscal-year-to-date.) IBO expects collections to run essentially flat over the remainder of 2005, but that should be enough to yield a fiscal year total of $514 million in net revenues, matching the BCT's 1998 peak. As is typical for this tax, the new peak is likely to be followed by a cycle of lower net collection totals due to prior year liability adjustments. IBO forecasts BCT net revenue falling to $473 million in 2006, and then ranging unevenly between $408 million and $432 million over the out-years of the Financial Plan.

GENERAL SALES TAX

Households and businesses in New York City currently pay an 8.625 percent tax on the final sales of most retail goods, utility charges, and a variety of personal and business services. The tax is composed of a 4.125 percent city tax, a 4.25 percent state tax, and a 0.25 percent Metropolitan Transit Authority (MTA) regional surcharge. The city and state rates reflect increases of 0.125 percent and 0.25 percent respectively that were imposed in June 2003 and are scheduled to expire on May 31, 2005. After that date the city's and state's sales tax rates will revert back to 4.0 percent, and the combined city-state-MTA rate will be 8.25 percent.

City sales tax revenue is broadly 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. However, in addition to these basic factors, two sets of tax policy changes have had, and will have, significant impacts on growth in sales tax collections in 2004 and in projected collections in 2005 and 2006. These are the temporary rate increase mentioned above and the temporary restoration of the sales tax on clothing priced under $110 (accompanied by a series of weekly clothing tax holidays), which is also scheduled to expire on May 31.

After jumping $483 million (13.7 percent) to just over $4 billion in 2004, sales tax revenue is expected to grow by another $340 million (8.5 percent) to $4.36 billion in 2005. But the appearance of slower growth is misleading. Nearly three-fourths of the revenue increase in 2004 ($346 million) was due to the net impact of tax policy, that is, the sales tax rate increase plus the restoration of the sales tax on clothing.

Without these impacts, revenue would have grown only $152 million (4.3 percent) in 2004. Conversely, all of the growth in 2005 reflects the underlying surge in spending in the city economy. Indeed, sales tax revenue growth in 2005 is lowered by tax policy impacts, namely, the restorations of the 4.0 percent tax rate and the clothing exemption for the last month of this fiscal year. Absent these impacts, revenue would grow by $386 million (9.6 percent) in 2005. Policy effects aside, 2005 is shaping up as the second strongest year for sales tax growth in the past two decades; only 2000 was stronger.

Tax policy also is largely responsible for the projected $206 million (4.7 percent) decline in sales tax revenue to $4.15 billion in 2006, as this is the year that the full impacts of the reversion of the rate to 4.0 percent and the restoration of the clothing exemption will be felt. But underlying economy-driven growth is also expected to be much weaker in 2006. Excluding rate and base changes, 2006 revenue would be only 2.9 percent higher than 2005 revenue. Revenue growth—which is a function of economic growth rather than changes in tax policy after 2006—is expected to pick up somewhat over the out-years of the Financial Plan (2007-2009), averaging 4.2 percent per year.

In his 2005-2006 Executive Budget, Governor Pataki suggested permanently restoring the sales tax on clothing, except during two scheduled clothing tax-free weeks each year. If enacted, this proposal would result in an additional $32 million in city sales tax receipts this year, and raise revenue by about $250 million in 2006 and $260 million in 2007.

In the Preliminary Budget, OMB projected that 2005 sales tax revenue will reach $4.2 billion, $153 million less than the level forecast by IBO. This may be explained by differences in the retail sales outlook; while OMB cautions of the negative effect of higher interest rates and a slowdown in the real estate market resulting in less spending on appliances and other big ticket items, IBO expects that robust growth in retail sales will continue through the year in response to the strong national economic stimulus and the revival of the local tourist industry.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2005 totals $7.5 billion. Other revenues include funds from unrestricted intergovernmental aid, STaR reimbursements, other categorical grants, interfund capital transfers, and miscellaneous revenues from recurring and nonrecurring sources. Because several unusual transactions inflating miscellaneous revenues-the largest among the other revenue category-this year, they are expected to fall next year to $5.9 billion and then remain near that level through 2009.

Airport Rent. The city is receiving $838 million from the Port Authority of New York and New Jersey this year to settle a long-running dispute over airport rent. The payment covers $745 million in back rent plus the first rental payment for $93 million under a new lease for LaGuardia and Kennedy airports, which are owned by the city.

MAC Debt Service. As part of the state's assistance package for the city in the summer of 2003, the state agreed to takeover responsibility for the city's remaining debt service on outstanding Municipal Assistance Corporation bonds, saving the city approximately $500 million per year from 2004 through 2008. The takeover was delayed due to a court challenge by the Governor, so that the assistance was received too late to be used in fiscal year 2004. As a result, the state in effect made two payments this year: one reimbursing the city for MAC debt service in 2004, and one covering 2005. The $502 million payment for 2004 was recorded as miscellaneous revenue in 2005.

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 $9.0 billion and $5.0 billion, respectively, in 2006. 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.

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]These and all other revenue figures reported in section are net of refunds and include PIT receipts dedicated to the Transitional Finance Authority.
[3]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.
[4]For example, for a married couple filing jointly, the lowest bracket ends at $21,600. Until the 2003-2005 increase, the highest bracket began at $90,000. For other types of filers, the income thresholds are lower.

Expenditures

Department of Cultural Affairs (DCA)

OVERVIEW

The Department of Cultural Affairs is charged with supporting and strengthening New York City's cultural institutions. Its budget, which is $124 million for 2005, is devoted almost entirely to providing public funding for nonprofit cultural organizations. The Preliminary Budget for 2006 reduces the agency's budget by $23 million, a reduction of 18.8 percent, to $101 million.

Programmatically, funding for the agency can be divided into two areas: the Cultural Institutions Groups (CIGs) and Cultural Program Services (CPSs). CIGs are cultural institutions housed within city-owned property. The 34 CIGs also receive operating cost assistance for essential services such as basic maintenance—which accounts for about 75 percent of the city contribution—and utilities. In return for this support, these institutions operate as publicly owned facilities with a mandate to provide cultural services accessible to all New Yorkers. The CIGs, which include world-renowned institutions such as the Metropolitan Museum of Art, as well as smaller ones such as the Brooklyn Children's Museum and the Staten Island Historical Society, can have larger budgets than do the organizations funded through the CPS program. The CPS program provides support for roughly 500 arts and cultural organizations. These grants support an array of programs and activities provided by citywide cultural organizations as well as community groups.

EXPENSE BUDGET

During the city's recent period of budget retrenchment the total budget for the department saw significant cuts. Between 2001 and 2004, DCA's budget was reduced by 12.9 percent. The larger CIG organizations have fared better than the smaller CPS groups during this period; the city spending on CIGs decreased by 10.7 percent, while spending on CPS groups plummeted by 25.3 percent.

As were most other city departments, DCA was instructed to reduce its overall spending by 6 percent beginning in 2006. To meet this target, the budget for the CPS program was reduced by $735,000 and the budget for CIGs was reduced by $5.5 million for 2006. For the CIGs, the 6 percent reduction was partially offset by an increase of $2 million in new funding for each year from 2005 through 2009.

The Preliminary Budget includes a further adjustment to the CIG program subsidy. DCA, along with most other city departments, also was directed to find 3 percent in savings for 2005. As an alternative to cutting the subsidies for both the CPS and the CIG organizations by 3 percent in 2005, an agreement was reached with the Metropolitan Museum of Art to take the entire $3.7 million cut from the Met's subsidy. In return its capital budget was increased by the same amount. The capital monies will then be spent on urgent capital projects.

Because of prior adjustments to the agency's budget, the changes from 2005 to 2006 exceed the reductions proposed in the Preliminary Budget. Spending on the subsidy for CIGs would fall by 15.3 percent from 2005 to 2006, while the subsidy for CPS programs would fall by 35.8 percent. In recent years, it has been common for cuts to the DCA budget proposed by the Mayor in January to be restored by the time the budget is adopted in June. If this pattern holds, some, or all, of these reductions may be averted.

CAPITAL BUDGET

Department of Cultural Affairs
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Administration	$3.3	$3.3	$3.4	$3.6	$3.8	$3.6
Culturals	24.1	23.4	18.3	18.0	18.7	12.0
CIGs	108.0	97.3	98.8	96.4	101.8	86.2
Unallocated Financial Plan					0.1	(0.7)
TOTAL	**$135.4**	**$124.0**	**$120.5**	**$118.0**	**$124.4**	**$101.1**
Full-time Personnel*	36	46	46	48	47	46
Capital Commitments	$223.7	$208.0	$207.0	$100.6	$379.5	$142.7

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 48. Excludes part-time and seasonal employees.

The Department of Cultural Affairs is responsible for maintaining facilities occupied by the 60 cultural organizations housed in city-owned buildings. These organizations are a combination of CIGs and large cultural programs. The January 2005 Capital Commitment Plan budgets $379.5 million for 2005 and

$142.7 million for 2006. Actual commitments over the last four years (2001 to 2004) have totaled $739 million, an average of $185 million per year.

Among major capital projects in the 2005 to 2008 commitment plan are:

- Lincoln Center Redevelopment: $233.1 million. The plan includes the significant renovation and expansion of several of Lincoln Center's cultural facilities, new and improved amenities for the public and a new street presence for several resident organizations: Lincoln Center for the Performing Arts Inc., The Juilliard School, The Chamber Music Society of Lincoln Center, the Film Society of Lincoln Center, The School of American Ballet, Lincoln Center Theater, and the New York Public Library for the Performing Arts.
- American Museum of Natural History building improvements: $50.1 million;
- New York Botanical Gardens Capital Campaign: $21.0 million. The garden will create an American horticultural showplace and build a national model for public education in plant science, conservation and gardening;
- Wildlife Conservation Society improvements: $31.2 million. $22.5 million will go towards reconstruction of the Lion House;
- Aquarium for Wildlife Conservation Master Plan: $40.1 million;
- Queens Museum of Art Expansion: $26.9 million. To double the size of the museum.
- Metropolitan Museum of Art Master Plan: $24.1 million. This renovation will provide an additional 40,000 square feet of exhibition space for antiquities.

Department of Small Business Services (DSBS)

OVERVIEW

Under the January plan, the budget for Department of Business Services expenditures in 2005 is $118.3 million, a $6.0 million increase over 2004 spending. The budget increases spending in many programmatic areas, especially business assistance activities and development projects that DSBS funds through contracts with the Economic Development Corporation (EDC). The proposed 2006 budget is significantly lower than the 2005 budget, by $26.2 million.

A large portion of the department's non-city funding, which includes money from federal, state, and non-governmental sources, is added to the budget only when it is actually received, so the budget generally grows during the course of a fiscal year. Unspent portions of non-city aid from the previous year also get added. Thus, the 2006 budget is likely to increase during fiscal year 2006. On the other hand, actual spending at the end of 2005 is likely to be lower than the current budget projects if, as is generally the case, not all 2005 funds are spent and a portion gets rolled over to 2006.

A very large share of DSBS spending is financed by non-city sources, particularly since employment training programs for adults funded by the federal Workforce Investment Act (WIA) were incorporated into the department's budget in 2004. In addition to WIA dollars, DSBS receives funds from the Community Development Block Grant (CDBG) and, in smaller amounts, from other governmental and non-governmental sources. Non-city funds accounted for 69 percent of DSBS spending in 2004, and they accounted for 73 percent of budgeted spending for 2005. Decreases in projected spending on workforce development and EDC-related projects—both areas that are largely funded with federal money—account for almost the entire decrease from 2005 to 2006 in the DSBS budget, so the current decline in the budget is likely to be altered after new non-city funds are received and after unspent funds are rolled over to the following year.

Taking into account historical levels of federal, state and non-governmental aid to DSBS and making adjustments to account for rolled over funds, IBO projects a slightly higher level of non-CDBG federal aid in 2006 than does the Mayor's budget office. As a result, our estimate of the 2006 budget, $95.4 million, is slightly higher.

The capital plan accompanying the Preliminary Budget calls for $1.755 billion in capital spending on economic development projects from 2005 though 2008, with almost 59 percent ($1.0 billion) of the four-year total committed for 2005 and 2006. The comparable figure a year ago (for 2004 and 2005) was one-third less. Much of the growth in near-term capital commitments results from deferring spending on many projects, but some of the increase is explained by new project and new funding.

EXPENSE BUDGET

The only substantial change to the city-funded portion of DSBS's spending plan for 2005 since the budget was adopted last June was the elimination in the Preliminary Budget of $2.3 million of funding for Council Member items; these had been added when the budget was adopted. There are only two substantial changes to the DSBS budget for years after 2005: the addition in October of $1.4 million of WIA money each year,

Department of Small Business Services

Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Business Assistance	$2.3	$2.8	$3.0	$3.0	$4.2	$3.2
Neighborhood Economic Development	7.0	17.9	15.9	11.8	12.8	9.8
Development Projects	21.3	69.0	9.2	15.3	19.6	8.7
Workforce Development	0.0	0.0	0.0	67.8	67.4	56.4
Other Operations	8.1	2.3	8.1	8.1	8.8	8.3
General Administration and Support	4.6	5.1	5.8	6.0	5.9	5.8
Unallocated Financial Plan Changes	1.1	0.0	0.0	0.4	(0.3)	0.0
TOTAL	**$44.3**	**$97.2**	**$42.0**	**$112.3**	**$118.3**	**$92.1**
IBO Adjustments						
State & Federal Categorical Grants						3.3
IBO Projected						**$95.4**
Full-time Personnel*	145	150	103	188	211	201
Capital Commitments	$213.1	$193.3	$255.7	$220.6	$675.3	$353.9

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 199. Excludes part-time and seasonal employees.

starting in 2005, to fund 19 new position; and $800,000 of new CDBG funds each year for Industrial Areas Improvement (formerly known as In-Place Industrial Parks), starting in 2006.

There have been larger budget changes involving federal, state, and non-governmental funds, although they affect only the 2005 budget. Since last June, these changes together have added $25.1 million to the budget. New funding has been added for graffiti removal, assistance for disabled job seekers, a program for disabled people to facilitate shopping, development of the West Side High Line, Queens Plaza improvement projects, and building rent for WIA administration. Some unspent funds rolled over into the 2005 budget from a number of different programs include EDC grants and other EDC programs, micro-enterprise assistance, neighborhood economic development spending, the Minority- and Women-Owned Enterprise (MWBE) program and employment training programs.

Business Assistance. DBSB offers an array of services provided directly to individual businesses, entrepreneurs, and vendors in New York City. These include: government procurement information and assistance for small companies; programs for minority- and women-owned businesses; programs for street vendors and micro-enterprises; help with city regulations and "red tape"; location assistance; and emergency aid. Most of the spending on the department's business assistance activities is funded by city dollars, but federal aid (including some from the Community Development Block Grant) and non-government grants provide a large share of the funds in certain areas. For example, federal aid finances funding procurement assistance and programs for street vendors, and a grant from a nonprofit development corporation has provided much of the funding in 2005 and 2006 for the restoration of MWBE activities.

Total spending on various business assistance programs has generally grown since 2001 and amounted to $3 million in 2004. The current budget for 2005 totals $4.2 million, with increases in a number of areas including programs for MWBE. However, some of the increase from 2004 to 2005 results from aid and grant funds rolled over to the current year because they were unspent in the prior year. The 2006 budget for business assistance programs is closer to levels of actual spending in recent years.

Neighborhood Economic Development. DSBS spending on local development corporations, assistance to Business Improvement Districts, and other neighborhood economic development programs (NEDD—the department's own acronym) totaled $11.8 million in 2004, almost 10 percent of department spending. A majority of DSBS's neighborhood development spending from 2002 to 2004 (59 percent) consisted of contributions to the local Empowerment Zone (EZ), the federally designated areas of Upper Manhattan and the South Bronx where businesses are eligible to receive a number of benefits. Fluctuations in EZ spending largely explain the annual increases and decreases of total NEDD spending. Contracts with local development corporations citywide to provide services account for much of the remaining spending. In 2004, $1.8 million of the NEDD spending was CDBG-financed, less than in previous years.

The 2005 budget calls for increasing NEDD spending by $1 million, to $12.8 million. Additional spending has been budgeted in a large number of city- and CDBG-funded areas, more than offsetting the planned $1 million decrease in EZ funding. The budget for 2006, however, is $3 million less than the 2005 budget. Funding for contracts with local development corporations either decreases substantially from 2005 to 2006 or does not appear at all in the 2006 budget.

Development Projects. DSBS provides funds for specific development projects around the city through the Economic Development Corporation, a nonprofit corporation operating under contract with the New York City government. While some projects are on-going over time, such as Industrial Areas Improvement, many are funded for only a year or two, such as a $500,000 federal grant budgeted in 2005 for the installation of security cameras at ferry terminals. Because so much of DSBS's contracts with EDC are project-specific, actual spending in this area varies greatly from year to year as new projects are identified. EDC-related spending was extraordinarily high in 2002 in large part because of urgent needs after September 11.

The 2005 budget for development projects, including a few that are not funded through EDC, is $19.6 million, a 28 percent increase over the $15.3 million actually spent in 2004. Newly funded projects include $5 million for Governors Island and $4.5 million in federal funds for Lower Manhattan Development Corporation projects, though these additions to the budget were largely offset by decreases in other areas. The 2006 budget for EDC and other development projects is less than half of that for 2005, though actual spending will probably not decline by as much because the 2006 budget will increase as additional federal funds are received during the year.

Workforce Development. This area of DSBS spending was added to the DSBS budget in 2004, when the Department of Employment was dissolved and DSBS assumed responsibility for employment training and other workforce development programs for dislocated workers and other adults funded by the federal Workforce Investment Act. The Department of Employment's training programs for young people were transferred to the Department of Youth and Community Development, as part of the same restructuring. As a result, DSBS's budget almost tripled, since WIA-financed spending dwarfs spending on all other DSBS programs. The total for workforce development spending in 2004 ($67.8 million) and the budgets in 2005 and 2006 ($69.4 million and $56.4 million, respectively) include a small amount of non-WIA funds for employment training.

In 2004, $64.2 million was spent for dislocated worker programs and adult programs—roughly the same amount spent for each type of program—with a third of this spending for individual vouchers for vocational training. The 2005 budget includes more funding for adult programs but less for dislocated workers, largely because of a sharp ($9.6—million or 83 percent) cut in DSBS's contract with the Consortium for Worker Education. Funding for one-stop employment centers in each of the boroughs—an initiative that the department has identified as a priority—was more than triple from 2004 to 2005, with $8.5 million currently budgeted. In the 2006 budget, funding of the centers increases to $9 million. Overall, the 2006 budget for workforce development programs is $56.4 million, $13 million less than the 2004 budget. However, the 2006 budget is likely to increase as WIA funds are received during the year. Thus, actual spending is unlikely to decline from 2005 to 2006 as the budget now indicates.

Other Operations. The total amount of DSBS spending in four areas—the Mayor's Office of Film and Television Production, support for NYC & Co. (formerly the New York Convention and Visitors Bureau), market security enforcement, and the Fulton Fish Market—has been relatively constant over the years, totaling $8.1 million for three of the last four years. The exception is 2002, when NYC & Co.'s predecessor received no support. The film office is the second largest program in this category, spending $1.3 million in 2004. With the decision to relocate the Fulton Fish Market to Hunt's Point in the Bronx, funding for the market became negligible after 2002, so spending on security enforcement accounts for the small portion of remaining spending ($200,000 in 2004). Spending on these other operations of DSBS is $8.8 million in the 2005 budget, with the increase split between the film office and NYC & Co. And declines in funding for these two operations result in a decrease of this portion of the department's budget to $8.3 million in 2006.

General Administration and Support. Spending on general administration and support services in DSBS has increased steadily in recent years, reaching $6.0 million in 2004. This figure includes $800,000 of spending on EDC's economic policy unit, an amount unchanged since 2001 and the same in the next two budgets. A separate category for information services first appears in the 2005 budget, increasing it and the 2006 budget by $200,000 each year. Small declines in the budgets for the DSBS executive office in 2005 and 2006, however, offset this addition, resulting in slightly lower administrative and support budgets—$8.9 million in 2005 and $8.8 million in 2006.

Full-time Headcount. In 2003, the transfer of some DSBS functions to other agencies, layoffs, elimination of vacant positions, and other budget-saving moves together resulted in nearly a one-third decline in department's full-time headcount. The number of full-time employees nearly doubled the next year, from 103 to 188, when DSBS assumed workforce training functions that had been handled by the former Department of Employment. The 2005 budget calls for a further increase in the full-time headcount to 211, mostly due to the addition of WIA-funded positions. The actual headcount in November 2004, however, was 199, indicating that not all the new positions have been filled. The 2006 budget calls for the elimination of 10 positions, largely in grants-funded programs.

CAPITAL BUDGET

The capital plan accompanying the Preliminary Budget calls for $1.755 billion in capital spending on economic development projects from 2005 though 2008. The comparable four-year (2004 to 2007) total from a year ago was $790.0 million. The bulk of the current four-year plan (58.6 percent) entails commitments for 2005 ($657.3 million) and 2006 ($353.9 million), with 2005 commitments having increased more than six-fold since the January 2004 capital plan. Much of the increase in near-term capital commitments results from project delays that have deferred fiscal year 2004 and 2005 commitments to 2005 and 2006. But some of the increase is explained by new funding, such as the addition to the 2005 budget of $59 million in federal funding for Lower Manhattan redevelopment projects.

DSBS manages almost all of the city's economic development projects, with commercial development projects accounting for a majority of capital commitments through 2007. Other categories of projects are industrial development; market development; neighborhood revitalization; port development; rail development; waterfront development; and miscellaneous. Most of the commitments are funded with city dollars; the only non-city funds amount to $213.5 million, all in 2005. Other than the Lower Manhattan projects, most of the larger projects utilizing non-city funds are on the city's waterfront: Howland Hook Marine Terminal on Staten Island ($15 million in non-city funding); Brooklyn's Bush Terminal ($27.5 million); Harlem Piers and Bulkhead ($17 million); the Cross Harbor Freight Tunnel ($12 million); Castle Clinton in Battery Park ($7.3 million) and Staten Island's North Shore Esplanade ($3.8 million).

Many major projects, receiving large amounts of capital commitments, have appeared in previous plans. These include new or renovated development or the Brooklyn Navy Yard infrastructure and movie studio, the Apollo Theatre, Coney Island's Stadium and Amateur Sports Complex, the Brooklyn Academy of Music cultural district, the Saint George Ferry Terminal, the Battery Maritime Building, Bush Terminal, Governors Island, the Westside Passenger Ship Terminal, the Farley Post Office/LIRR and Amtrak Terminal, Queens West, and the Whitehall Ferry Terminal.

But many large projects are new to the capital budget. The largest addition is a commitment of funds for Javits center expansion—$350 million in 2007. There are large commitments for Brooklyn: $100 million of city funds in 2006 and 2007 for Atlantic Yards construction, and $89 million for other downtown development projects, most of it committed for 2005 and 2006. Also in the plan are a number of new projects for development at Hunt's Point, and a total of $35.4 million has been committed through 2008. From 2007 to 2009, a total of $27.6 million has been committed for construction at Jamaica Center. Finally, $66.0 million of commitments to redevelop the Homeport area of Staten Island has been added to the capital budget, for 2005 to 2009.

Capital Program, Financing, and Debt Service

TEN-YEAR CAPITAL STRATEGY

As required by the City Charter, the Department of City Planning and Mayor's Office of Management and Budget prepare a biennial 10-year capital strategy. The city's Preliminary Ten-Year Capital Strategy for 2006-2015, presented in January with the Preliminary Budget, projects $60.8 billion in total funds to finance the city's extensive capital program. This is comprised of $51.6 billion in city funds and $9.2 billion in non-city funds. The non-city funds include $7.1 billion in state grants and $2.1 billion in federal grants as well as a small amount of private funds. The city's two main vehicles for long-term borrowing to support the capital program are General Obligation (GO) bonds and New York Municipal Water Finance Authority (NYW) bonds, which specifically finance the Department of Environmental Protection's water system projects. After a public comment period, the final version of the Ten-Year Capital Strategy will be presented with the Executive Budget in April.

The capital strategy is heavily concentrated in three areas—education, environmental protection, and transportation—that total $44.5 billion, representing 73.2 percent of the entire capital plan. Education, which is primarily for school construction, expansion, and rehabilitation, constitutes 31.4 percent of total capital spending over the duration of the plan. Environmental protection makes up 26.0 percent of total funds while transportation, which is primarily for the construction and rehabilitation of bridges, roads, and the transit system, constitutes 15.8 percent of total capital spending.

Among the other categories of capital projects, housing and economic development programs constitute almost 9 percent of the capital plan while general services, which includes sanitation, public buildings, and computer and technology equipment, makes up 7.6 percent of the plan. The remaining 10 percent of capital strategy funds are devoted to public safety; health and social services; and parks, cultural affairs, and libraries.

Non-city funds contribute significantly to the capital budgets of the three major categories; particularly for education, where state grants are assumed to comprise more than one-third of all spending, and transportation, where federal grants comprise more than one-fifth of all spending. In fact, the aggregate non-city funding for education, environmental protection, and transportation represent 93.4 percent of all non-city funding in the capital plan. Even so, city funding for these three categories totals $35.9 billion and makes up 69.6 percent of city funds in the capital plan.

Capital Program by Type. Projects in the city's capital plan are categorized in one of three types. S*tate of good repair* projects are generally reconstruction and rehabilitation projects that are intended to bring deteriorated capital assets up to a "state of good repair" and to prevent further degradation. *Programmatic replacement* capital projects are intended to maintain a state of good repair, by replacing capital assets that have reached the end of their useful lives on a regular, orderly schedule. This may include system improvements to reflect current generation technology or design upgrades. *Program expansion* projects are new assets that expand existing capacity or meet new needs or mandates.

The city's Preliminary Ten-Year Capital Strategy allocates $28.5 billion, representing 46.9 percent of the total commitments, to state of good repair projects. The majority of these projects are devoted to education and transportation, with education making up almost half of the projects and transportation making up more than one-

Preliminary Ten-Year Capital Strategy

Dollars in millions

	Total	City Funds	Non-City Funds	Percent of Total Funds	Percent of City Funds
Education	$19,093	$12,489	$6,604	31.4%	24.2%
Environmental Protection	15,795	15,551	244	26.0%	30.2%
Transportation	9,583	7,820	1,763	15.8%	15.2%
Housing & Econ. Development	5,435	4,988	447	8.9%	9.7%
General Services*	4,607	4,562	45	7.6%	8.9%
Public Safety**	3,189	3,185	4	5.2%	6.2%
Health & Social Services	1,568	1,495	73	2.6%	2.9%
Parks & Culturals	1,490	1,456	35	2.5%	2.8%
TOTAL	**$60,760**	**$51,546**	**$9,215**	**100.0%**	**100.0%**

SOURCE: IBO.

NOTES: *Includes the capital programs for sanitation, public buildings and real estate, and citywide computer equipment. **Includes the capital programs for corrections, police, fire, courts, and juvenile justice.

Ten-Year Capital Strategy by Type of Project
Dollars in millions

	State of Good Repair		Programmatic Replacement		Programmatic Expansion		TOTAL	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Education	$13,319	70.8%	-	0.0%	$5,484	29.2%	$18,803	100%
Environmental Protection	398	2.7%	8,170	56.0%	6,011	41.2%	14,579	100%
Transportation	7,768	89.1%	955	10.9%	-	0.0%	8,723	100%
Housing & Economic Development	769	15.5%	-	0.0%	4,190	84.5%	4,959	100%
General Services	530	18.4%	1,252	43.4%	1,103	38.2%	2,885	100%
Public Safety	753	75.8%	-	0.0%	241	24.2%	994	100%
Health & Social Services	1,175	100.0%	-	0.0%	-	0.0%	1,175	100%
Parks & Culturals	1,961	44.4%	2,453	55.6%	-	0.0%	4,414	100%
Miscellaneous*	1,800	42.6%	1,640	38.8%	790	18.7%	4,230	100%
TOTAL	**$28,472**	**46.9%**	**$14,471**	**23.8%**	**$17,818**	**29.3%**	**$60,762**	**100%**

SOURCES: IBO; *Preliminary Ten-Year Capital Strategy 2006-2015.*
NOTE: *Includes smaller projects from various categories that are not captured in the category totals.

fifth of the projects. The capital plan also includes $14.5 billion for programmatic replacement projects, representing 23.8 percent of total commitments. The majority of these projects are devoted to environmental protection, which makes up well over half of all programmatic replacement projects. Finally, $17.8 billion has been allocated for programmatic expansion projects, which constitutes 29.3 percent of total commitments. Environmental protection, education, and housing and economic development projects make up the vast majority of these initiatives.

Focusing on the major capital program categories, the city's education capital program is concentrated on state of good repair projects, which represents 70.8 percent of the total education budget, with the balance allocated for programmatic expansion. In contrast, the environmental protection capital program is mostly divided between programmatic replacement projects, which make up 56.0 percent of its budget, and programmatic expansion projects, which make up 41.2 percent of its budget. The vast majority of the transportation projects are for state of good repair, which represents 89.1 percent of its budget, with the small remainder being for programmatic replacement.

Among the other categories of capital projects, housing and economic development is concentrated heavily on programmatic expansion while the capital programs of both public safety and health and social services are focused on bringing facilities up to a state of good repair. The capital plan for parks and museums and other cultural facilities is divided between programmatic replacement and state of good repair projects while general services are split between the three types of projects.

CAPITAL FINANCING PROGRAM

The city's financing program projects approximately $55.8 billion in long-term borrowing to support the 10-year capital plan. The city expects to finance almost the entire capital program using GO bonds and NYW bonds. The city finances the environmental protection capital program by issuing debt through NYW, which secures the debt with revenues collected from water and sewer rates. In the current plan, an estimated $15.6 billion in NYW bonds are expected to be issued over the course of the 10-year period to finance city-funded environmental protection commitments. The remaining $40.2 billion in planned borrowing, representing 72 percent of total borrowing, will be implemented through GO bonds, which are secured by the "full faith and credit" of the city and repaid from the city's Expense Budget.

In the past few years, the city has sought an increase in the bonding capacity for the New York City Transitional Finance Authority (TFA). TFA was created in 1996 to issue debt at a time when the city's outstanding GO debt had reached its constitutional debt limit. TFA bonds are secured primarily by a first lien on city personal income tax receipts and enjoy a higher credit rating than the city's GO bonds. Thus, the TFA has served as a cost-effective vehicle for the city to replace some of its GO debt. However, as of 2004, the city had used up the $11.5 billion statutory bonding capacity of the TFA. If the city's proposal to lift the cap on TFA bonding capacity is enacted, up to half of the debt currently scheduled to be issued using GO bonds will be replaced with TFA bonds, which would reduce the financing costs for the city.

Education and transportation make up the bulk of the capital plan to be financed with GO debt, constituting 56.4 percent of all GO-financed projects. The education capital program comprises 34.7 percent of the total capital plan to be financed by GO bonds while transportation is the second largest area, making up 21.7 percent. Among the smaller categories, housing and economic development programs and general services make up 13.8 percent and 12.7 percent, respectively, of the GO-financed program. The remaining 17 percent is divided among public safety, health and social services, and parks and cultural projects.

Debt Service
Dollars in millions

	2005	2006	2007	2008	2009	Growth
Mayor's Plan	$4,517	$2,726	$5,155	$5,501	$5,841	6.60%
IBO projected surplus	485	(485)	-	-	-	
IBO Projection	5,002	2,241	5,155	5,501	5,841	6.60%
Adjustment for prepayments*	(746)	2,189	-	-	-	
Adjusted Debt Service	**$4,256**	**$4,430**	**$5,155**	**$5,501**	**$5,841**	**8.20%**

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTE: *The 2005 adjustment for prepayments includes an additional $400 million reflecting a TFA prepayment grant that was issued by the city in 2004 out of the miscellaneous budget. This is added back to the TFA debt service in 2005 for comparative purposes.

Debt Profile. The city projects that outstanding debt, including general obligation, Transitional Finance Authority, tobacco settlement (TSASC), and Municipal Assistance Corporation (MAC) bonds, will increase from $49.1 billion in 2005 to $56.4 billion in 2009. Approximately 16 percent of current outstanding debt is variable-rate (net of short-term assets that are offsets to floating rate liabilities); 95 percent is tax-exempt. Finally, the city is party to various derivative transactions whose aggregate notional amount is less than 5 percent of current debt outstanding. These transactions leverage on financial products whose value is derived from the value of an underlying asset or index.

DEBT SERVICE

The Mayor's Preliminary Budget provides for a debt service budget of $4.5 billion in 2005, which includes interest and principal payments on GO, TFA, MAC, lease purchase, and short-term debt. However in order to accurately calculate the annual rate of growth for debt service, it is necessary to adjust for the city's practice of using budget surpluses in the current year to prepay debt service due in the following year. Hence, IBO's estimates adjust the prepayments to allocate them to the year in which they are actually due. As a result, IBO estimates the adjusted debt service to be $4.3 billion in 2005, increasing to $5.8 billion in 2009. This includes increased lease purchase debt service resulting from the city's decision to pay the interest for the first 10 years on bonds issued to be issued by the Hudson Yards Investment Corporation to finance the redevelopment of the far West Side of Manhattan. The interest payments begin at $6 million in 2005 and rapidly grow to $162 million in 2009 before tapering off in the out-years.

The resulting average growth in the debt service budget of 8.2 percent annually is considerably higher than the rate of growth of most other major city expenditures. Based on the adjusted debt service and IBO's tax revenue forecasts, over 14 cents of each city tax dollar in 2005 is devoted to debt service. This is projected to rise to over 17 cents by 2009 and, given current plans and assuming tax revenue growth at historical averages, the city's debt service burden should hover close to 17 cents for the foreseeable future.

In order to take advantage of the current favorable interest rate environment, the city has periodically refunded existing debt to realize significant debt service savings. In 2004, the city issued $3.4 billion in GO bonds to refund outstanding bonds, which resulted in debt service savings of $96.5 million and $109.8 million in 2005 and 2006, respectively. The city has utilized federal legislation permitting an additional refunding for certain GO bonds in 2005, which allowed the city to undertake three refunding transactions totaling $1.8 billion that will generate $103 million of debt service savings in 2006. The city has also used variable-rate debt instruments to take advantage of lower short-term interest rates. During 2005, the city estimates annual savings of over $208 million from lower interest rates on variable-rate bonds and derivative transactions.

MAC Refinancing. The Municipal Assistance Corporation was created in 1975 to provide the city with access to the credit markets, which, in the fallout from the city's fiscal emergency in the spring of that year, had refused to purchase the city's debt any longer. MAC bonds were used both to stretch out short-term debt payments, allowing the city to balance its books, and to help restart the city's capital program. Debt service on the MAC bonds—ultimately about $500 million per year—was paid with a portion of city sales tax receipts collected by the state and pledged first to repayment of MAC debt, before being turned over to the city. The last MAC bonds were originally due in 2008, after which MAC would cease to exist.

In 2003, the state and city developed a plan to relieve the city of its $500 million annual obligation. The refinancing act, passed by the state Legislature over the Governor's veto, allowed the city to refund the remaining $2.5 billion in MAC debt obligations with 30-year bonds backed by annual payments of $170 million from the state's Local Government Assistance Corporation (LGAC). LGAC is funded through a contractual agreement with the state. LGAC certifies its financial needs annually to the state Comptroller who then pays LGAC from the Local Government Tax Assistance Fund, which is funded from a portion of the state's sales tax. LGAC is administered by a representative of the Governor, the state Comptroller, and the director of the state Division of the Budget.

The MAC Refinancing Act directs LGAC to make an annual payment of $170 million to the city through 2034. It allows the Mayor to assign any or all of the payments to a local development corporation that would, in turn, issue bonds backed by the annual payments to refund outstanding MAC debt. The city set up the corporation, the Sales Tax Asset Receivables Corporation (STARC), and planned to issue the refunding bonds in August 2003. LGAC originally sought a court ruling to block the STAR bond sale on the grounds that the legislation unconstitutionally exempted the $170 million payment from annual appropriations.

After almost a year of subsequent litigation, the city finally prevailed in the case in May 2004 and proceeded with its plan to refund the remaining MAC debt. All MAC debt obligations were defeased with the proceeds of STARC bonds issued in November 2004, relieving the city of $2.5 billion in MAC debt service obligations over 2005 to 2008. The state, however, continues to appropriate $10 million from the city's sales tax receipts to MAC to fund operating expenses and state oversight costs.

TSASC Trapping Event. The Tobacco Settlement Asset Securitization Corporation is a special purpose corporation that the city created in November 1999 to provide financing for the city's capital program. The city transferred to TSASC its 3.4 percent share of the national Tobacco Settlement Revenues (TSR) to be paid annually pursuant to a Master Settlement Agreement (MSA) between the nation's largest cigarette manufacturers and a group of states. TSASC, in turn, issues bonds, which are not subject to the statutory debt limit, secured by the TSRs to support the city's general capital plan. TSASC retains sufficient TSRs to cover its debt service and operating expenses before transmitting the residual amounts to the city's general fund.

TSASC originally expected to issue $2.76 billion worth of bonds and has issued approximately $1.32 billion to date through two bond issues. In addition, TSASC has dedicated part of the TSRs to repay loans awarded by federal Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). TSASC has drawn $139 million from the TIFIA loan to date and expects to draw down the final $49 million this year to fund one-third of the Staten Island Ferry Terminal project. The TIFIA loan is repayable over 30 years and is secured by TSRs on a parity basis with TSASC bonds.

In May 2003, a "trapping event," as defined in the TSASC bond indenture, occurred after the credit of RJ Reynolds, one of the four major tobacco manufacturers involved in the MSA, was downgraded to below investment grade. Furthermore, according to an annual independent audit required under the settlement, the non-participating manufacturers' market share in calendar year 2003 exceeded 7 percent, which triggered another trapping event for TSASC. Once a trapping event occurs, TSASC is required to fund a trapping account with a share of the residual tobacco settlement revenues. The share of TSRs diverted into the trapping account is equal to the ratio of tobacco bonds outstanding ($1.32 billion) to total tobacco bonds authorized ($2.76 billion), or about 48 percent. The residual settlement funds will continue to be diverted until the total amount "trapped" is equal to 25 percent of TSASC bonds outstanding—approximately $320 million.

Approximately $120 million has thus far been captured by this mechanism over the past two years. TSASC anticipates that the trapping requirement will be fulfilled by April 2008, in the process reducing the residual TSRs to the city's general fund by roughly $60 million each year from 2006 to 2008. TSASC and the city are reviewing alternatives to eliminate or meet the trapping requirement, which would release the trapped TSRs to the city. These options may involve restructuring or refunding the outstanding bonds.

DEBT AFFORDABILITY

Measured in terms both of the total debt outstanding relative to the economic resources available to support repayment, and as the burden of repayment on the city budget, the city's debt burden has been growing in recent years as the capital program has accelerated. Under current plans, this growth will continue for a few more years, but then level off and even begin to decline. While IBO's intermediate-run forecasts for growth in personal income, tax revenues, and the market value of taxable city property are somewhat more optimistic than the Mayor's, even under his projections the debt burden will stabilize by the end of the current Financial Plan period.

Debt Service Measures
Dollars in millions

	2005*	2010	2015
General Obligation (GO) bonds	$3,073.00	$4,673.80	$5,816
Transitional Finance Authority (TFA) bonds	925.1	987.1	949.3
Lease-purchase debt	128.7	374.8	258.6
Municipal Assistance Corporation (MAC) bonds	129.7	-	-
TOTAL	**$4,256.5**	**$6,035.7**	**$7,023.9**
Ratio of Debt Service to			
Tax Revenues	14.7%	17.2%	16.6%
City-funded Expenditures	11.6%	14.0%	13.0%

SOURCE: IBO.
NOTE: *Adjustments are made for prepayments of 2005 debt that occurred in 2004.

Debt Outstanding. At the end of 2005, the city's total debt outstanding supporting the general capital program is expected to be $47.7 billion, resulting in a total debt per capita of $5,883. (This total includes outstanding GO, TFA, and TSASC debt and excludes NYW, conduit, and Municipal Assistance Corporation debt, which has been completely defeased as of November 2004; see Debt Service section.) Total debt outstanding has grown at an average annual rate of 5.1 percent over the past decade and currently represents 14.1 percent of the total personal income of the city. For perspective, at the end of 1995, the city's total debt outstanding stood at $29.9 billion, resulting in a total debt per capita of $3,926 and a ratio of debt outstanding to personal income of 13.9 percent.

The current 10-year capital plan is expected result in a slower growth in total debt outstanding over the next decade, averaging approximately 2.7 percent annually over the course of the plan. The long-term borrowing plan to support the capital program is skewed towards the first half of the 10-year plan, as the city's total debt outstanding is projected to increase by over $10 billion to $57.8 billion by 2010. During the second half of the 10-year plan, debt outstanding is projected to increase by just $4.7 billion, resulting in a total of $62.5 billion by 2015. Debt per capita is forecast to increase to $7,058 by 2010 and to $7,601 by 2015. As a percentage of the city's personal income, total debt outstanding is projected to decrease steadily to 13.2 percent by 2010 and to 12.4 percent by 2015. This trend indicates that personal income growth for the city is expected to outpace growth in debt outstanding throughout the 10-year plan period.

Debt Outstanding Measures
Dollars in millions

	2005	2010	2015
General Obligation (GO) bonds	$33,762	$46,085	$52,529
Transitional Finance Authority (TFA) bonds	12,682	10,516	8,854
TSASC bonds	1,283	1,202	1,127
TOTAL	**$47,727**	**$57,804**	**$62,510**
Ratio of Debt Outstanding to			
Population	$5,883	$7,058	$7,601
Total New York City Personal Income	14.1%	13.2%	12.4%

SOURCE: IBO.

Debt Service. The city's total debt service payment is expected to be $4.3 billion in 2005. (This total includes GO, TFA, lease purchase, and MAC debt service.) This represents 14.7 percent of the city's current total tax revenues and 11.6 percent of current city-funded expenditures. As the city has accumulated long-term debt over the years, its annual debt service burden also has grown at a steady rate. Over the past 10 years, total debt service increased by an average of 6.4 percent annually—faster than the growth of city tax revenues and spending. In 1996, the city's debt service was $2.5 billion, which was 13.9 percent of tax revenues and 12.0 percent of city-funded expenditures.

Debt service is projected to increase on average by 5.1 percent annually from 2005 to 2015. Growth is more rapid in the first half of the period, in large part because over the past three years, the city has taken advantage of a very favorable interest rate environment and federal legislation to refinance significant amounts of outstanding debt. This has resulted in considerable savings and allowed the city to lower annual debt service costs in 2003, 2004, and 2005. The financing plan for current 10-year capital program excludes any future refundings. In addition, the forecast includes increased lease purchase debt service resulting from the decision to pay the interest on bonds to be issued by the Hudson Yards Development Corporation to finance the redevelopment of the far West Side of Manhattan. This is expected to result in almost $1 billion in additional debt service payments spread out over the 10-year period.

Total debt service payments are forecast to reach $6 billion in 2010 and $7 billion in 2015. As a percentage of tax revenues, debt service is projected to rapidly increase to 17.2 percent in 2010 before gradually decreasing to 16.6 percent in 2015. Debt service also is projected to absorb an increasing share of city-funded expenditures, reaching a peak of 14.2 percent in 2010 before declining to 13.4 percent in 2015.

DEBT REFORM

The Mayor is asking the state for several debt reform measures that would improve its debt management and result in expected annual savings of approximately $7.5 million. There are no federal initiatives currently pending.

General Obligation Bond Statutory Lien. This proposal would strengthen the city's credit by creating a statutory lien in the city's debt service in favor of the city's bondholders. The proposal would also authorize a pledge by the state to bondholders stating that the general debt service fund and the lien will be preserved. Establishing a statutory lien would provide bondholders with a legal claim against the city's debt service fund in case it defaults on a debt service payment. This would reduce the risk for investors and consequently increase the city's credit quality. The Mayor's office estimates savings of $3 million annually from this provision.

Omnibus Periods of Probable Usefulness. Currently, when the city issues debt with a term greater than 30 years, it must state the specific purpose of the spending financed from the proceeds and the proceeds can only be used for that purpose. For debt with a term of 30 years or less, however, no such specific statement is necessary and the city may structure its bond issues based on weighted average periods of probable usefulness of the assets purchased or acquired. The Mayor is proposing that this same flexibility in structuring its bond issues be extended to assets with periods of probable usefulness greater than 30 years. The Mayor's office estimates that this proposal would save approximately $3 million annually.

Expansion of Investment Options. In recent years, the city has been authorized to pursue increasingly sophisticated transactions in order to minimize its debt costs and maximize the yield on its investments. This proposal would allow the city to invest temporarily in tax-exempt money market funds. Allowing the city access to tax-exempt money market funds would provide the city with the added flexibility of investing in tax-exempt instruments while also ensuring responsible fiscal management.

Sinking Fund Bonds. Currently, the state's Local Finance Law allows for the issuance of sinking fund bonds—where money is set aside in order to call bonds prior to maturity—for capital projects related to water supply, railroads, and docks. This proposal would clarify the city's authority to issue sinking fund bonds and permit it to issue such bonds for any purpose it deems appropriate. Sinking fund bonds would allow the city to take advantage of lower interest rate costs compared to similar serial bonds. The Mayor's office estimates that this proposal would save approximately $1.5 million annually.

Transitional Finance Authority Reform. TFA was created in 1996 to issue debt at a time when the city's GO outstanding debt had reached its constitutional debt limit. The statutory limit is based on a five-year average of market value of city property as measured by the state and it had fallen sharply in the mid-1990s after the recession earlier in the decade. The TFA currently has the authority to issue up to $11.5 billion in bonds (excluding extraordinary borrowing in the wake of September 11), which are secured primarily by a first lien on city personal income tax receipts and enjoy a higher credit rating—and therefore lower borrowing costs—than the city's GO bonds. The TFA debt limit was reached in 2004 and TFA currently does not have any authority to issue additional debt.

In the past few years, the Mayor has been proposing that the limit on TFA borrowing be relaxed to allow it to issue combined GO and TFA debt up to the city's GO debt limit. Substituting less expensive TFA bonds for planned future issuance of GO debt would generate considerable debt service savings for the city. The state has thus far been unresponsive to the city's proposal. However, the Governor, as part of the 2005-2006 Executive Budget, proposed increasing TFA's borrowing authority by $2.8 billion to finance school construction costs. This proposal, which is pending enactment by the state Legislature, would save approximately $14 million compared with the cost of using GO debt alone.

Labor Costs

City Employment Rising Modestly					
	2001	2002	2003	2004	2005
Full-time	249,824	247,681	239,616	262,206	263,766
Full-time Equivalent	56,658	55,864	54,575	34,385	32,942
TOTAL	**306,482**	**303,545**	**294,191**	**296,591**	**296,708**

SOURCES: IBO; Office of Management and Budget.
NOTE: Staffing as of June 30, except 2005, as of November 30.

The city's labor costs grew a modest 3 percent in fiscal year 2004, the lowest growth rate in three years, largely due to the failure to reach labor settlements with teachers, police and other uniformed personnel. Labor costs totaled $23.9 billion in 2004, a $737 million increase from 2003. Although the city workforce grew by 2,400 in 2004 to over 296,500 full-time equivalent employees, there are roughly 10,000 fewer city workers than in 2001.

During the current Financial Plan period, from 2005 through 2009, the annual rate of increase in spending on labor is projected to be just 2.0 percent. This estimate assumes that teachers and uniformed personnel will receive pay raises based on District Council 37's 2004 pattern, with any increases for city employees beginning in 2006 funded by higher productivity.

Labor Settlements. Most of the city's major unions are now working under expired contracts, and by the end of the fiscal year, the city's contracts with the vast majority of its unionized workforce will have expired. The budget plan, however, includes no funds for wage increases in 2006 or beyond. The Mayor has said that there will be no pay raises that are not self-funded by the workforce through productivity savings. This may prove a hard bargaining line to hold. Each 1 percent increase in wages for all city workers costs $218 million in the first year. While these amounts may not sound large, they compound rapidly, with 1 percent wage increases resulting in $1.1 billion in additional city spending by 2009.

Pension Changes. The Office of the Actuary expects to recommend changes in the coming months to the methodologies and assumptions used to calculate pension contributions. Some changes can be implemented immediately by the Actuary, others require state legislative action, and still others require approval by trustees of the five individual pension funds. The entire package is anticipated to result in lower city pension contributions in the first two to four years, then greater contributions after that.

One of the proposals that would reduce contributions in the short run is the recalculation of recognized market gains and losses since June 30, 1999 in accordance with a new six-year phase-in schedule rather than the current five-year schedule.

Contribution levels also would be lower in 2005 by implementing a one-year lag in the valuation of assets and projected liabilities. Currently, the city must budget for pension contributions for the coming year before the final market performance of pension portfolios and the final actuarial liabilities are known, creating uncertainty and often requiring large mid-year corrections. By using the valuation of assets and liabilities based on the previous year's results, this uncertainty will be eliminated.

Partially offsetting these actions, next year's contributions would be increased by immediately and fully recognizing the liabilities created by cost-of-living adjustments for retirees enacted by the state in 2000, and which the city has been given permission to phase in over a 10-year timeframe.

Finally, changes in actuarial assumptions, expected to be recommended by the Actuary and developed from information provided by an independent actuarial consultant, would increase annual contributions permanently. The changes include, for example, recognizing a higher rate of retirement for uniformed personnel at the 20-year point, and higher overtime earnings. The changes in actuarial assumptions, taken as a group, are anticipated to add roughly $250 million to $300 million annually to the baseline cost of pension contributions.

Administration's Labor Cost Projections
Dollars in millions

	2005	2006	2007	2008	2009	Average Annual Change
Salaries & Wages	$17,361	$17,053	$17,077	$16,955	$16,967	-0.6%
Labor Reserve	489	446	446	446	446	-2.3%
Pension Contributions	3,243	3,894	4,294	4,681	4,609	9.2%
Health Insurance	2,634	2,901	3,152	3,451	3,735	9.5%
Other Fringe Benefits	2,601	2,617	2,657	2,705	2,744	2.3%
TOTAL	**$26,328**	**$26,911**	**$27,626**	**$28,238**	**$28,501**	**2.0%**

SOURCES: IBO; Office of Management and Budget.

Department of Finance (DOF)

OVERVIEW

Under the January plan, the budget for Department of Finance expenditures in 2005 is $206.4 million, a $14.2 million or 6.4 percent decline from actual spending in 2004. The decrease in the budget, however, does not represent an actual decline in spending for programs and services because spending in 2004 included an atypical $15 million payment to Business Improvement Districts (BIDs) that was paid for by the department's collection of BID assessments. Excluding this one-time change in the how the BIDs actually receive the money from the assessments on their property owners, there is a slight, $0.8 million increase in DOF spending budgeted for 2005. Spending on department functions related to the property tax has been increased substantially, by $4.6 million from 2004. The other major spending increase in 2005 is a $16.6 million jump in the Parking Violations Bureau's (PVB) budget; other program areas in the agency have substantial decreases in their budgets. Since most of these increases and decreases in spending entail purchases of computer professional services and temp services, it is likely that spending on some of these items has formally shifted from one area of the budget to another.

The budget for DOF spending declines 3.2 percent from 2005 to 2006. Almost the entire $6.7 million decline results from a planned cutback in the purchase of computer professional services for the collection of revenue other than the property tax. While the expectation is that over time work done by such consultants will be increasingly undertaken by DOF employees, there is no increase from 2005 to 2006 in personal services expenditures in any area of the budget. The breakdown of computer-related spending has not been finalized in many areas of the budget because it is uncertain how quickly the department can reduce its reliance on the services of consultants.

EXPENSE BUDGET

While the October 2004 Financial Plan included few changes to DOF's budget, the January 2005 plan includes several large changes in both spending and revenue for 2005 and subsequent years. The largest expenditures change—and the one with most impact on DOF services—concerns NYCServ, a large computer-based system to consolidate collection, payment, adjudication, and other functions across city agencies. Funding for the operation and maintenance of NYCServ had been added to the department's budget last April, and the current Financial Plan calls for a new round of funding increases—$9.6 million in 2005 and $6.0 million each year thereafter. The division of the new funding into personal services (PS) and other than personal services (OTPS) spending has not been finalized, but the expectation is that over time, the work done by computer professional consultants in the early phases of NYCServ's operation will be increasingly undertaken by DOF staff. In turn, contracting costs are projected to fall when the department no longer needs to rely on as many consultants.

On the revenue side, the Financial Plan introduces several new initiatives, including:

- DOF's audit division will work to increase tax compliance of cash businesses, with the expectation of increasing business tax collections by $2 million and $3 million in 2005 and 2006, respectively.
- The division will also focus on auditing personal income S-corporations and

Department of Finance
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Property Tax	$24.9	$20.6	$20.4	$20.7	$25.3	$25.3
Parking Violations	25.8	29.8	25.8	12.7	29.3	29.2
Other Revenue Collection	61.9	62.6	60.6	93.6	81.3	74.3
Other Operations	8.8	9.4	10.4	14.4	10.0	10.0
MIS and Other Operations Support	47.2	48.8	51.8	66.0	54.9	55.4
Administrative, n.e.c.	11.5	12.6	12.8	13.1	13.3	13.2
Unallocated Financial Plan Changes	0.0	0.0	0.0	0.0	(7.7)	(7.7)
TOTAL	**$180.0**	**$183.8**	**$181.8**	**$220.6**	**$206.4**	**$199.7**
Full-time Personnel*	2,023	2,000	1,896	2,215	2,259	2,259
Capital Commitments**	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 2,178. Excludes part-time and seasonal employees.
**The department's capital projects are managed by other agencies. See text for discussion. n.e.c. = not elsewhere classified.

unincorporated businesses by matching personal income tax (PIT) returns with business returns, increasing PIT revenue by an estimated $250,000 in 2005 and $500,000 in 2006.
- DOF will increase efforts to settle prior-year liabilities of small hotels, increasing revenue from the hotel occupancy tax by $150,000 in 2005 and $100,000 in 2006.

Also, the estimate of the department's fee revenue also has been increased by $15.3 million in 2005, the result of an unanticipated increase in real estate transactions and the number of documents such as deeds and refinancing papers recorded by the City Register.

PROGRAM AREAS

Property Tax. DOF spending on operations relating to the city's real property tax totaled $20.4 million in 2004, 9.4 percent of the department's budget. Assessment of property values accounts for the bulk of this category of DOF spending: 60 percent in 2004, increasing to 68 percent in 2005 and 2006. Other property tax functions include billing and collections. The current budget for property tax-related spending is $25.3 million in 2005—a $4.6 million increase over 2004. The Preliminary Budget maintains the same level of spending for 2006.

Most of the budgeted increase after 2004 is for new contracting initiatives. Also, the budget for appraisal activities—both field-based assessments and centralized mass appraisals using computer-based models—jumped 38 percent from 2004 to 2005, with the mass appraisal budget tripling from one year to the next.

Parking Violations Bureau. The current budget for 2005 calls for $29.3 million in spending on the Parking Violations Bureau, and slightly less in 2006. Budgeted spending in each of these years is much higher than in 2004, when spending was unusually low ($12.7 million) due in part to an exceptionally low level of spending on temp services that year. Note that the one-time reduction in PVB spending on temp services in 2004 is similar in magnitude to a one-time increase in temp service spending in another administrative budget line (see MIS and Other Operations Support below). Personal service spending in the PVB was also abnormally low in 2004.

Other Revenue Collection. In the Financial Plan, DOF spending on the collection of revenues other than the property tax and parking violations are expected to reach $81.3 million in 2005, down from the level in 2004, but still almost 40 percent of the department's budget. This category of spending covers the auditing of tax returns and the activities of the City Sheriff's office, in addition to other tax and non-tax revenue collection and processing. The decrease from 2004 to 2005 was not caused by a reduction of actual DOF spending in this area. Rather, spending in 2004 was unusually high because of a one-time change in the processing of BID assessments, in which $15 million was formally received by DOF and then turned over to the BIDs as department spending. The budget for 2006 reduces funding in this area to $74.3 million.

In general, spending on the audit division and the City Sheriff has been relatively stable over time—together amounting to $37.0 million in the 2005 budget. There are no substantial changes in the budgets of either in 2006, with the exception of the elimination of $0.6 million in funding for the Sheriff's enforcement of Kendra's Law, the 1999 state law, now up for legislative renewal, which mandates treatment for mentally ill people judged to be dangerous.

For other revenue collection and processing activities, however, the amount actually spent and budgeted increased in the last two years, if we omit the irregular BID expenditure in 2004. The Preliminary Budget, however, reduces the budget for these functions by $6.4 million in 2006. Both the recent spending increase and decrease in next year's budget result almost entirely from changes in DOF contracts for computer professional services. The department expects that over time a larger share of the work needed to support NYCServ and other systems can be done by DOF employees, reducing costs.

Other Operations. This area of DOF expenditures comprises the Tax Appeals Tribunal, and the legal, treasury, tax policy analysis divisions, plus two recently introduced budget lines relating to taxpayer assistance. A total of $10.0 million has been budgeted in 2005 and 2006 for these operations, with the treasury and legal divisions accounting for $7 million. Spending on these various DOF operations has been relatively constant over time, with the exception of taxpayer assistance which first appeared as a separate budget line in 2004. In that year, taxpayer assistance accounted for $3.7 million in spending, all of which was in personal services. Far less has been budgeted for taxpayer assistance for 2005 and 2006, with a portion of the decline due to the establishment of the 311 call center, which is now fielding some taxpayer inquiries.

MIS and Other Operations Support. A large share of DOF's budget consists of spending on computers and other information equipment and systems, and spending on other agencywide support functions for MIS operations. Not surprisingly, in this area of the department OTPS spending dwarfs PS spending, with contracts for computer-related professional services accounting for a large share of spending. If efforts to move away from consultants and have more of the DOF's information systems work done by agency employees are successful, the personal service share of this area of the budget will increase.

MIS and other support spending was $66.0 million in 2004, much higher than in the preceding three years, when spending averaged $49.3 million. Budgeted spending for 2005 and 2006 is closer to pre-2004 levels: $54.9 million and $55.4 million in the two years, respectively. The atypically high level of spending in 2004 results from a very high level of spending ($35.8 million) in a large general budget code for OTPS agencywide administrative spending, which included unusually high levels of spending on temp services in 2004. That spending on temp services in the Parking Violations Bureau was particularly low in 2004 suggests that some services normally purchased through a PVB budget line were shifted to a more general administrative line in that year.

Administrative, Not Elsewhere Classified. Spending on DOF administrative function not classified in other areas of the budget has grown gradually over the last few years, and the 2005 budget calls for a small increase in this area of spending—from $13.1 million in 2004 to $13.3 million. Slight declines in the budget in a number of areas, such as financial and human resources and executive OTPS spending, reduce the 2006 administrative budget to $13.2 million.

DOF's budget includes an unallocated $7.7 million a year reduction in OTPS spending for 2005 and 2006 each. Currently, the Financial Plan's unallocated savings is in the department's budget line for general administration, but we have not included it in the previous category of spending.

Full-time Headcount. A combination of layoffs eliminating unfilled positions, consolidating divisions within DOF, transferring some positions to other departments, and other measures caused the agency's full-time headcount to fall from 2000 to 2003. Then, in 2004, the number of full-time employees at DOF jumped, from 1,896 to 2,215. The increase was largely due to replacing per diem clerical workers in the Parking Violations Bureau with full-time staff members, which increased the department's headcount by 218 positions. The budgeted headcount for 2005 indicates further plans to increase DOF staffing. Most of the increase results from the installation of NYCServ and the expectation that over time more and more of the work in operating and maintaining the system will be done by full-time department employees, replacing computer professional consultants. Though the split of new NYCServ-related funding between PS and OTPS categories has not yet been finalized, the 2005 budget includes the addition of 30 NYCServ-related positions.

Revenue Initiatives. Unlike most other city agencies, DOF's contributions to closing budget gaps are more likely to consist of initiatives to increase revenues, as opposed to those which cut expenditures. In recent years, these initiatives have included: a tax amnesty program; more effective auditing of business tax returns; closing a number of tax loopholes; increases in fees charged by the City Register for records of deeds and other documents; increases in service fees and charges, such as the charge for writing bad checks; and more efficient processing of parking summonses. And, as already noted, in the current Financial Plan there are several DOF revenue initiatives to increase collections of the personal income, business income, and the hotel occupancy taxes through more effective auditing and enforcement efforts.

Capital Projects. The Department of Finance does not maintain its own Capital Budget, though a number of projects benefiting DOF have been managed by other city agencies, such as the 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 September 2004 Capital Commitment Plan are:

- A commitment to spend $4.1 million in 2005 on NYCServ, the wide-scale project to consolidate collection, payment, licensing, and adjudication processes across several city agencies. With the installation of the system largely completed, funding of NYCServ is generally moving from the capital to the operating budget.
- Commitments to spend a total of $21.5 million on ACRIS, a project to convert deed, 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. Just over two-thirds of the commitments are for 2005, with the remainder split between 2006 and 2007. Fees paid by users accessing ACRIS cover capital outlays and other start-up costs (notably creating digital images of documents) associated with ACRIS.

- A plan to spend $4.8 million in 2005 on SPAZM, the acronym for "Street, Properties and Zoning Map." The map is intended to be used by DOF's property tax division, in coordination with other city agencies such as the Department of City Planning. Spending on this project has been deferred from 2004.

Department of Parks and Recreation (DPR)

OVERVIEW

The 2006 Preliminary Budget for the Department of Parks and Recreation is $273.8 million, including $11.5 million in state and private categorical grants IBO projects for numerous programs. Both recreation services and Urban Park Services receive a sizable portion of these grants. Their budgets should rise accordingly in both 2005 and 2006.

IBO project that DPR's budget for 2005 is over 8 percent higher than actual expenditures in 2004. Most of this increase occurs in the maintenance and operations (M&O) program area, as discussed below.

EXPENSE BUDGET

Maintenance & Operations: Staffing Levels. Maintenance and operations is the largest program area, accounting for between 66 percent and 72 percent of the parks department budget every year. Budgeted M&O expenditures in 2005 are significantly higher than in other years, reflecting full restorations of cuts made in 2003, one-time expenditures, and increases to miscellaneous non-personnel costs.

The condition of parks and their acceptability ratings are closely related to the number of workers maintaining parkland. From a peak of over 4,800 full-time positions in the 1980s, parks employment has declined. Even as full-time positions were cut, seasonal and part-time positions were put on the chopping block as well. Beginning with the November 2002 Financial Plan, the annual budget for seasonal workers was cut by $7.4 million. This funding was partially restored in 2004, and fully restored in 2005. It was not restored in the 2006 Preliminary Budget.

Since 2002 the department has relied a great deal on POP (Parks Opportunity Program) workers—now known as JTPs (Job Training Participants)—to maintain city parks. The 36 percent increase in funding for M&O in 2002 is largely explained by the advent of the POP program in that year. The department began receiving federal Temporary Assistance for Needy Families (TANF) funding through the Human Resources Administration (HRA) to employ former welfare recipients whose benefits had recently run out for 11-month, 40-hour per week contracts. The TANF funding is supplemented with city tax-levy funds appropriated in HRA's budget for work programs. HRA's 2005 transfer to the parks department is currently budgeted at about $40 million, with a similar amount baselined in the out-years.

HRA's transfer to the parks department was greater in 2002 and 2003 than it is currently, however. Since 2004, the city no longer receives state and federal funding for the personnel costs of some parks maintenance supervisors responsible for overseeing JTPs and other parks workers. As a result, funding received from HRA dropped by $15.3 million beginning in 2004. The burden of funding these positions has now shifted to city funds provided in DPR's budget.

In the first four months of this fiscal year-the peak season for park usage—the department's "acceptability rating" for the overall condition of parks was 86 percent, comfortably within the range of its annual ratings for the past six

Department of Parks and Recreation

Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Maintenance & Operations	$143.3	$194.3	$176.2	$178.6	$197.5	$185.8
Recreation Services	10.2	13.4	15.2	15.8	13.4	11.8
Urban Park Services	10.6	11.1	11.4	12.0	7.1	5.4
Forestry & Horticulture	6.6	6.2	4.1	4.5	9.7	8.0
Capital Projects	15.5	16.0	16.2	18.0	19.1	20.3
Administration	32.2	29.7	31.0	32.7	33.5	31.0
TOTAL	**$218.4**	**$270.7**	**$254.1**	**$261.6**	**$280.3**	**$262.3**
IBO Adjustments						
State Categorical Grants					$0.1	$0.7
Private Categorical Grants					3.2	10.8
TOTAL					$3.3	$11.5
IBO Projected					**$283.6**	**$273.8**
Full-time Personnel*	1,965	1,971	1,944	1,873	1,934	1,933
Full-time Equivalent Personnel*	n/a	4,158	3,039	3,603	3,829	3,784
Capital Commitments	$206.9	$169.1	$225.9	$143.2	$588.4	$297.2

SOURCE: IBO.

NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual staffing as of November 2004 was 1,862 full-time, 3,967 full-time equivalent.

Wages & Salaries of Parks Department Workers
Dollars in millions

	2001	2002	2003	2004
Full-time Workers	$79.8	$80.8	$83.9	$84.7
Seasonal Workers	33.9	118	103.7	104.7
TOTAL	**$113.8**	**$198.8**	**$187.6**	**$189.4**

SOURCE: IBO.
NOTES: Wage and salary income only. Does not include other components of pay such as overtime, holiday pay, or salary differentials.

years. During this period, JTP's numbered 3,811, compared to 1,637 this winter.

Zoos. The parks department is under contract with the Wildlife Conservation Society (WCS) to fund operating losses from three New York City zoos: the Central Park, Prospect Park, and Flushing Meadows zoos. (The Bronx Zoo is also operated by WCS, but receives its city funding from the Department of Cultural Affairs.) This typically costs DPR about $9 million per year, funded through its Expense Budget. In 2003 and 2004, DPR partially substituted capital dollars for these payments. The department funded WCS capital projects at $8.1 million and at $3.0 million in 2003 and 2004, respectively. Current 2005 funding for the three zoos' subsidy is budgeted at $9.4 million, with the same amount planned for the out-years.

Central Park Conservancy. The Central Park Conservancy is a private, nonprofit organization that provides M&O services in Central Park, through contractual agreement with DPR. Typically, the city pays $3 million per year to the conservancy, which is further funded through approximately $17 million in private donations. In 2004, the city paid only $1 million to the conservancy, which was expected to make up the difference through private donations. The full $3 million subsidy was restored starting in 2005. It is budgeted through the out-years, although a new contract must be renegotiated with the conservancy this year.

Above this baselined subsidy, the department also is contractually obligated to pay to the conservancy 50 percent of annual net concession revenue above $6 million for the prior year. The 2005 payment based on last year's revenue is $1.7 million.

Adopt-A-Park. In 2003, City Council enacted Local Law 55 to create the Adopt-a-Park program. Part of an apparently rising trend of private support for parks and DPR programs, Adopt-a-Park encourages individuals, businesses, and organizations to sponsor a park, playground, DPR facility, or even a single tree. Funding goes for maintenance and upgrades, supplementing department M&O resources. Contributions can range from $1,500 to over $100,000. Roughly halfway through 2005, the first active year of the program, sponsorships have reached a total of $321,000.

Recreation Services. Funding for recreation centers and special programming has been steadily increasing since 2001. Although the 2005 and 2006 budget for recreation services appears to decline, IBO expects that it will ultimately be commensurate with previous years. Many recreation programs are funded through private categorical grants, which have grown in recent years (see sidebar).

The January plan adds city funds for recreation services for 2005—notably $497,000 for the reopening of the East 54th Street Recreation Center, which closed for renovations in 2001. Twenty-two full-time positions are needed for the ongoing operations and programming of the center. Annual funding of $746,000 is projected for 2006 and beyond.

Private Grants Growing

The parks department relies heavily on outside sources of revenue to fund significant parts of its operations, including recreation services and Urban Park Services. For the most part, the department does not budget its private categorical, state, or federal grants ahead of time, but records them only once they are received during the year. The actual amounts of private grant funds for 2005 and 2006 will therefore likely increase before the end of each respective fiscal year. IBO projects an additional $3.2 million in 2005 and $10.8 million in 2006, bringing total private grants funding to $12 million in both years. IBO also expects parks programs to receive more state categorical grants than currently budgeted in 2005 and 2006, bringing the department's state funding level to approximately $700,000 each year.

Private Grants
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Grants	$6.7	$6.6	$8.4	$8.9	$8.8	$1.3
IBO Adjustment					3.2	10.8
IBO Projected					**$12.0**	**$12.0**

SOURCE: IBO.

Urban Park Services. Parks Enforcement Patrol (PEP) officers ensure the safe use of parkland by enforcing park rules and regulations as well as health, traffic, and sanitation codes. Urban Park Rangers also patrol parks to keep them safe, as well as educate and guide the public in appreciating the city's natural resources. Both groups are housed within the department's Urban Park Services division.

Like Recreation Services, Urban Park Services receives a considerable portion of its funding from private sources. IBO expects that a portion of our private grant funding adjustments to the Bloomberg Administration's 2005 and 2006 plans will go toward Urban Park Services, as well as to Recreation. Last year, PEP funding grew by almost $4 million—to $9.2 million—between the January plan and the end of the fiscal year. As of the current year's January plan, PEP funding is at $5.4 million for 2005, $4.4 million for 2006.

Forestry & Horticulture. There are approximately half a million trees growing on New York City streets. Beginning in 1997, the Mayor and City Council had funded street tree pruning contracts to provide for the pruning of 50,000 trees annually, resulting in a 10-year pruning cycle.

During the budget crunch of 2003, the $2.7 million in yearly funding required for the 10-year cycle was eliminated. A partial restoration of $1.85 million in 2004 allowed for the pruning of 28,000 trees, stretching the pruning cycle out to 20 years.

The Bloomberg Administration and City Council restored $2.1 million in funding for street tree pruning contracts in 2005, allowing for a 12-year pruning cycle. There are no funds for tree pruning contracts in the 2006 Preliminary Budget.

Fighting the Asian Longhorned Beetle. The Asian Longhorned Beetle arrived in this area in 1996, and has been a scourge on city trees ever since. The federal government has provided funds to several large cities, including New York to combat the beetle in recent years. Additionally, the city must use its own tax-levy dollars to cut down and properly dispose of healthy trees surrounding infested areas to prevent the beetle's spread.

The program to remove uninfested trees was funded in the 2005 Adopted Budget at $6 million. Calls to 311 requesting wood removal have been lower than anticipated, however, and as a result, funding for uninfested wood removal has been reduced in the current year by $850,000, bringing the city tax-levy funding level to $5.1 million. Of the funds that have been spent, DPR has received a reimbursement of $406,000 from the federal government for the collection and chipping of uninfested wood waste.

In addition, the parks department determined that purchasing special equipment and vehicles for the longhorned beetle program (e.g. wood chippers and log loaders) will be more cost effective than leasing them. The purchases will be funded in the capital budget, bringing an expense savings of $797,000 in 2006, and of $1.1 million in 2007.

Capital Projects Management. Department costs of planning, designing, and managing capital projects have steadily grown since 2001. There was an especially big increase in 2004, when the department hired 40 additional full-time staff members for capital projects design for Lower Manhattan and for the Bronx (see next paragraph). As part of its redevelopment efforts, the Lower Manhattan Development Corporation had pledged to allocate $24 million in capital funds to DPR to design and reconstruct parks throughout Lower Manhattan.

The 2006 Preliminary Budget recognizes the need for even more personnel for capital projects in the Bronx as part of an agreement pursuant to selection of Van Cortlandt Park as the site for a filtration plant for the Croton watershed. The Department of Environmental Protection will provide $230 million for borough wide improvements to parks, playgrounds, and recreation centers. The parks department is hiring 23 per-diem staff to handle the $186 million of this total that it will manage, including 10 architects, 10 engineers, two clerical aides, and one machine aide. These hires come at a cost of $397,000 in 2005, and $1.6 million in 2006 and 2007, when the work should be completed.

REVENUES

Concessions and Other City Revenues. Revenue from the parks department's concessions has steadily grown since 2001. The 2006 Preliminary Budget anticipates increased revenue from six concessions, including the Columbus Circle holiday market, Loeb Boathouse Restaurant, and Battery Park Restaurant. Totaling $1.7 million in 2005 and $1.2 million in the out-years, these higher revenues are the result of rebids, new citywide initiatives, and various concession agreements.

In addition, concessionaires at Yankee Stadium and Shea

Stadium parking lots are raising fees from $10 to $12, as permitted under their contracts with the city. The increase will take effect this April, with anticipated revenue increases of $300,000 in 2005, and $800,000 in the out-years. (The fee during the playoffs remains $20.)

The Bloomberg Administration anticipates higher stadium rent revenue from both the Yankees and the Mets in the next two years. The Mets will pay $1 million more in 2005 and $400,000 more in 2006, due to an amendment in the Shea Stadium lease. The Yankees owe an additional $3.5 million in 2006: $2.5 million as a result of the Comptroller's audit of their rent payments, and $1 million in extra parking revenue initially earmarked for strengthening stadium security.

Fee Hikes Yield Less Than Expected. The department increased the price of various recreational permits in 2003, including ball field permits and tennis passes. The Bloomberg Administration anticipated a rise in annual revenues to $3.3 million ($3.2 million in 2003) from the $1.8 million previously projected. Permit fee revenue fell slightly short of this mark in both 2003 and 2004. The parks department also has netted less revenue than hoped for from recreation center memberships. Previously accepting donations only, recreation centers began charging fees in July 2002. Basic adult memberships cost $75 per year for centers with pools, $50 for centers without; senior memberships cost $10. These rates were expected to cover centers' expenses, but revenue has not added up as anticipated. Projected through the out-years at $4.7 million annually, recreation centers have brought in only $1.5 million and $1.6 million in 2003 and 2004, respectively. (Recreation center fee revenue is included in the "All Other" category in the table on DPR revenue.) Part of the apparent jump in this category in 2005 and 2006 can be explained by the Bloomberg Administration's ambitious projection of annual recreation center membership fees.

The "All Other" revenue category also includes $3 million payments in 2005 and 2006 for the ongoing use of two Randall's Island buildings under DPR supervision. MTA Bridges & Tunnels will compensate the department for using the buildings during its continuing construction projects on and around the island.

CAPITAL BUDGET

DPR's current 2005-2008 capital plan totals nearly $1.2 billion. Ninety-two percent of the capital plan is funded by city dollars, with a mix of federal, state, and private grants funding the rest. Miscellaneous citywide parks improvements comprise the largest single portion of the plan, totaling $273 million in total four-year capital funding. Capital dollars pledged by the City Council supplement these funds in each borough.

Yankee Stadium rehabilitation will cost the city $26 million in capital funds. Approximately $23.8 million has been committed in the January plan for improvements to Shea Stadium. East River Park and Hudson River Park will both receive significant city capital funds, at $62.2 million and $64.8 million, respectively. Other large components of the commitment plan are citywide street and park tree planting, citywide equipment acquisition, and Flushing Meadow Park pool construction.

Over $230 million in capital funds to be spent on close to 100 parks projects are not included in DPR's Capital Commitment Plan. As mentioned earlier, the city's Department of Environmental Protection will fund improvements to parks, playgrounds, and recreation centers throughout the Bronx as mitigation for the siting of a water filtration plant under Mosholu Golf Course in Van Cortlandt Park. The parks department will plan, design, and manage totaling $186 million of the total, but water authority-issued debt will fund them all. Most of the work should begin this spring and be completed by 2007.

Department of Sanitation (DSNY)

OVERVIEW

The Department of Sanitation budget will grow in 2006 at a slower rate than it has for the past four years. Increasing waste disposal costs since the 2001 closure of Fresh Kills landfill, coupled with rising labor costs for collection and street cleaning operations, have driven the DSNY budget past the $1 billion mark. (Spending was higher in 2002 due to $43.6 million in World Trade Center-related expenses.)

EXPENSE BUDGET

High Costs of Waste Disposal. The chief factor in the department's rising overall expenditures has been the escalating cost of waste disposal. Waste disposal expense has more than tripled since the gradual closure of Fresh Kills began in 1998. In 2001, approximately 25 percent of residential and institutional (e.g. schools, government offices) waste still went to Fresh Kills. The remaining 75 percent traveled to disposal sites outside the city, under contracts with private waste hauling firms to accept, transport, and dispose of DSNY-collected trash. In 2002, the figure grew to 100 percent export. This increasing reliance on export accounts for rising waste disposal costs through 2002. Since that year, however, all growth in disposal costs has been due to rising export contract prices, and to a lesser extent, a steady increase in tonnage.

The Bloomberg Administration forecasts total export contract costs to be $2 million higher this year than last, and to rise about $8.6 million to reach $268.8 million in 2006, from $260.2 million in 2005. Other costs associated with waste disposal are expected to be almost $3 million higher this year than in 2004, largely due to the planning and development of the department's 20-year Solid Waste Management Plan (SWMP). Additionally, landfill closure operations at Fresh Kills are slated to cost almost $9 million more this year than last. This estimate is $17.8 million lower than previously anticipated due to delays in state Department of Environmental Conservation approval of engineering plans for landfill closure. These same delays result in a $38 million decrease in the 2006 Preliminary Budget.

Fluctuating Recycling Program Levels Off. Although DSNY paid less in recycling processing fees in 2003 and 2004, the department still incurred significant expense for recycling collection. Savings from the 2003 suspension of glass and plastic recycling are readily evident in the recycling planning and processing program area, as are somewhat lesser savings in 2004, when plastics returned to the recycling stream but collection was reduced to an alternate week schedule. Although recycling collection costs cannot be isolated, spending on the collection and street cleaning functions grew substantially in 2003 and 2004, negating much of the savings from lower recycling processing fees.

The return of glass and weekly recycling in April of 2004 has brought up spending in the recycling program. The city pays $51 per ton to a vendor accepting our recyclables in 2005; in contrast the same vendor had paid the city $5.10 per ton for most of 2004, when they took only the city's metal and plastic recyclables. The market for recyclable metal is much more robust than that for either plastic or glass; glass poses special problems, not least its tendency to break and become embedded in other co-collected materials.

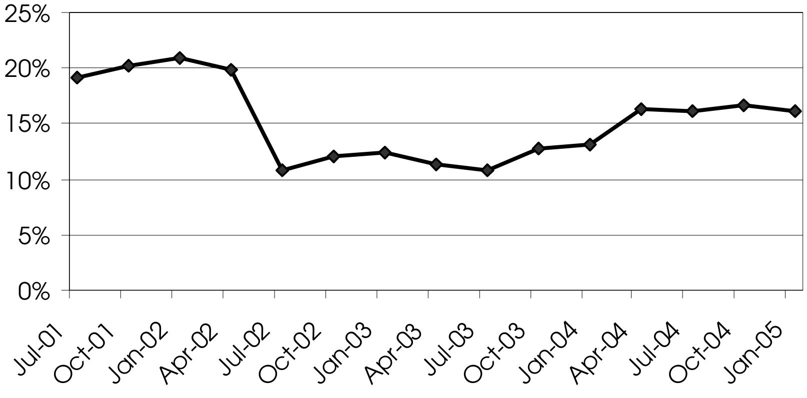
In the January Financial Plan, DSNY estimates cost savings of $3 million in recycling processing fees for both 2005 and 2006. Although the recycling diversion rate has recovered somewhat since the suspensions of the previous two years, it has not yet returned to pre-2003

Department of Sanitation
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Collection and Street Cleaning	$ 462.3	$ 483.3	$ 496.2	$ 502.6	$ 509.6	$ 509.0
Waste Disposal	226.6	269.1	287.8	286.7	300.4	308.3
Recycling Planning and Processing	31.3	30.3	4.4	12.1	26.2	25.5
Enforcement	11.8	12.1	11.3	10.5	13.3	13.2
Snow Removal	45.5	13.9	41.1	40.5	26.7	26.7
Administration & Support Operations	158.0	196.6	150.6	145.7	160.0	156.6
TOTAL	**$ 935.5**	**$ 1,005.3**	**$ 991.4**	**$ 998.1**	**$ 1,036.2**	**$ 1,039.3**
Full-time Uniformed Personnel*	7,944	7,821	7,146	7,452	7,789	7,735
Full-time Civilian Personnel*	2,222	2,213	1,883	1,846	2,053	2,068
Capital Commitments	$ 150.0	$ 216.4	$ 158.8	$ 140.3	$ 641.4	$ 170.6

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 1,865 civilian and 7,748 uniformed. Excludes part-time and seasonal employees.

Curbside & Containerized Recycling Diversion Rate



SOURCE: IBO; Department of Sanitation.

levels. (The average monthly diversion rate through January of this year is 16 percent, compared to 20 percent in 2002.) In addition, all DSNY-collected tonnage—recyclables and garbage—has been down this year.

Collection and Cleaning: Balancing Headcount and Costs. Although DSNY laid off over 500 uniformed workers in 2003, the cut did not lead to a dip in collection and street cleaning costs. The layoffs in fact led to high overtime spending, which grew even more in 2004. With uniformed headcount back up to nearly 2002 levels—7,748 as of November 2004—expenditures on overtime are expected to decrease. The 2006 Preliminary Budget includes reductions of $3 million in 2005, $2.2 million in 2006, in overtime and other personnel costs, with no associated changes in service levels or headcount.

Additionally, the department will save $3.3 million annually starting in 2006 through the planned attrition of 54 uniformed sanitation workers in connection with the Mayor's basket collection and motorized litter patrol program. This initiative began in the summer of 2003, when public complaints about dirty streets prompted the city to spend more on cleaning activities in targeted neighborhoods. The program is demand-driven, from both observed conditions and 311 calls. Over $11 million was added in overtime expenses in 2004, and budgeted for the current year as well. This addition was then partially reversed when, in the spring of 2004, budgeted overtime for 2005 was reduced by $2.1 million as 135 uniformed workers were rehired for this program. Although the Mayor's cleaning initiative is slated to continue this summer, the department maintains it can achieve the same results using 40 percent fewer personnel.

Wild Card: Snow Removal. The snow budget is calculated each year as an average based on the previous five years' expenditures. The average calculated last year set the 2005 snow budget at $26.7 million. This year's revision, to be completed for the Mayor's Executive Budget in April, should mean a significant rise in the snow budget due to high snowfall in 2001, 2003, and 2004.

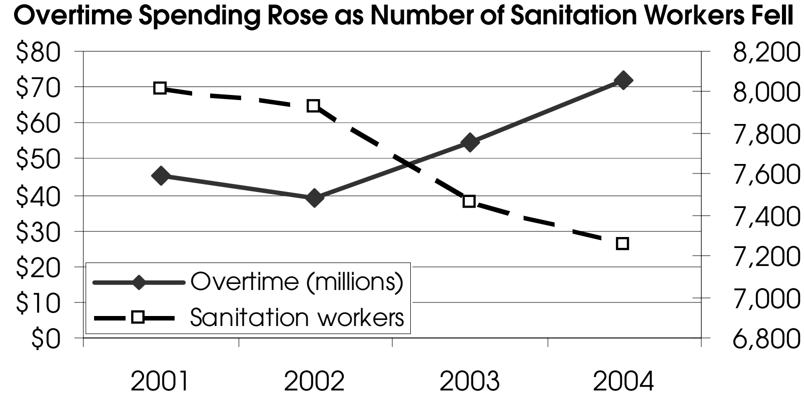
Snow removal expenditures this winter are on track to surpass the 2005 budgeted amount. Through January, the city had received 19.75 inches, costing the department $18.5 million (including pre-winter tune-up of vehicles). In February, there were nearly 11 more inches of snowfall, for which final costs have not yet been tabulated.

REVENUE GENERATING INITIATIVES

Increased Enforcement. The sanitation department is hiring 25 additional Sanitation Enforcement Agents and 9 other related personnel this spring, at an annual cost of $1.1 million. The Bloomberg Administration expects that the increased expenditure will be offset by higher revenues collected through summons issuances. In 2005, the net effect is expected to be zero, but in 2006 and beyond, higher revenues should bring a net gain of $1.7 million per year.

Increase in Paper Prices and Fees. The Bloomberg Administration anticipates collecting additional revenues from paper recyclers of $1.9 million in 2006. An increase of $830,000 in revenues from Visy Paper on Staten Island has been budgeted beginning this year to reflect the $11.90 per

Overtime Spending Rose as Number of Sanitation Workers Fell



SOURCE: IBO.
NOTE: Overtime figures exclude snow removal and World Trade Center-related spending. Sanitation workers are annualized based on monthly data.

Sanitation Violations Issued and Revenues Collected

Figures are for first half of each fiscal year (July 1 to December 31.)

	2003	2004	2005
Nonrecycling	204,135	147,568	142,220
Recycling	48,545	56,365	71,298
Total	**252,680**	**203,933**	**213,518**
Revenues (millions)	$9.20	$11.40	$12.10
Enforcement Agents	120	98	105

SOURCES: IBO; Environmental Control Board.
NOTES: Base nonrecycling sanitation fines increased from $50 to $100 in 2004. The base fine for recycling violations is $25. Enforcement Agents include agents, sergeants, lieutenants, and captains.

ton fee Visy pays the city for use of the West 59th Street marine transfer station in Manhattan. In addition, Visy's share of Brooklyn's recycled paper has increased. Six additional uniformed workers are needed to drive the relays to the Visy plant in Staten Island, at a cost of $224,000 in 2005, and $299,000 in 2006 through the out-years. The Bloomberg Administration anticipates that these increases will be offset by paper sales increases of an equal amount.

Higher revenue also is expected from other paper recyclers starting this year due to the high market price for paper. The five vendors besides Visy that take DSNY-collected paper pay the city a rolling, contracted amount based on the price they can get in the market for their finished, recycled product. When that price is higher than the vendors' processing costs, the city is paid the difference. Currently, the city receives $24.60 per ton from these vendors. In the January Financial Plan, the Bloomberg Administration recognizes this through increased revenues of $1.8 million in 2005, $800,000 in 2006-2008, and $900,000 in 2009.

CAPITAL BUDGET

DSNY's four-year capital plan for 2005 through 2008 totals nearly $1.3 billion. The plan is comprised of three major areas: garage construction, vehicle acquisition and replacement, and the largest category—design, planning, equipment purchase, and construction of facilities for the Bloomberg Administration's proposed long-term Solid Waste Management Plan (SWMP).

Garages and related storage facilities account for 37.5 percent ($474.4 million) of the agency's capital spending through 2008. Buying and replacing vehicles accounts for an additional 20 percent ($258.5 million). Other assorted projects, including $26.9 million for ongoing monitoring and leachate control at Fresh Kills and other former city landfills, make up 2.8 percent ($35.8 million) of the agency's commitment plan.

SWMP:*Costs Remain Uncertain.* Total four-year commitments for the SWMP equal $497.5 million, or 39 percent of the agency's planned commitments. Having originally proposed to reconstruct and reopen all eight city-owned marine transfer stations (MTSs), the Bloomberg Administration modified its plan after soliciting proposals from the private sector to receive, containerize, transport, and dispose of some DSNY-managed waste. The official Draft Comprehensive SWMP released last October includes plans to reopen only four city-owned MTSs, relying on long-term contracts with the private sector to handle the rest of the city's residential and institutional waste. Each contractor will be required to containerize the trash for long-distance transport by barge and/or rail (except for one proposed contract with the Essex County Resource Recovery Facility to incinerate over two-thirds of Manhattan's waste). DSNY's planned capital commitments for the SWMP include $364.3 million for marine transfer station construction, $130.5 million for container and barge purchases, and $2.7 million for rehabilitation of barges and facilities for the export of Staten Island waste. The Staten Island facility is close to completion, and is expected to become operational by December 2005.

A number of key questions remain about the SWMP, not least its ultimate price tag. While capital costs are provided in the commitment plan, operational costs—both the city's direct costs of operating its four MTSs slated for reconstruction, and the various contract costs with the private sector—are still unknown. Capital costs associated with the plan appear to have risen substantially. Although the Mayor's plan was revised this year to include reconstruction of only four MTSs rather than eight, the capital plan shows just a $3 million reduction in anticipated reconstruction costs—doubling the average cost of reconstructing each MTSs, from nearly $46 million to $91 million.

Questions regarding logistical details of the SWMP remain as well, such as where barges will unload, whether commercial waste haulers will pay to use the city MTSs, and where waste will ultimately be disposed. Furthermore, strong public opposition against reopening some MTSs has brought threats of litigation. Although they will undoubtedly be substantial, the SWMP's capital costs are only one aspect of the challenge the city faces finding an acceptable long-term solution for how to dispose of its waste.

Public Libraries

OVERVIEW

New York City's public library system is made up of three separate systems: the New York Public Library (NYPL), including the research libraries, the Queens Public Library, and the Brooklyn Public Library. New York City provides general operating support to each of the three systems; however, each system has extensive autonomy in deciding how to budget these funds. The Preliminary Budget for the city's library system projects total spending of $247.7 million for 2005, an $11.1 million increase over 2004. Under the plan funding would fall to $212.1 million for 2006, a 14.4 percent decrease from this year. IBO's presentation of library spending adjusts for changes in the timing of the subsidy payment by the city, which can distort the year-to-year comparisons.

The New York Public Library manages the libraries in three boroughs: Manhattan, with 39 branches; the Bronx, with 34 branches; and Staten Island, with 12 branches. In addition, NYPL oversees four research libraries. The Queens Borough Public Library oversees a central library and 62 branches. The Brooklyn Public Library oversees a central library, a business library, and 58 branches. The branch libraries provide circulating collections, reference materials (books and periodicals), computers and Internet access, language programs, and literacy programs.

EXPENSE BUDGET

The Preliminary Budget contains a 6 percent across-the-board reduction in the subsidy for each component of the library system, totaling $13.6 million for each year from 2006 through 2009. This reduction in the subsidy is consistent with the requirement faced by most city agencies to find savings of 6 percent in their city-funded budgets beginning in 2006. (The libraries were spared the effects of the 3 percent cut some agencies faced for 2005.) The overall reduction of $35.6 million from 2005 to 2006 exceeds the Preliminary Budget's subsidy reduction because of earlier reductions to the 2006 library budget dating from 2003 that have not been fully restored. If enacted, the Preliminary Budget proposals would result in a 16.8 percent decrease from 2002 when library spending last peaked. The budget for the libraries is one of the areas where cuts proposed by the Mayor in his January plan are often partially, or fully, restored by the time the budget is adopted in June. If this year proves typical, some or all of the planned reduction for 2006 may be avoided.

CAPITAL BUDGET

The library systems are responsible for over 200 library facilities, including: library branches, cultural centers, and research centers. The January Capital Commitment Plan for 2005 through 2008, allocates $188.1 million for library capital projects or an average of $47 million per year. In the prior four years (2001-2004), actual commitments for library capital projects averaged $33 million. (Excluding 2001, when commitment levels are negative due to canceled contracts, commitments averaged $64 million per year from 2002-2004.)

The majority of the capital funding for the NYPL and research libraries in the new commitment plan will go to the reconstruction of existing facilities, including: $11.6 million for reconstruction of the Schomburg Center for Research in Black Culture, $2.4 million for the renovation of the Woodstock branch; $5.1 million expansion of the Stapleton Branch, $3 million for Americans with Disabilities Act (ADA) compliance and renovation at the St. Agnes Branch, and $4 million for a new branch in Mariner's Harbor. For the Queens Public Library, the plan emphasizes new construction and expansion of facilities, including: $3.7 million for construction of a new branch in Long Island City, $3.0 million expansion of the Jackson Heights branch, $12.7 million for construction of a new Children's Library Discovery Center at the central library and $6.3 million for the replacement of the Glen

Public Libraries

Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
New York - Research	$16.1	$18.7	$16.6	$17.0	$17.8	$15.0
New York	96.3	96.8	87.4	89.7	92.4	79.1
Brooklyn	71.0	71.5	64.7	66.8	68.3	58.4
Queens	68.1	68.1	61.6	63.1	64.7	55.2
Plan Changes					4.6	4.6
TOTAL	**$251.5**	**$255.1**	**$230.3**	**$236.6**	**$247.8**	**$212.3**
Capital Commitments	($58.9)	$45.4	$75.8	$69.8	$133.3	$45.0

SOURCE: IBO.
NOTE: Expenditures have been adjusted to account for prepayments of library subsidies.

Oaks branch. For Brooklyn, the capital plan emphasizes reconstruction of facilities, including $23.9 million for structural improvements and ADA compliance for the central library.

Administration for Children's Services (ACS)

OVERVIEW

The Preliminary Budget projects Administration for Children's Services spending of $2.2 billion in 2005 and $2.1 billion in 2006. The 2005 funding is approximately $38 million less than actual expenditures in 2004. IBO's estimate for 2005 and 2006 assumes that $20 million in federal funding for Head Start will eventually be recognized and added to the agency's budget. ACS receives roughly 72 percent of its $2.2 billion operating budget from the state and federal governments and private grants, with the remainder coming from city tax levy.

ACS is responsible for child welfare in New York City and is functionally divided into several distinct programs. This includes: foster care, preventive services, child protection services, adoption, child care, and Head Start. The Preliminary Budget includes major changes in the foster care area. Not only has a declining caseload resulted in significant budget savings, but the agency is also beginning a major restructuring which will shift funding priorities within the agency.

EXPENSE BUDGET

Foster Care. Foster care spending has been declining in recent years from a high of $910 million in 2002 to a projected $802 million in 2005. Under the Preliminary Budget, funding would fall further in 2006 to $730 million. The downward trend is due to a long-term decline in the number of children in foster care, coupled with anticipated savings from a major overhaul of the foster care program planned for 2006.

In February 2005, ACS announced a series of initiatives designed to reallocate agency resources and services in the face of the pronounced decline in foster care caseloads and a desire to put greater emphasis on family support services like preventive care. These initiatives align the capacity of the foster care system with current demand for foster care services, and reinvest some of the savings from the decrease in foster care rolls in other parts of the agency. At the same time, even greater effort will be made to shift children currently in foster care to family and/or neighborhood centered care.

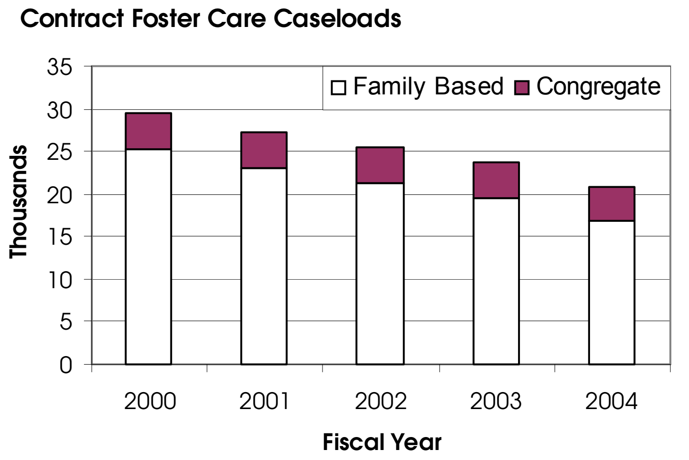
Foster care contract agencies have far more capacity than is needed with the current, historically low, caseload. There are 25,000 fewer children in foster care today than in 1995, a decline of 48 percent. The number of children entering foster care also has declined significantly; this calendar year the number of children entering is expected to be roughly half the number a decade ago. Foster care capacity, has not declined at the same rate. Therefore, there are many more foster care slots available than children to fill them.

One consequence of this disparity is declining revenue for foster care provider agencies as more agencies compete for fewer children. Contract agencies are judged, in part, by their ability to move children from their foster care rolls quickly, successfully moving them into appropriate permanent homes through adoption or returning them to their families. But the combination of fewer referrals from the city and more rapid movement

Administration for Children's Services
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Child Care	$461.5	$471.8	$471.5	$463.6	$478.5	$399.6
Head Start	158.3	164.6	171.4	183.9	152.5	152.5
Office of Child Support Enforcement	23.7	25.8	23.9	3.0	0.2	0.2
Protective	137.5	151.0	141.7	145.5	156.5	163.0
Preventive	140.1	143.0	158.9	145.4	140.9	170.6
Foster Care	889.7	909.7	892.1	842.6	801.6	730.2
Adoption	289.0	337.7	318.9	327.4	325.7	325.3
Administration and Misc.	156.4	171.1	167.0	145.6	152.2	142.0
Unallocated Financial Plan Changes					11.2	12.5
TOTAL	**$2,256.2**	**$2,374.8**	**$2,345.5**	**$2,257.1**	**$2,219.3**	**$2,095.8**
IBO Adjustments						
State & Federal Categorical Grants					$20.0	$20.0
(Overtime/MA/PA/Other city funds repricings)						
IBO Projected					**$2,239.3**	**$2,115.8**
Full-time Personnel*	7,212	7,998	7,326	6,599	6,695	6,688
Capital Commitments	$15.2	$28.6	$13.1	$10.0	$41.7	$25.3

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 6,399. Excludes part-time and seasonal employees.



SOURCE: IBO.

into permanent homes has resulted in fewer care days for providers to bill and thus declining revenue.

ACS plans to better align capacity with need by reducing foster care capacity. Quality of care will be the key criteria used by the agency in choosing contractors and programs to retain. Using the Evaluation and Quality Improvement Protocol (EQUIP), as a benchmark, ACS has already canceled the contracts of two agencies that had performed poorly over the past four years. One ACS-operated foster boarding home program will also be closed shortly because of performance problems. In addition, the rolls of the two largest foster boarding home programs will be reduced to "more manageable" levels by June 2005 after the programs failed to demonstrate high performance under the EQUIP standards. In total, these contract terminations and program reductions represent a transfer of 11.5 percent of the foster care rolls from lower to higher performing agencies.

ACS also plans to decrease the number of youth in congregate care by reducing placements to these facilities and by identifying appropriate discharge or family-based care programs for youth already in congregate care. Approximately 1,000 youth are expected to be transferred into either family-based home care or therapeutic family boarding home care next year. This will produce substantial savings for ACS while placing more children into family-based care—which many experts have concluded is healthier for children's emotional and mental development. Savings will be generated because youth will be switched from congregate care, the most expensive form of foster care at an average cost of $170 per day, to therapeutic and family-based care, at an average cost of $100 per day and $55 per day, respectively

The restructuring is reflected in the Preliminary Budget as a $32.8 million funding reduction in each year from 2006 through 2009. The Preliminary Budget also projects a savings estimated at $24.9 million for 2005 and $49.8 million per year for 2006 through 2009 from the continued decline in the contract foster care caseload, which is projected to reach a low of 17,000 by June 2006, a 17.9 percent decline over two years. Of the remaining 17,000 children, 16,000 are expected to be programs run by agencies under contract with ACS and 1,000 will remain in direct foster care in ACS facilities.

Some of these savings will be reinvested back into other child welfare programs. ACS estimates that over the next few years, $134 million will be reallocated to strengthening family-based services programs and existing foster care providers, shifting the center of service delivery from out-of-home care (foster care) to neighborhood-centered family support services. As part of this change, the 2006 combined budget for preventive and aftercare services will grow by $36 million, 12 percent, from their 2005 level. With children switching from congregate care to therapeutic family care, the Preliminary Budget allocates $13 million to create additional capacity in this area.

The Preliminary Budget also allocates $10 million per year from 2006 to 2009 to increase the performance-based per-diem reimbursement rates for agencies providing congregate foster care, with the highest rates going to those scoring the highest performance ratings. For example, contract foster care agencies with "excellent" EQUIP ratings will see their rates rise by $1.00, from $26.00 to $27.00. Rates for agencies rated "Very Good" will go from $25.00 to $25.75, while the flat rate for "High End Satisfactory" agencies will go from $24.00 to $24.50. Lower scoring agencies with rates of $23.50 will also receive a $0.50 increase to $24.00.

In addition to the restructuring changes, the Preliminary Budget for foster care also includes $11.3 million for 2005 and $6.3 million annually from 2006 through 2009, to increase funding to $63.4 million in both years for care of students with special needs enrolled in non-public schools under contracts with the Department of Education (DOE). These institutions are often out-of-state schools for disabled children whose needs cannot be easily met by programs within DOE schools. The budget increase is attributable to growth in both the rates and particularly the number of children enrolled in these programs. ACS projects there will be 872 children in institutional schools by the end of 2005, a 64.5 percent jump since 2001. ACS has no control or say in the placement decisions of DOE, but is fiscally responsible for the board and care of these children while they are in placement. Parental requests for placement of their children into one of these institutions are funneled through the Department of Education's Committees for Special Education. Unlike traditional foster care, parents retain their full parental rights.

Preventive Care. The total 2005 budget for preventive care at ACS is $141 million, with a proposed budget of $171 million in 2006. The funding increase results in part from the agency's foster care restructuring, which is funneling money from foster care into preventive services. The Preliminary Budget also includes a separate increase in overall funding for preventive care to provide additional services to reduce child abuse and neglect. For 2006 through 2009, the Preliminary Budget would add $13.4 million each year to reflect the restructuring and additional services. Finally, the Preliminary Budget fully restores a 18.5 percent funding reduction to contracted preventive services for 2006, which was imposed in the November 2002 Financial Plan, adding $22.4 million ($7.9 million in city funds) each year from 2006 to 2009.

The goal of preventive care is to provide services to families and their children at risk of child abuse and neglect, before problems become severe. Such services are designed to increase parental childrearing competence. A second goal of preventive care is to keep the children of at-risk families out of foster care system. Preventive services range from intensive in-home crisis intervention services for high-risk families to less intensive services such as homemaking, housekeeping, home attendant services, parenting skills classes, counseling, and alcohol and drug treatment. ACS contracts with nonprofit organizations to provide preventive services. While an ACS caseworker might recommend preventive services as a result of a child protective investigation, many community organizations also offer these services directly to families upon request.

ACS has made preventive care the main focus of its efforts to strengthen families and decrease the abuse and maltreatment of children, thereby avoiding the need to remove children from their families. In recent years the number of children in preventive care has risen sharply, from 23,855 in June 2001 to 29,509 in June 2004, a 23.7 percent increase. This has coincided with a 28.4 percent decrease in the foster care rolls over the same period. The preventive focus also has assisted the agency fiscally as the average cost of preventive care is roughly $6,400 per year while the average cost of foster care is more than four times higher at $27,171 per year.

Adoption. The 2005 budget for ACS adoption programs is $326 million, with a proposed budget of $325 million in 2006. Over 90 percent of adoption expenditures are for adoption subsidies. When a child is adopted in New York City, ACS usually provides the family with a monetary subsidy to help provide for the child's needs. Federal adoption subsidies were established in 1980 to encourage adoption of special needs children and remove the financial disincentives to adoption for otherwise willing families. In New York State, adoption subsidies are given to families to care for the adoption of special needs children. The term "special needs" is used to classify children who for various reasons are harder to match with adoptive parents. In order to define a foster child as special needs there must be a preexisting factor or condition such as age, sibling status, ethnic background or physical or emotional challenges. Adoption subsidies provide significant incentives for families to adopt by keeping the price of care for the adoptee lower than would be possible without the subsidy.

Spending on these adoption subsidies in ACS totaled $327 million in 2004—of which $41.8 million was city tax levy—an increase of 13.1 percent over the past four years. This increased spending for subsidy payments is driven in part by an increase in the percentage of subsidy-eligible children adopted through ACS. A second factor is the increased emphasis by ACS on moving children more quickly from foster care to more permanent placements.

Child Care. The 2005 budget for subsidized child care at ACS is $479 million, with a proposed budget of $400 million in 2006. Much of the decline in 2006 is due to the expectation that the long-delayed plan to shift responsibility for after-school child care programs from ACS to the Department of Youth and Community Development (DYCD) will finally occur by September 2005 (see further discussion below).

Publicly subsidized child care is designed to provide child care services that enhance child development and assist low-income families in achieving and maintaining financial self-sufficiency. ACS delivers child care through two programs: contracted child care providers and voucher-funded child care providers. Voucher-funded child care providers are individuals who take care of children in their own homes. Contracted child care providers are not-for-profit organizations that operate 346 child care centers throughout the city and contract with the ACS and the Human Resources Administration to provide care for children. Both sets of publicly subsidized child care programs have income eligibility requirements; only children from families on public assistance and with low or moderate incomes qualify. Families can qualify for city-subsidized child care if they earn less than 225 percent of the federal poverty level, which translates into an annual income of approximately $27,000 for a family of two or $42,000 for a family of four. Funding levels for child care, along with the number of children served, have been roughly constant over the past several years. Current total enrollment in ACS contracted child care is approximately 56,200 children, a 3.4 percent increase in total enrollment over the prior year.

The Preliminary Budget restores the funding for 2,500 so-called low-priority child care slots that were originally eliminated in November 2002. Funding for these slots has been restored one year at a time, but the January plan now restores $9 million each year from 2006 through 2009. There is also an allocation of $21.2 million in 2005 to cover recently negotiated raises for child care contract workers. A similar amount is added for each year from 2006 to 2009. These workers are employed by the nonprofit organizations that run the 346 child care centers and negotiate their contracts with the Day Care Council of New York, which represents the boards of the nonprofits. Under the agreement, the child care employees—who had been working without a contract since 2001—received a 12 percent raise as of January 1, 2005, along with a $1,000 signing bonus, and a 2 percent increase effective April 1, 2005. The new contract runs through March 31, 2006. Approximately 7,000 child care workers, who are members of District Council 1707, are covered under this contract.

The Preliminary Budget also reflects adjustments necessitated by delays in implementing a reorganization of the city's after-school child care programs. The 2004 Adopted Budget assumed that as a part of a larger restructuring of social services, responsibility for the after-school child care program would be shifted from ACS to the Department of Youth and Community Development. At the time, the ACS child care budget was reduced by $59 million for each year from 2004 through 2008. This initiative has encountered delays over the past two years and ACS has received a number of one-time supplements to its child care budget to keep the programs running during the transition.

The Preliminary Budget restores $17.6 million in city funds from DYCD to ACS for 2005 to avoid service interruptions for the children still remaining in ACS programs. The transfer is now scheduled to be completed in 2006, with new contractors in place by September 2005.

Head Start. Head Start offers educational programs for children ages 3 to 5 years as well as support services for their families. ACS sponsors more than 250 Head Start centers throughout the city. In the last few years caseload growth for ACS Head Start has been stable, leading to modest expenditure growth as well. Expenditures increased by 16.5 percent over four years, from $158 million in 2001 to $184 million in 2004. Head Start is not slated for increases in the federal budget, with the exception of a proposed $45 million increase for a pilot project to create Head Start block grant programs in nine states. The Preliminary Budget assumes that Head Start spending will decline to $152 million in 2005 and remain at that level in 2006. IBO assumes that an additional $20 million a year in federal Head Start funding will eventually be added to the 2005 and 2006 budgets.

Governor's Proposals. The Governor has proposed merging a number of specific allocations from the Temporary Assistance for Needy Families surplus and turning them into a block grant. Localities would then have more spending discretion. The Mayor's office estimates the plan would reduce funding to the city by roughly $150 million. Much of the surplus now funds child care and child welfare programs.

CAPITAL BUDGET

ACS is responsible for over 200 facilities including the ACS Children's Center, child care centers, congregate foster care homes, program field offices, and administrative offices. The Ten-Year Capital Strategy identified a number of capital improvement needs for the agency including: improving children's services facilities to meet code compliance and handicapped accessibility standards; renovating and expanding child care facilities; upgrading and expanding telecommunication and computer technology to improve service delivery and management; and upgrading the field and central administrative offices. The current four-year plan (2005–2008) totals $92 million, which is 1.1 percent lower than the September 2004 plan, but 38 percent larger than actual 2001-2004 commitments. Commitments are $41.7 million, $25.3 million, $13.8 million, and $11.2 million for 2005 to 2008, respectively. Some major projects for 2005 and 2006 include: $13.5 million in renovations at child care facilities, $25.3 million to update computer equipment, and $6.0 million to improve preventive and protective care resident facilities.

City University of New York (CUNY)

OVERVIEW

IBO projects total city spending for the City University of New York of $559 million in 2005 and $486 million in 2006. These budgeted projections include IBO adjustments to the Preliminary Budget for the pass-though of state funds to senior colleges, funds that are not officially recorded as spending by the city.

CUNY is the nation's largest municipal university system enrolling over 217,000 full-time, part-time, undergraduate and graduate students, a number that has been growing steadily since 1999. CUNY receives nearly three-fifths of its operating budget from the city and state, with tuition and fees accounting for the remainder. Compared to most universities and colleges, public and private, CUNY receives relatively little philanthropic support, although recent efforts have been made to increase this funding source.

EXPENSE BUDGET

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

From 2001 to 2004 overall spending in those areas of CUNY falling within the city budget increased from $402 million to $545 million or 35.6 percent. After we adjust for the pass-through of state funds to senior colleges, the Preliminary Budget projects spending growth of 2.7 percent in 2005 and a decrease of 13.1 percent in 2006. Future Financial Plans are likely to make significant additions to the 2006 budget, however. The October 2004 modification and the Preliminary Budget added $39 million in intra-city funds to the 2005 CUNY budget to reflect intra-city agreements between CUNY and various city agencies. This process will likely be repeated for 2006. In addition, many programs favored by City Council Members traditionally get added in as part of the process of adopting the new budget in June of each year. These city fund additions are usually for only one year, meaning that this process must be repeated on an annual basis. Last year's Adopted Budget added about $30 million in city funds for CUNY in 2005 that were not included in the Financial Plan for 2006 and beyond.

A prime example of this process is the Peter F. Vallone Academic Scholars program. The program rewards students who graduate from a city high school with a B average or better and maintain a B average or better in bachelor and associate degree programs while attending a CUNY institution. Vallone scholars receive grants of $1,000 per year to cover a portion of their tuition. In 2004 the program provided a total of $5.5 million to CUNY students at both the junior and senior colleges. The 2005 Executive Budget did not include any funds for this program, but as part of the budget adoption process the Council funded the program at the enhanced level of $7.0 million. The 2006 Preliminary Budget includes no funds for the Vallone scholars program, but some funding is likely to be included in the Adopted Budget.

City University of New York
As reflected in city budget, dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Community Colleges	$267.8	$285.2	$289.7	$326.8	$321.9	$244.0
Hunter Campus Schools	10.2	7.4	10.8	11.6	11.6	11.6
Adult Continuing Education	6.8	7.5	7.4	6.3	5.3	5.3
Other Programs	10.5	17.4	36.6	25.9	51.7	42.5
Administration	106.3	119.4	128.7	174.1	195.0	208.6
Unallocated Financial Plan Changes	0.0	0.0	0.0	0.0	8.8	8.8
TOTAL	**$401.6**	**$436.9**	**$473.2**	**$544.7**	**$594.3**	**$520.8**
IBO Adjustments						
State Pass-thru to Senior Colleges					(35.0)	(35.0)
IBO Projected					**$559.3**	**$485.8**
Full-time Personnel*	3,763	3,795	3,789	4,282	4,330	4,334
Capital Commitments	$7.5	$10.1	$20.6	$19.2	$113.6	$62.1

SOURCE: IBO.
NOTES: Full-time personnel: June 30 actuals for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 4,358. Excludes part-time and seasonal employees.

The number of full-time CUNY personnel who fall within the city budget increased significantly from 3,789 in June 2003 to 4,282 in June 2004, and is expected to continue to increase in 2005 and 2006. The actual and budgeted increases are mainly in pedagogical titles, which is consistent with CUNY's stated goal of significantly increasing the number of full-time faculty in order to strengthen its academic programs.

Community Colleges. The majority of funds in the city's CUNY budget go to support the associate degree programs at the six community colleges. From 2001 to 2004 expenditures for community colleges increased from $268 million to $327 million, or 22 percent. The Preliminary Budget projects community college expenditures of $322 million in 2005 and $244 million in 2006. Typically, as the budget year progresses funds are moved from central administration to the community colleges. Therefore, expenditure projections for community colleges for 2005 and especially 2006 are expected to increase in future Financial Plans.

Hunter Campus Schools. The Hunter College Campus Schools consist of an elementary school and a high school for gifted students. The schools are publicly funded, chartered by the Board of Trustees of CUNY, and administered by Hunter College. With the addition of city funds for a variety of service improvements, the Preliminary Budget now projects expenditures of $11.6 million for the Hunter Campus schools for both 2005 and 2006, bringing the budgeted amounts back to the same level as actual spending in 2004.

Adult and Continuing Education. Each year over 225,000 students enroll in adult and continuing education (ACE) courses at CUNY colleges. These generally non-credit courses help students to achieve a variety of educational and career goals including professional certification and licensing, career change, skills enhancement, preparation for the general equivalency diploma and other standardized tests, and intellectual and artistic enrichment. Funds for ACE in the city's CUNY budget help pay for courses at the six community colleges. In 2004 expenditures for ACE totaled $6.3 million, while projected spending for 2005 and 2006 is $5.3 million. Since no cuts are planned for the ACE program, additional funds would be required to maintain the program at its current level.

CAPITAL BUDGET

CUNY's four-year Capital Commitment Plan calls for $258 million in total commitments for 2005 through 2008, an average of over $64 million a year—over four times more than the $14 million actually committed on average each year from 2001 to 2004. Planned commitments for 2005 total $114 million. The four-year commitment plan has increased by $61 million or 31 percent since the September 2004 plan. Actual commitments for any given year can vary significantly from the plan, however. For instance, a year ago the plan projected $90 million in commitments for 2004; actual commitments amounted to only $19 million.

The city's capital plan makes up roughly 22 percent of the total CUNY capital program. The city and state equally share the responsibility for funding the capital program for the six community colleges and one senior college, Medgar Evers College (MEC). The state assumes virtually all of the capital funding responsibility for the other 10 CUNY senior colleges, graduate center, law school, and medical school. The city capital budget does not fund senior college and graduate school projects, except when funds are earmarked by City Council Members or Borough Presidents. In 2005, 6.1 percent of city capital commitments for CUNY are designated for senior colleges; in the later years of the plan the share is less than 1 percent.

Rebuilding BMCC. CUNY's capital needs include the replacement of Fiterman Hall, which housed Borough of Manhattan Community College (BMCC) classrooms and the university's research foundation. The skyscraper located at 30 West Broadway was severely damaged in the trade center attacks. The city estimates that it will cost about $180 million to replace the building and its equipment. The vast majority of the needed funds have now been identified. Insurance payments will provide $68 million, $5 million of which have been included in the city's Capital Commitment Plan to fund the demolition phase of the project. Another $20 million will come from the state and is included in the Governor's 2005-2006 Executive Budget. Finally, $80 million in city capital funding is included in the Preliminary Budget four-year commitment plan, an increase of $63 million since the September 2004 plan.

Until the project is completed, the college has rented classroom space at 75 Park Place, across the street from the original Fiterman building. Classes began at this location in September 2004. The state is helping to subsidize these costs.

Other Projects. The current Capital Commitment Plan earmarks the vast majority of funds for a wide variety of relatively small-scale projects that involve the construction, renovation, furnishing, and equipping of existing facilities at all six community colleges and Medgar Evers College. A significant block of funds is also designated for computer systems upgrades.

Medgar Evers College Status. When MEC became a four-year-degree institution in 1994, state lawmakers did not change the school's capital funding status from that of a two-year college. The city has repeatedly requested that state lawmakers change MEC's classification to be the same as all other senior colleges, requiring the state to pay 100 percent of its capital costs, but the state has yet to act on this request.

Department for the Aging (DFTA)

OVERVIEW

The preliminary budget for the Department for the Aging for 2006 is $197.7 million (including intra-city funds), $35.4 million less than the current budget for 2005. Federal and state funding are expected to make up 38.7 percent and 9.9 percent, respectively, of the agency's 2006 budget. City funds will make up 36.3 percent and the remaining 15.1 percent will come from other sources (largely New York City Housing Authority funds). IBO's projections of federal and state funding for the agency in 2006 are greater than the Bloomberg Administration's by $5.1 million, raising IBO's forecast of the agency's 2006 budget to $202.8 million. The agency's proposed full-time headcount for 2006 is 339; this is 21 positions less than the current level budgeted for 2005. The city's January 2005 Capital Commitment Plan provides $31.1 million for the agency's capital program over fiscal years 2005-2008, with a sharp fall-off after 2005; this is about 60 percent less than what the city set aside in its last four year (2001-2004) plan for DFTA's capital program. Actual commitments have been only about one-third the planned amounts in recent years.

EXPENSE BUDGET

The Mayor's 2006 Preliminary Budget provides $233.1 million in 2005 and $197.7 million in 2006 for the agency, a decline of $35.4 million. The Bloomberg Administration's lower expectations for categorical aid (federal, state, and other) explains about a third ($10.8 million) of the difference between 2005 and 2006. Reduced city funds, due to actions taken in this year's Preliminary Budget ($4.2 million) as well as previous baseline cuts for fiscal years after 2005 that have not been restored, account for the rest of the difference between 2005 and 2006.

In examining DFTA's operating budget at the program level, it appears that three key service areas would be affected by the level of funding proposed in 2006, compared to the current level of funding for 2005.[1] The agency's program budget for meals would be reduced by $12.2 million to $58.1 million in 2006; social services and transportation would be reduced by $8.3 million to $35.8 million in 2006; and case management would be reduced by $700,000 to $12.8 million in 2006. At this stage it is hard to determine the extent of the impact on DFTA's contractor community and the elderly clients they serve if the proposed budget for 2006 is enacted.

Agency Trends in Program Spending. As presented in the city's budget documents, tracking program spending for DFTA is more difficult than for most city agencies. Even after some restructuring in 2005, much of the agency's work is grouped under a single category for community program contracts. Although the agency has supplied IBO with expenditure data at the program level for fiscal years 2002, 2003, and 2004, the categories are somewhat different from those shown in city budget documents and cannot be directly compared. Based on this agency data, DFTA's budget can be divided into two functional categories—administration and community programs. Administrative expenses consist of personnel, rent, utility, and equipment expenses for the agency. The agency provides a broad range of services for the elderly, both directly and indirectly through contracts with community-based providers. Based on the information provided to IBO, the agency's spending on community programs increased by 2.6 percent from $186.3 million in 2002 to $191.2 million in 2004. Community programs comprised 83.6 percent of the agency's total spending in 2004; this is 3.0 percentage points higher than in 2002.

Department for the Aging
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Administration	$21.0	$22.6	$22.8	$22.8	$21.2	$20.4
Community Programs	215.6	208.6	206.7	205.8	216.4	181.9
Unallocated Financial Plan Changes					(4.5)	(4.6)
TOTAL	**$236.6**	**$231.2**	**$229.5**	**$228.6**	**$233.1**	**$197.7**
IBO Adjustments						
State & Federal Categorical Grants					4.2	5.1
IBO Projected					**$237.3**	**$202.8**
Full-time Personnel*	375	395	376	391	360	339
Capital Commitments	$7.4	$8.0	$4.8	$3.0	$18.6	$8.3

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 382. Excludes part-time and seasonal employees.

The agency's

Selected Community Programs for the Elderly
Dollars in millions

Program Area	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Case Management	$13.1	$13.0	$13.1	$13.5	$12.8
Home Care Services	22.5	23.9	26.6	22.5	22.5
Meal Services	72.6	73.6	74.1	70.3	58.1
Social Services and Transportation	56.8	56.5	57.3	44.1	35.8

SOURCES: IBO; Department for the Aging.

community program budget can be broken down further into the following categories—meals, case management, home care services, social services and transportation, and other miscellaneous expenses (insurance for delegate agencies and one-time payments and equipment for senior centers). Meal expenditures increased by 2.1 percent from $72.6 million in 2002 to $74.1 million in 2004. Meals comprised 38.8 percent of the agency's community program expenses in 2004. A total of 12.2 million meals were provided last year through the city's 328 senior centers. Case management expenditures decreased slightly by 0.3 percent to $13.1 million in 2004, accounting for 6.9 percent of the agency's community program expenses in 2004. Home care services grew by 18.2 percent from $22.5 million in 2002 to $26.6 million. In that year, home care services comprised 13.9 percent of the agency's community program expenses. Last year 1.6 million hours of non-medical home care services were provided to frail elderly clients. Social services and transportation increased by 0.9 percent from $56.8 million in 2002 to $57.3 million in 2004 and accounted for 30.0 percent of the agency's community program expenses.[2] Last year, 766,000 rides were provided to help transport seniors to a variety of locations including social service agencies and to medical and other essential appointments. Miscellaneous expenses declined by 5.6 percent from $21.3 million in 2002 to $20.1 million in 2004. Miscellaneous expenses comprised 10.5 percent of the agency's community program expenses in 2004.

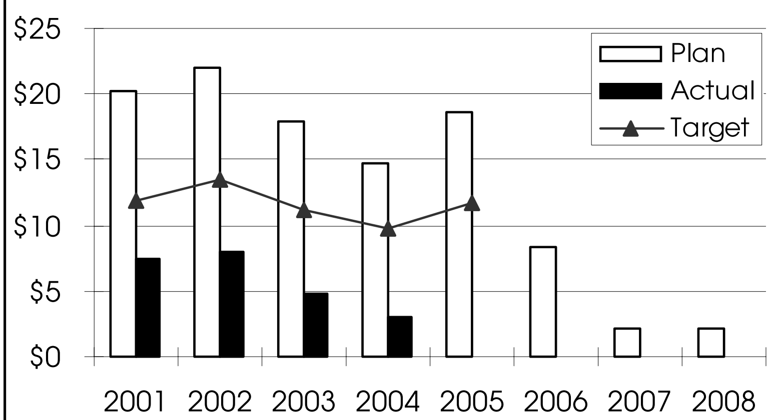
Federal and State Actions. The President's 2006 budget request for the Administration on Aging is $1.4 billion, $24 million less than the current budget for 2005. Funds for core services including family caregiver support, home and community-based support services, and nutrition services are maintained. The Governor's 2005-2006 Executive Budget includes a modest increase of $250,000 for the Community Services for the Elderly Program, raising total program funds to $16.6 million statewide. In addition, the Governor has proposed doubling the funds for the Expanded In-home Services for the Elderly Program over the next two years. Subsequent to the release of his Executive Budget, the Governor submitted 30-day amendments which added $300,000 for an elderly abuse education and outreach program.

CAPITAL BUDGET

The agency's capital program typically consists of several projects to renovate senior centers, vehicle and computer purchases for senior centers, and enhancements to the agency's information management systems to improve service delivery. The city's January 2005 Capital Commitment Plan provides $31.1 million for DFTA's capital program over the next four years—$18.6 million for 2005, $8.3 million for 2006, $2.1 million for 2007 and $2.1 million for 2008. This represents a modest increase of $315,000 from the level of funding provided in the prior Capital Commitment Plan released in September 2004.

While the city's Capital Commitment Plan provides $18.6 million in the current year, DFTA is only expected to commit 63.1 percent of that amount or $11.7 million. This estimate is based on a commitment target set by the Mayor's budget office and which is effectively a ceiling on how much an agency can spend. Over the last four years DFTA's capital commitments have fallen short even of the target established by the Mayor's budget office. During fiscal years 2001 through 2004 the agency was expected to commit $47.6 million or 63.6 percent (four-year average) of $74.8 million in total agency capital funding. DFTA ended

DFTA's Plan, Target, and Actual Capital Commitments
Dollars in millions



SOURCES: IBO; Capital Commitment Plans; and FMS.

up committing $24.7 million over that four-year period—approximately half of its capital commitment target and one-third of the total amount approved for the agency's capital program. City agencies can fail to meet 100 percent of their commitment target for a number of reasons, including changes to project scope, unrealistic project schedules and insufficient capacity to manage their capital program.

Nearly two-thirds of the $24.7 million that DFTA committed over fiscal years 2001-2004 went towards the rehabilitation of two senior centers–the Sirovich Senior Center in Manhattan ($8.1 million) and the Open Door Senior Center in Manhattan ($7.8 million).[3] The extensive capital work at Sirovich, which included a new roof, was a result of water damage. The remaining funds went toward the repair of two other senior facilities—the Woodside Senior Center in Queens ($1.9 million) and the Lenox Hill Neighborhood Houses Plaza in Manhattan ($1.4 million)—and for the renovation of computer work stations at senior centers and the purchase of computers for senior centers throughout the city ($1.2 million).

END NOTES

[1] Prior to 2005, over 70 percent of DFTA's budget was consolidated in one expense code making it difficult to track spending and budget allocations by program. In 2005 the agency created additional expense codes that correspond to some key program areas. The agency has supplied IBO with historical spending data by key program area for 2002, 2003 and 2004. These figures are presented in the report table along with 2005 and 2006 figures which were obtained from city budget documents.

[2] While city budget documents group social services and transportation, the agency did supply historical spending data separately for transportation. Transportation declined by 0.4 percent to $7.9 million in 2004 compared to 2002. In addition, it comprised 4.1 percent of the agency's community program expenses in 2004.

[3] These capital dollar amounts represent what was committed over the four-year period examined, not the total cost of the project.

Department of Education (DOE)

OVERVIEW

The Preliminary Budget projects that the Department of Education budget will be $13.76 billion in 2005 (4.6 percent above 2004's spending) and basically unchanged in 2006 at $13.75 billion. IBO's projections are somewhat higher than the Bloomberg Administration's at $13.8 billion in 2005 and $13.9 billion in 2006. The differences—$47 million this year and $155.6 million next year—result from our higher estimate of state and federal aid and IBO's inclusion of funding for programs begun in 2005 that we expect to be ongoing.

After several years of rapid changes, the budget outlook for DOE is fairly stable, at least for the current year and for 2006. The changes in the Preliminary Budget for the most part concern reestimates of the costs of existing programs rather than significant new initiatives or further reorganization of the department. At the state level, the Governor's budget once again proposes a consolidation of several funding formulas. It would create a Sound Basic Education Aid grant to address the funding disparities identified in the Campaign for Fiscal Equity (CFE) case, although the Governor has offered only modest increases in the total amount of school aid. With the Governor expected to appeal the latest court ruling in the CFE case, it is unlikely that any significant infusion of state aid from a final resolution will become available for 2005 or 2006. Similarly, at the federal level, the President's budget would result in only small changes in federal aid for city schools, at least over the next two years.

The Capital Commitment Plan for 2005-2008, which accompanied the Preliminary Budget, does include a significant change to the DOE's own five-year education capital plan. With anticipated additional state aid unavailable, $1.3 billion in school projects scheduled for 2005 have been removed from the plan and rescheduled for later years.

EXPENSE BUDGET

Preliminary Budget Changes. IBO estimates that under the Preliminary Budget, DOE's budget will be $13.8 billion in 2005, an increase of 5.0 percent over 2004 spending levels, and $13.9 billion in 2006. IBO's reestimate of the DOE budget includes an additional $87 million for the annual cost of sustaining three programs (ending fifth grade social promotion, restructuring existing schools, and adjustments to school-level allocations made last fall) that began in 2005 and are expected to continue. The Preliminary Budget only provides funds for 2005. Our estimates also include a separate adjustment of the assumptions regarding the share of any new teacher's contract that would be borne by the state.

The Preliminary Budget changes for this year largely involve growth in non-public school payments and adjustments

Department of Education
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Instruction	$8,334.9	$8,674.5	$9,441.2	$9,789.7	$10,309.2	$10,238.8
Administrative Support	939.2	836.2	794.4	616.7	629.0	595.8
Non-Instructional Support	1,780.3	1,794.9	1,834.9	1,964.8	$2,007.9	2,070.3
Non-Public School Payments	558.3	577.6	710.5	776.9	$812.3	841.4
TOTAL	**$11,612.6**	**$11,883.3**	**$12,781.0**	**$13,148.1**	**$13,758.4**	**$13,746.3**
IBO Adjustments						
City Funds					$38.7	$125.7
State & Federal Categorical Grants					8.4	29.9
TOTAL					$47.1	$155.6
IBO Projected					**$13,805.6**	**$13,901.9**
Personnel Total*	139,375	136,843	135,728	134,220	134,719	134,719
Full-Time	102,583	102,320	100,694	117,609	118,770	118,770
Full-Time Equivalents	36,792	34,523	35,034	16,611	15,949	15,949
Capital Commitments	$2,429.0	$1,340.0	$963.0	$593.0	$1,425.9	$2,629.4

SOURCE: IBO.
NOTES: Personnel: Estimated data for 2001; April 30 actual for 2002; June 30 actual for 2003 and 2004; budgeted positions for 2005 and 2006. As of November 2004, actual staffing was 118,759 full-time personnel and 16,180 full-time equivalents.

related to the delayed state budget. Non-public school payments include tuition expenditures that DOE must make for students with special needs that cannot be met by the New York City public schools. At the close of 2004, DOE discovered a deficit in this area. After accounting for the shortfall, spending on non-public school students with special needs grew by 9.3 percent in 2004. Continued expenditure growth in non-public school expenses has prompted the department to increase funding by $55.8 million for each year from 2005 through 2009. Thus non-public school payments are now budgeted to increase by $35.5 million (4.6 percent) between 2004 and 2005 and are projected to increase by another $29.1 million (3.6 percent) in 2006.

Delays in the passage of the state budget also forced DOE to adjust its budget. Uncertain about the level of funding the state would provide to the department, the city conservatively estimated the amount of state aid it would receive. Thus, DOE's adopted budget for 2005 projected $5.9 billion in state revenue, a number that closely corresponded to the amount of state aid in 2004. After the state adopted its budget, it became clear that DOE would receive more state aid than originally budgeted. As of the Preliminary Budget, the city has upped its state aid forecast for 2005 by a total of $311.1 million. As a result, DOE projects that total revenue from the state will equal $6.2 billion in 2005 and $6.3 billion in 2006. The Preliminary Budget also includes $51.2 million in additional funding to cover increased costs associated with new school bus contracts beginning in 2006.

IBO estimates that the total budget for DOE grew by 18.5 percent or $2.2 billion between 2001 and 2005. Over that period, year-to-year growth has varied with more of the growth concentrated in the early years; DOE's budget grew by 10.1 percent between 2001 and 2003 and by 8.0 percent from 2003 to 2005. Under the Preliminary Budget, the growth will slow even further in 2006. In the last few years, the city, state, and federal shares of the budget have remained fairly constant, with small fluctuations each year.

When we look by program area, the changes since 2001 are far from across the board, with markedly different trends in spending among the different programs. IBO has grouped DOE spending into four major categories, or program areas: classroom instruction; administration; non-instructional support, which includes items such as school facilities and transportation; and non-public school payments. Each program area includes salaries, fringe benefits, supplies and any contracts for the appropriate functions. Classroom instruction is the largest expenditure and accounted for 74.4 percent of the budget in 2004, followed by non-instructional support with 14.9 percent. Non-public school payments absorbed 5.9 percent of the budget and administration received 4.7 percent. The significant restructuring of DOE over the last three years makes it difficult to compare spending over time among the four program areas with standard budget data. Using information supplied by DOE, IBO has adjusted the historical spending data to make it more consistent with the current structure.

Instruction. Classroom instruction includes salaries and fringe benefits for teachers, principals, paraprofessionals and other classroom instructors, as well as costs of school supplies. Categorical programs, funded in large part by the state and federal government, are included in classroom instruction because typically these dollars are spent on instruction. For example, federal Title I funding for supplemental instruction as well as state money for bilingual education is included in these programs. Additionally, collective bargaining reserves are included in classroom instruction because over the past five years, the vast majority of these dollars have been set aside for either principals' or teachers' contracts.

Instructional spending has grown 23.7 percent between 2001 and 2005. This is part of a longer trend, propelling classroom spending since the late 1990s. However, growth has slowed in recent years. After growing by 8.8 percent in 2003, due primarily to increased teacher compensation under the collective bargaining agreement that took effect that year, instructional spending grew by 3.7 percent in 2004 and is expected to by 5.3 percent this year. A handful of initiatives introduced in the last two years, including the new third and fifth grade social promotion policy, a middle school class size reduction program, and the restructuring of existing schools into smaller schools, account for some of the instructional budget growth. Other factors include a 13.5 percent increase in fringe benefits costs for teachers and other staff over the last two years, and continued growth in teacher compensation. Even with the slowdown in growth, the change in the actual amount of instructional spending since 2002—the year before the Children First restructuring began—exceeds $1 billion. From 2002 to 2004, spending grew by $1.1 billion (12.9 percent) and it is expected that the increase from 2002 to 2005 will be $1.6 billion (18.8 percent).

Under the Preliminary Budget, instructional expenditures in 2006 are expected to decrease by $70.5 million. IBO estimates that the DOE budget for 2005 will eventually be $47.1 million higher than in the Preliminary Budget and $155.6 million higher in 2006. Assuming that these additional funds will largely go to instructional programs, the apparent decline in classroom spending from 2005 to 2006 is likely to be reversed.

Administration. Administrative spending includes all expenses for the former district offices, high school superintendencies, special education administration, high school operations support, central administration, and the new regional offices. In the summer of 2002, DOE announced plans to streamline its administrative bureaucracy, a reorganization that was expected to reap savings of $250 million and apply the savings to classroom instruction. Although spending on administration has been decreasing since 2002, changes to DOE's internal budget structure make it difficult to fully assess whether the department has attained the savings it claimed. Where the budget data was ambiguous, IBO allocated certain expenses either to administration or to instructional categories and these judgments have a big impact on the results.

IBO's program analysis, which draws upon supplementary information provided by DOE, indicates that administrative spending declined by $221 million from 2002 to 2004. DOE has released an analysis claiming to show over $267 million in savings, although that analysis ignored the fringe benefit savings from the reorganization. As noted above, IBO's program analysis allocates fringe benefits costs to each area. If we ignore the fringe benefits savings, which would be consistent with the DOE calculation, the administrative savings between 2002 and 2004 equal $191 million. It is even more difficult to determine whether the savings were shifted to the classroom as claimed by the Chancellor and the Mayor. As shown above, instructional spending has increased by over $1 billion over the same period, but there is no way to determine how much of that increase would have occurred even if the department had not achieved significant administrative savings.

The Preliminary Budget indicates that the downward trend in administrative spending will reverse in 2005 with a 2.0 percent increase. The city expects administrative expenditures to shrink once again in 2006 by $33.1 million or 5.3 percent.

Non-Instructional Support. In 2005, DOE expects to spend $2.0 billion on non-instructional support, including expenditures for pupil transportation, food services, school safety, custodians, energy, and leases. This represents 2.2 percent growth over 2004 and a 12.8 percent increase since 2001. Spending on some of these items such as school bus transportation (up 24.6 percent), school safety (up 31.8 percent), and energy and leases (up 30.6 percent) have been growing rapidly. These increases have been partially offset by declines in other categories such as custodial and maintenance (down 10.8 percent) and food service (down 5.4 percent). Under the Preliminary Budget, non-instructional support spending is expected to grow in 2006 to $2.1 billion, due largely to a $101.5 million increase in the amount budgeted for school bus transportation as new contracts with the private bus operators take effect.

Non-Public School Payments. The final category, non-public school payments, includes payments that DOE is required to make for New York City children who have special needs that cannot be met by the New York City public schools. These students may attend private schools or public schools in other districts. The category also includes transportation for both special needs and other private school students, mandatory textbook contributions for all private schools, and payments for charter schools. Expenditures in this category grew 45.5 percent between 2001 and 2005 and are projected to rise by another 3.6 percent in 2006. One of the major expenses driving the growth in this category is payments to special education contract schools. In the Preliminary Budget, the budget for payments to these schools, which include institutions both in and out of New York City, rises by $24.9 million for 2005 and $3.1 million in 2006. The growth in non-public school payments also is a result of increased enrollment in charter schools. Between 2004 and 2005, funding for these schools increased 60 percent, from $48.9 million to $78.3 million. According to the Preliminary Budget, charter schools will receive an additional $12.1 million in 2006.

Campaign for Fiscal Equity. In June 2003, the New York State Court of Appeals agreed with the findings of the trial court that New York City schools do not receive enough funding to provide a sound basic education. The Court of Appeals ordered the state to begin to provide a remedy by July 2004. The state did not comply with this mandate and, in August 2004, the New York State Supreme Court appointed a panel of judicial referees to devise a remedy.

In February 2005, the Supreme Court accepted the recommendations of the referees and ordered that spending increase by $1.2 billion for the 2005-2006 school year, with the increase growing each year so that by 2008-2009, annual spending for operating expenses will be $5.6 billion higher. The Supreme Court also accepted the referees' recommendations regarding spending on school facilities, ordering $9.2 billion in additional capital spending for facilities over the next five years. The Supreme Court also required the state to conduct periodic studies to assess the cost of providing a sound basic education to New York City students and to determine the amount of any additional annual funding required. The court stated that it did not have the power to prohibit the state from forcing the city to contribute additional operating funds, and gave the state 90 days to implement the ruling and the remedy.

Governor Pataki intends to appeal the Supreme Court's ruling and continues to maintain that the Legislature, not the court, should establish the budget for education, despite the fact that the Judge in his February 2005 decision determined that the Legislature had already failed to comply with the Appeals Court order to find a solution by July 30, 2004. Assuming the Governor appeals, it is unlikely that any final decision will be reached in 2005 or 2006. Although the Governor's budget contains funding for Sound Basic Education Aid to deal with some of the funding issues in the Campaign for Fiscal Equity case, the proposed aid falls far short of addressing the Supreme Court's order (see below).

STATE AND FEDERAL BUDGETS

The Governor's Proposals. The Governor's proposed budget for 2005-2006 includes $15.9 billion for education, an increase of $526 million over the 2004-2005 state aid levels. Of this amount, New York City would receive $5.9 billion, or 37 percent. According to the Governor, the city would receive $279 million more than the previous year, which amounts to 53 percent of the statewide increase in aid. The Governor's budget recommends modest changes to the school aid system with only two significant proposals, and both have met with rejection in previous years. One is a limited response to the CFE decision and the second consolidates some of the complex state aid formulas without addressing the critical problem that the formulas shortchange high-needs districts.

The Governor's budget reprises last year's proposal to provide funding for a sound basic education, the standard used in the Campaign for Fiscal Equity case. Revenue from video lottery terminals, many of which would be installed at new betting parlors located at horse racing tracks across the state, would support the program. Unlike other formula aids, this grant would be allocated based primarily on educational and economic need. School districts receiving the grant would be required to match the funds using local revenues. The Governor's budget provides $325 million for the program in 2005-2006 and expects to provide up to $2 billion over the next five years. According to Governor Pataki, New York City would receive 60 percent of the total aid, amounting to $195 million in 2005-2006 and $1.2 billion over the five years of the program. The Bloomberg Administration is highly critical of this plan, arguing that the additional aid falls far short of fulfilling the mandates of the CFE court order. Moreover, the required local match means that the city would be contributing half of the funding used to meet the sound basic education standard. The Bloomberg Administration and many education advocates maintain that given the findings in the CFE decision regarding the state's culpability, most or all of the new aid should come from the state.

Currently there are more than 30 types of school aid, most with their own individual formulas. As he has done for the last several years, Governor Pataki proposes to consolidate a number of these aids into a single revenue stream, which he calls Flex Aid. A single formula would be used to distribute the flex aid money with fewer constraints on how a school district spends the money. In 2005-2006, the Governor's budget proposes to combine six funding formulas, including comprehensive operating aid, extraordinary needs aid, educational related support services aid, limited English proficiency aid, summer school aid, and minor maintenance aid. Flex Aid would equal $8.4 billion and New York City would receive $3.5 billion. These amounts are similar to the sum of each of the six original formulas. While Flex Aid would reduce the complexity of the school aid system and leave greater discretion to school districts, the Governor's proposed formula would do little to address the problem that the existing formulas are not weighted sufficiently to take into account the additional expenses faced by districts with large numbers of high needs students.

The President's Proposals. In his budget for federal fiscal year 2006, President Bush proposes to spend $69.4 billion on education. This is a slight decrease from 2005 and some are concerned that more significant budget cuts are possible in the next five years, as Congress seeks to meet budget targets for reducing discretionary spending. The President's request includes $25.3 billion for programs that are part of the No Child Left Behind Act of 2001 (NCLB), which reauthorized the 1965 Federal Elementary and Secondary Education Act.

New York State is projected to receive $1.9 billion of the NCLB funds under the President's budget. In his 2006 budget, President Bush also has proposed a new $2 billion secondary school initiative as part of NCLB, including strengthening secondary education, new testing requirements for high school students, and increased availability of advanced placement courses.

NCLB requires states to submit adequate yearly progress plans to the Federal Department of Education. The yearly plan is an assessment of student and school progress as measured by standardized test scores. The federal education department has approved New York State's plan, which New York City has adopted. A multiyear protocol is in place for schools that fail to make adequate yearly progress. If the school continues to fail it is closed down and the reopened under new leadership. Any school that receives federal NCLB funds that fails to make adequate yearly progress two years in a row is placed on the state's schools in need of improvement list (SINI) and is considered a SINI year one school. If that school fails to make adequate progress for a third year, it becomes a SINI year two school. In the fourth year of deficiency, the school is labeled in need of corrective action. Finally, in the fifth year, DOE must begin planning for restructuring of the school. Restructuring occurs in the sixth and seventh years unless the school begins to make adequate progress.

Under NCLB, the education department must provide transfers and tutoring services to students in schools that are not achieving according to New York State's yearly progress plan. Students in SINI year one schools are eligible for transfer to a non-SINI school. Students in schools labeled SINI year two, corrective action, planning for restructuring, or restructuring can opt to either transfer or remain in their schools and receive supplemental educational services (tutoring). NCLB requires school districts to set aside up to 20 percent of their Title I funds to provide tutoring services and transportation if needed for transferring students. Schools in corrective action must offer transfers, supplemental services, and choose from a menu of organizational changes. Schools that are planning for restructuring or restructuring develop a restructuring plan to address the school's needs and implement that plan.

As of September 2004, 76 New York City schools were SINI year one, 71 were SINI year two, 29 were in need of corrective action, 79 were planning for restructuring, and 75 were restructuring. According to DOE, in 2004-2005, of the more than 300,000 students eligible for transfers out of these schools, only 5,000 elementary and middle school students requested transfers—about 1.7 percent of those eligible—and only 551 students have actually transferred—about 11 percent of those requesting transfers and about 0.2 percent of those eligible to transfer. Another 1,965 of the students initially requesting transfer chose instead to enroll in supplemental educational services—about one-third of those requesting transfers—joining approximately 73,000 other students in grades K-12 who registered for these services. In total, the tutoring program is serving about 25 percent of those potentially eligible.

There has been some controversy over the transfer program. Critics have argued that the low number of transfers is a result of DOE's attempt to place a cap on the program. They contend that DOE has done this by allowing only elementary and middle school students to transfer, offering transfers after the start of the school year, offering transfers to schools that were equally as poor performing as the students' current schools, and offering transfers to schools that were located far from students' homes. DOE officials claim, however, that the transfers occurred after the start of the school year because they were waiting for the Federal Department of Education to release federal data on failing schools. Furthermore, DOE officials maintain that they must limit the number of transfers in order to prevent better performing schools from becoming overcrowded.

Finally, NCLB requires that by the 2005-2006 school year, all classroom teachers in schools receiving federal funding must be "highly qualified." Although the federal act does not specifically require state certification, New York State has adopted certification as its standard of a highly qualified teacher. Under a previous New York State Regents policy, all teachers in the state were supposed to be state certified by September 2003. DOE has reported that all newly hired teachers this year were certified.

CAPITAL BUDGET

The city's January 2005 Capital Commitment Plan, which covers fiscal years 2005-2008, reduces the Department of Education's capital budget by $1.3 billion (12.4 percent) to $9.3 billion, compared to the level of funding provided in September 2004. This reduction is due to a shortfall in state funds that were anticipated to be available in 2005 as part of the resolution of the Campaign for Fiscal Equity (CFE) school finance lawsuit. The Bloomberg Administration now expects the additional state aid to become available beginning in 2006, assuming the case is resolved by then. Of

Comparing the City's Four-Year Capital Commitment Plans for Education
Dollars in millions

	2005	2006	2007	2008	Total
September 2004 Plan					
City Funds	$1,426	$1,317	$1,313	$1,313	$5,369
State Funds	$1,313	$1,313	$1,313	$1,313	$5,252
Total	**$2,739**	**$2,630**	**$2,626**	**$2,626**	**$10,621**
January 2005 Plan					
City Funds	$1,426	$1,317	$1,313	$1,313	$5,369
State Funds	$0	$1,313	$1,313	$1,313	$3,939
Total	**$1,426**	**$2,630**	**$2,626**	**$2,626**	**$9,308**
Change					
City Funds	*$0*	*$0*	*$0*	*$0*	*$0*
State Funds	*($1,313)*	*$0*	*$0*	*$0*	*($1,313)*
Total	**($1,313)**	**$0**	**$0**	**$0**	**($1,313)**

SOURCES: IBO; City Capital Commitment Plans.

the $9.3 billion plan for education capital spending in the January commitment plan for 2005-2008, Albany is expected to contribute 42 percent ($3.9 billion) while the city is responsible for the balance.

The Five-Year Plan. Unlike most departments, where the city's four-year commitment plan is the only tool for understanding an agency's capital plans and priorities, DOE has a separate five-year capital planning process mandated by state education law. The 2005-2009 Capital Plan, the department's fourth such five-year plan, which was adopted last June, calls for a total investment of $13.1 billion. The adopted plan assumed that the city and state would each contribute half or $6.5 billion for the plan. The state's portion depends on the resolution of the CFE lawsuit. The Governor plans to appeal the latest ruling rendered in February 2005 by Judge DeGrasse, who has been presiding over the case, which ordered the state to provide $9.2 billion over five years to address the capital needs of New York City's public schools. (The judge's order would also provide $5.6 billion in additional operating spending annually for New York City public schools.)

Since the additional state funds that were anticipated in 2005 have not materialized, DOE has proposed adding another year to the current five-year plan to avoid eliminating capital projects. Under state law, any significant change to the adopted plan must be approved by the Education Policy Panel (EPP), formerly the Board of Education, the City Council and the Mayor but it is left to the discretion of the Chancellor whether to submit amendments to an approved five-year plan to begin the process. The law includes the following events which would trigger an amendment: the estimated cost of any program element (for example, new construction) increases by more than 10 percent from the estimate contained in the approved plan; a project is delayed by more than six months; the proposed site for a project is changed; a project (excluding emergency projects) not included in the approved plan is added to the plan; or the city provides less funding than was proposed in the approved plan.

Last year the Chancellor agreed to another requirement beyond the state law requirements. He signed a memorandum of understanding (MOU) with the Mayor and Speaker of the City Council that requires the department to amend their current five-year plan each year by March 1. In the past, the department has not submitted many amendments to prior five-year plans even though numerous changes were made to those plans.[1] The MOU also states that the plan shall be amended if total funding in any plan year falls short by 5 percent or more due to state budget actions.

Comparing Proposed Amendments to the 2005-2009 Plan. The process of amending the department's 2005-2009 Capital Plan is currently underway. In November 2004, the Chancellor released his proposal, which reflects $13.3 billion in total plan funding, an increase of $212 million compared to the plan adopted in June 2004. Part of the change is explained by an increase of $57 million for the Capacity Program, an increase of $18 million for the Capital Improvement Program, and an increase of $15 million for miscellaneous items (building condition surveys and insurance). The balance of the increase is due to the appropriation of $122 million for Resolution A projects, which are essentially an add-on or complement to the five-year plan. The November draft also recommends the construction of 754 additional classroom seats, compared to the adopted plan. Of the 754 additional new seats, 717 are slated for Brooklyn. This brings the total number of new seats to be constructed to 66,358 seats.

Between November 2004 and January 2005 the education department sought input from the Community Education Councils (which replaced the Community School Boards), elected officials and other community groups in revising the draft of the amendment, leading to a second draft which was released in February 2005. The February draft also incorporated the reduction in the January Capital

Commitment Plan. It provides $12.0 billion in total plan funding, a net reduction of $1.4 billion compared to the November draft or $1.1 billion compared to the adopted plan (see discussion in next paragraph). It also provides $1.6 billion in fiscal year 2010, which is formally the first year of what will be the next five-year plan (2010-2014), to complete current plan projects that will have to be deferred due to the shortfall in state funding. As a result of the changes in project schedules, the department added $200 million for inflation costs, bringing the total level of funding for the six-year period to $13.6 billion. No additional change in the number of seats to be constructed was proposed in the February 2005 draft, compared to the first amendment draft.

On February 28th, the Education Policy Panel took the first step to formally amend the five-year plan by approving the second (February) draft. At his testimony before the public meeting of the EPP, the Speaker of the City Council indicated that the Council would withhold its approval of the amendment unless the city restores the $1.3 billion that was cut from the Capital Commitment Plan for the department in January.

The net reduction of $1.1 billion contained in the amended plan primarily affects the department's Capital Improvement Program (CIP). According to the education department, the rehabilitation priorities in 2005 include exterior building repairs requiring sidewalk bridges and science labs (part of the Chancellor's Children's First Initiative). In 2006 and subsequent years, CIP priorities include other exterior building repairs, maintaining each region's proportion of CIP projects based on building needs assessment, and packaging multiple projects at schools. The latter criteria might result in building components rated 4 or 5 (in urgent need of repair) going unaddressed in certain schools if that were the only repair needed. The February draft cuts the CIP category by $1.4 billion to $7.0 billion over fiscal years 2005-2009; however, $1.5 billion is set aside in 2010 for remaining CIP projects.

The adopted plan only identified the specific CIP projects that would be undertaken during the first two years of the five-year plan. When the plan was adopted, DOE promised that each subsequent amendment to the five-year plan would identify another year of CIP projects. The February draft did identify specific CIP projects for 2007, the third year of the plan. Because five-year's worth of CIP projects have not been identified, IBO cannot track the fate of all the individual projects in this category of the five-year plan.

Although IBO cannot identify all of the individual projects,

Comparison of Proposed Amendments to Five-Year Capital Plan for Fiscal Years 2005-2009

	Adopted Plan June 2004	1st Draft Amendment Nov. 2004	2nd Draft Amendment Feb. 2005 2005-2009	2nd Draft Amendment Feb. 2005 2010	*Change from Adopted to February Amendment 2005-2009*	*Change from Adopted to February Amendment 2005-2010*
FUNDING ($ in millions)						
Five-Year Plan						
Capacity Program	$4,224.9	$4,282.1	$4,209.5	$63.4	*($15.4)*	*$48.0*
Capital Improvement Program	$8,311.9	$8,329.8	$6,954.2	$1,495.3	*($1,357.8)*	*$137.6*
Miscellaneous (insurance and building surveys)	$364.2	$379.4	$461.0	$7.0	*$96.8*	*$103.8*
Completion Costs for Prior Plan (2000-2004)	$225.0	$225.0	$225.0	$0.0	*$0.0*	*$0.0*
Subtotal	*$13,126.0*	*$13,216.3*	*$11,849.6*	*$1,565.7*	*($1,276.4)*	*$289.4*
					$0.0	*$0.0*
Add-ons					*$0.0*	*$0.0*
Resolution A	$0.0	$122.1	$125.1	$0.0	*$125.1*	*$125.1*
Mayor and City Council	$0.0	$0.0	$13.1	$0.0	*$13.1*	*$13.1*
Total	**$13,126.0**	**$13,338.4**	**$11,987.8**	**$1,565.7**	***($1,138.2)***	***$427.6***
CAPACITY PROGRAM (new seats to be added)						
Bronx	19,410	19,425		19,425		*15*
Brooklyn	15,738	16,455		16,455		*717*
Manhattan	3,590	3,591		3,591		*1*
Queens	23,326	23,345		23,345		*19*
Staten Island	3,540	3,542		3,542		*2*
Total	**65,604**	**66,358**		**66,358**		***754***

SOURCES: IBO; Department of Education.

Impact on Capital Improvement Program (CIP)
Dollars in millions

CIP Category	Change from Adopted to February 2005-2009	2010 Added in February	*Change over 2005-2010*
Technology	($345.6)	$179.5	*($166.1)*
School Improvement & Restructuring	($262.8)	$304.7	*$41.9*
Lighting Fixtures	($250.8)	$199.1	*($51.7)*
Electrical Systems	($137.9)	$198.1	*$60.2*
Auditorium Upgrade	($113.2)	$125.2	*$12.0*
Exterior Modernizations	($110.2)	$0.5	*($109.6)*
School Safety and Security Systems	($84.1)	$86.5	*$2.4*
Playground Redevelopment	($63.5)	$17.0	*($46.5)*
Charter/Innovative Schools	($61.0)	$70.0	*$9.0*
Paved Area-Concrete	($56.2)	$89.1	*$32.9*
Flood Elimination	($29.0)	$25.3	*($3.7)*
Emergency Lighting & Fire Safety Retrofits	$42.2	$0.0	*$42.2*
Windows	$49.0	$8.8	*$57.8*
Emergency Unspecified	$57.0	$0.0	*$57.0*
Other	$8.3	$191.5	*$199.8*
Total	**($1,357.8)**	**$1,495.3**	***$137.6***

SOURCES: IBO; Department of Education.

we can look at shifts among the types of projects within the CIP category. Some of the key CIP categories that would be cut (even after 2010 funding is included) are technology by $166 million, exterior modernizations by $110 million, lighting fixtures by $52 million, and playground redevelopment by $46 million. On the other hand, some of the reduction is offset by increased funding for electrical systems ($60 million), windows ($58 million), emergency projects ($57 million) and emergency lighting and fire safety retrofits ($42 million). Compared to the adopted plan, the February amendment also includes a net reduction of $15 million for the Capacity Program and $97 million in additional funds for building surveys and insurance.

State Actions. The Governor's 2005-2006 Executive Budget includes several proposals that would help the city continue to make investments in its public school facilities. First, an increase of $2.8 billion in statutory bonding authority would be provided to the city's Transitional Finance Authority for school construction projects. Second, the Governor recommended creating a state matching grant program to recognize certain legitimate construction costs that are excluded in current cost allowances. Third, he proposed creating a State Clearinghouse for Efficient Construction Practices and Design whereby the Dormitory Authority of the State of New York (DASNY) would provide advisory services and technical assistance to school districts statewide. Fourth, state legislation is being proposed that would exempt the city from the cap on the number of charter schools that can be created. In addition, legislation is under way to allow charter schools to access financing and construction management services from DASNY. These last two items would presumably result in additional charter schools in the city, which could lead to lower and enrollments and less need for new space in regular public schools. Finally, the Governor submitted 30-day amendments (February 8) to his Executive Budget, which included language to eliminate the requirement that the School Construction Authority (SCA) perform at least 40 percent of the design work for school capital projects in-house.

Other Changes. The Bloomberg Administration recently announced two labor agreements that will affect the department's current capital program. The first, called the Project Labor Agreement (PLA), was executed between the School Construction Authority, the Building and Construction Trades Council, and the Bricklayers and Allied Craftworkers Local Union. The PLA would standardize the terms and conditions of employment (including a 5 percent premium rate for work done overnight and during off-peak hours), expedite the construction process and reduce construction costs. According to the Bloomberg Administration, the PLA is expected to yield an estimated savings of $500 million over five years. The second agreement between the SCA and its contractors would require all construction projects in facilities leased by DOE to comply with SCA standards and requirements, including prequalification of all contractors.

END NOTES

[1] The last plan, 2000-2004, was amended three times, the 1995-1999 plan was amended once, and the first plan, 1990-1994 was never amended.

Department of Health and Mental Hygiene (DOHMH)

OVERVIEW

Since 2001, the Department of Health and Mental Hygiene's budget has increased steadily, rising from approximately $1.20 billion in 2001 to $1.45 billion in 2005. The Preliminary Budget proposes DOHMH funding of $1.47 billion for 2006. City-funded expenditures are projected to equal $557.6 million, or 37.9 percent of total expenditures. Overall expenditures are expected to continue increasing from 2007 to 2009.

IBO estimates that once all state and federal grants are received in 2005, total DOHMH expenditures will equal $1.48 billion.

EXPENSE BUDGET

The 2006 Preliminary Budget for DOHMH proposes $19 million in city savings, most of which would be achieved through funding shifts. The majority of the department's expected savings would be generated by two initiatives related to Early Intervention (EI) services. Overall, the city hopes to save $44.2 million in 2006 from these two efforts. First, DOHMH expects to save $34.5 million by shifting a larger portion of the Early Intervention services program to Medicaid. The department also plans to net another $9.7 million in savings from the collection of retroactive payments from Medicaid and third-party insurers for services provided through the EI program. While these efforts would yield savings of city funds, they will leave projected EI spending for 2006 from all sources at $508.7 million, nearly 6.5 percent more than expected EI expenditures in 2005.

Funding for correctional health services would be increased by $9.2 million beginning in 2006. These funds will be provided to Prison Health Services to retroactively account for the collective bargaining agreement reached with District Council 37 and other city employee unions for 2003-2005. Although Prison Health Services is a contractor and its employees are not city employees, its contract with the city calls for Prison Health Services' employees covered by unions that also have city employees, such as District Council 37, to receive the benefits of collective bargaining agreements reached by those unions with the city.

Additional funding of $4.7 million is proposed for 2006 to restore nursing services to all qualifying non-public schools as well as to place nurses in newly opened public schools. This change is the result of a Mayoral initiative announced last fall. The City Council has since passed legislation over a Mayoral veto that would require the hiring of more non-public school nurses, further increasing the cost of providing school nursing services. The 2006 Preliminary Budget only accounts for the Mayoral initiative.

The budget also includes $4.0 million in city funds to maintain and enhance various DOHMH

Department of Health and Mental Hygiene
Dollars in millions

Program Area	2001** Actual	2002** Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Disease Prevention and Treatment	$ 218.0	$ 256.3	$ 261.8	$ 278.8	$ 244.0	$ 268.6
Environmental Heatlh Services	82.9	63.0	53.0	57.0	68.8	63.8
Personal and Community Health Services	93.8	101.0	98.6	104.5	109.6	99.0
Mental Health Services	562.3	635.2	726.7	768.5	749.5	763.4
Office of the Chief Medical Examiner	28.5	48.0	52.6	39.4	44.4	55.7
All Other Programs	149.2	165.7	169.7	156.3	154.8	150.0
Administration	63.3	73.2	66.0	66.2	74.8	68.7
TOTAL	**$ 1,198.0**	**$ 1,342.5**	**$ 1,428.5**	**$ 1,470.6**	**$ 1,446.0**	**$ 1,469.2**
IBO Adjustments						
Federal Categorical Grants					35.0	0.0
TOTAL					35.0	0.0
IBO Projected					**$ 1,481.0**	**$ 1,469.2**
Full-time Personnel*	3,077.0	3,160.0	3,253.0	3,693.0	3,995.0	4,025.0
Full-time Equivalent Personnel*	N/A	1,813.0	1,971.0	1,912.0	1,963.0	2,106.0
Capital Commitments	$ 42,320.0	$ 44,036.0	$ 54,454.0	$ 32,499.0	$ 145,264.0	$ 28,120.0

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 3,734 full-time personnel and 1,743 full-time equivalents.
**Prior to 2003, public health services were delivered by two separate agencies, the Department of Health and the Department of Mental Health, Mental Retardation, and Alcoholism Services. In 2003, these two departments were merged to create the Department of Health and Mental Hygiene. The budget figures used here for 2001 and 2002 represent a merger of the two departments' expenditures.

programs, including colonoscopy testing, tobacco cessation initiatives, and rapid HIV testing. These programs were previously funded through one-time grants and agency surpluses.

Disease Prevention and Treatment Services. One of DOHMH's critical objectives is to reduce the number of new cases of HIV/AIDS, tuberculosis, sexually transmitted diseases (STDs), and other preventable diseases in New York City. Between 2001 and 2004, the department's expenditures on disease prevention and treatment services increased considerably, rising from an estimated $218 million in 2001 to nearly $279 million in 2004. The current budget for 2005 places disease prevention and treatment expenditures around $244 million, a $35 million decrease from 2004. However, once all state and federal aid is received, IBO estimates that actual expenditures for 2005 will total about $279 million; in other words, IBO expects expenditures for disease prevention and treatment services in 2005 to roughly equal those made in 2004. The Preliminary Budget for 2006 anticipates expenditures for disease prevention and treatment services of $268.6 million. The 2006 budget reflects the uncertainty of obtaining some state and federal grants. Receipt of these grants would most likely result in higher 2006 spending; assuming this intergovernmental aid is received, total funding for 2006 would not represent a significant change from 2005.

HIV/AIDS Prevention Services. Within the disease prevention and treatment area, HIV/AIDS prevention services accounts for about 65.5 percent of total spending. DOHMH expenditures for HIV/AIDS prevention and treatment totaled $143.6 million in 2001. IBO estimates that once all state and federal aid is received, expenditures for HIV/AIDS services will reach approximately $165 million in 2005 and $174 million in 2006.

The majority of the funding for HIV/AIDS prevention and treatment services comes from the federal Title I Ryan White Comprehensive AIDS Resources Emergency Act grants. As a result, funding for HIV/AIDS services has varied each year; since 2002, however, DOHMH expenditures on HIV/AIDS services have totaled at least $165 million each year.

DOHMH's efforts to control and prevent the spread of HIV/AIDS focus on disseminating information on those most at risk of contracting the disease, including men who have sex with men, substance abusers, women, and prisoners. Programs designed for these populations include the HIV Partner Notification Program, the Communities of Color initiative, which provides funding to community-based organizations for prevention and support services targeting communities of color, and the Healthy Men's Night Out initiative, which offers free health information and STD screenings to at-risk men at popular Manhattan night clubs. In the past, funding for the $5 million Communities of Color initiative has been added on a year-to-year basis, but the Mayor's Preliminary Budget for 2006 would provide full funding for years 2006 and beyond.

In 2004, the department also launched a new rapid HIV testing initiative at the city's 11 sexually transmitted disease clinics and expanded rapid HIV testing in the city's correctional facilities. DOHMH estimates that nearly 4,000 inmates were tested in the program's first five months of operation; of those tested, approximately 80 were diagnosed with HIV. The Preliminary Budget for 2006 contains about $782,000 in city funds to augment rapid HIV testing in the STD clinics.

According to the Mayor's Management Report released in September 2004, the number of new adult AIDS cases has decreased from 6,118 in 2001 to 5,124 in 2004. In the same time period, the number of people diagnosed and living with HIV/AIDS has increased enormously, rising from 69,940 in 2001 to 84,807 in 2004, reflecting improvements in care and treatment.

The department also has been responsible for administering the case management portion of the federal Housing Opportunities for People Living with AIDS (HOPWA) grant since 2004. Previously, this portion of the HOPWA grant, which equals approximately $24 million each year, was administered by the Mayor's office.

Bioterrorism Preparedness. Amid fears of a large-scale biological terrorist attack, DOHMH began working with the several federal, state, and local government agencies in the fall of 2001 to prepare New York City's response plan in the event of a biological attack. Since then, DOHMH has developed and implemented a comprehensive surveillance system that monitors calls to 911 and emergency room visits to identify possible outbreaks related to biological agents. In addition, the department has created a response plan which outlines the steps to be taken to notify area hospitals in the event of a bioterrorist attack as well as to distribute necessary emergency medications to the public.

Funding for bioterrorism surveillance and preparedness has increased tremendously since the fall of 2001, growing from

$5.3 million in 2002 to a projected $27.4 million in 2005. Almost all of the funding for these programs originates at the federal level of government. Currently, the Preliminary Budget for 2006 projects expenditures of $15 million for bioterrorism surveillance and preparedness, although the department does not expect to reduce these programs from their 2005 levels. The apparent reduction in bioterrorism spending between 2005 and 2006 simply represents the uncertainty of obtaining federal funding. As explained earlier, the DOHMH budget usually does not reflect state and federal funds, which are subject to some doubt until they have been received.

Environmental Health Services. Another of DOHMH's major objectives is the provision of environmental health services. As used by the department, environmental health services encompass the identification of potential public health risks and the development of strategies to prevent injury and disease caused by environmental factors. Spending for environmental health services declined from 2001 through 2003 and then rose steadily from 2003 on to reach the nearly $69 million expected for 2005. Almost all of the variation in the environmental health services budget since 2001 can be attributed to the provision of general environmental health services. Programs provided under general environmental health services include restaurant inspections and public health emergency preparedness.

Lead Poisoning Prevention. The Lead Poisoning Prevention Program (LPPP), which provides prevention and treatment services to the city's children, plays an integral role in the execution of the city's overall environmental health strategy. Since 2001, expenditures for the LPPP have increased from approximately $5.8 million to a projected $9.5 million in 2006, a 64 percent increase. The majority of this increase can be explained by the department's efforts to implement new lead prevention regulations imposed by Local Law 1 of 2004. Specifically, Local Law 1 now requires DOHMH to monitor the work practices of contractors performing lead paint remediation projects as well as perform environmental interventions when a child under the age of 7 is identified as having a blood lead level of 15 mg/dL or higher. Previously, intervention was required when a child under the age of 6 tested with a blood level of 20 mg/dL or higher. Local Law 1 also assigns DOHMH the responsibility of inspecting all privately owned child care centers for lead paint hazards and, when necessary, issuing an order for abatement.

The focus of the LPPP remains on the reducing children's exposure to lead poisoning hazard, promoting lead poisoning screening for early detection, and providing treatment services for lead poisoned children. According to the September 2004 Mayor's Management Report, the number of children under age 18 requiring intervention fell from 738 in 2001 to 578 in 2004, a 22 percent reduction. The department estimates that the lower blood lead level threshold included in Local Law 1 will likely result in 500 additional children requiring intervention services in 2005.

Pest Control. As in most large urban areas, pest control is a persistent problem in New York City. From 2001 to 2004, DOHMH expenditures for pest control remained fairly flat, despite the fact that the number of exterminations performed by the department increased by 29 percent from 64,900 in 2001 to 83,900 in 2004. Although pest control is most closely associated with rodents, the department's pest control extermination program also targets mosquitoes in an effort to prevent the spread of West Nile virus.

Nearly $2 million in annual state and city funds earmarked for pest control extermination services were restored to the department's budget beginning in 2005. These funds, which were used to pay for inspections and site cleanups, were originally cut from the department's budget in 2003 when the city was facing severe budget shortfalls. At the time these funds were restored, DOHMH estimated that more than 200 additional site cleanups would be performed annually as a result of the restoration.

Responding to the increase in pest control complaints, the city launched a new pilot program for rodent control in 2004. Funded at $150,000 in total funds for both 2004 and 2005, the new initiative aims to reduce rodent infestation by purchasing rodent-proof garbage cans and distributing them to property owners in high-infestation neighborhoods.

Food Safety and Restaurant Inspections. Safeguarding the city's food supply is a key objective of DOHMH's environmental health services program. To achieve this goal, the department provides mobile food vendors and restaurants with training on proper food preparation at the department's Health Academy. DOHMH also inspects restaurants to ensure their compliance with the city's Health Code regulations regarding food preparation. In 2003, the city's Health Code was amended to impose both stricter regulations on food preparation and higher fees for sanitary violations identified by DOHMH inspectors. Beginning in 2004, DOHMH increased funding for food safety programs by $2.3 million annually. This additional funding covered the cost of hiring more than 40 new inspectors to enforce the new Health Code regulations as well as process the anticipated complaints of owners contesting violations.

Recently, the department has launched the Golden Apple Award initiative to encourage restaurants to comply with the stricter regulations. The Golden Apple Award will recognize food vendors with excellent inspection records with a golden apple decal they can display in their windows. The decals will be offered to restaurants receiving less than four general violations and no critical violations. The Preliminary Budget for 2006 includes $1.7 million in annual funding beginning in 2005. These funds would provide for 30 new personnel whose responsibilities will include recruiting and monitoring participants.

Early Intervention Services. In 2006, Early Intervention, a program providing services to children under three with developmental disabilities, is projected to cost the city $508 million, approximately 35 percent of the entire DOHMH budget. In comparison, all other mental health expenditures are expected to total $255 million in 2006, or 17 percent of the DOHMH budget.

Since 2001, when the cost of providing EI services in New York City was $306 million, the program's budget has increased by 66 percent. Much of this growth can be explained by the rapid increase in the number of children participating in the program. From 2001 to 2004, the number of children with active EI service plans grew from 12,900 to 20,400, a 58 percent increase.

The rapid increase in Early Intervention costs has spurred several initiatives to reign in spending without eliminating services. Of these initiatives, the most successful has been the attempt to move all EI clients who are eligible onto Medicaid, thereby shifting some of the program's costs to the federal government. Prior to implementation of this initiative, Early Intervention was funded almost solely by the state and local governments. Although moving these children to Medicaid resulted in a $6.6 million increase in city-funded Medicaid expenditures in 2004, the initiative allowed the city and the state to share the cost of the program with the federal government, netting a $10 million savings for the Department of Health and Mental Hygiene in EI expenditures in the same year. In the Preliminary Budget, the Mayor's Budget Office estimates that the agency's continued efforts to enroll eligible EI recipients in Medicaid will save the department more than $30 million annually beginning in 2005. IBO estimates shifting these costs to Medicaid will result in an $8 million increase in Medicaid spending, netting the city a savings of more than $22 million annually.

The Governor's 2005-2006 Executive Budget also includes a proposal aimed at reducing Early Intervention expenditures statewide. The Governor proposed instituting co-pays for families earning 250 percent of the federal poverty level and higher, as well as increased payments for services through private insurers. IBO estimates that this proposal, if enacted, would save the city more than $11 million annually.

CAPITAL BUDGET

The Department of Health and Mental Hygiene's capital plan provides funds for the purchase of equipment and for the construction, rehabilitation, and modernization of departmental buildings. The September 2004 Capital Commitment Plan provides a total $214.2 million in capital funds for DOHMH through 2008, a $36.7 million increase from the previous plan in September 2004. Almost all of this increase will be put toward general improvements to city-owned health facilities throughout the city.

Department of Homeless Services (DHS)

OVERVIEW

Between 2001 and 2004, spending at the Department of Homeless Services climbed 42 percent to $673.8 million, driven largely by increases in family shelter costs. IBO projects that the DHS 2006 budget will be $727 million, slightly less than projected 2005 spending of $734 million. This modest decline reflects the one-time addition of funds for lead paint remediation in 2005, and DHS's expectation that the growth in the family shelter population will slow.

EXPENSE BUDGET

Uniting for Solutions Beyond Shelter. In June of 2004, Mayor Bloomberg announced the beginning of his "Uniting for Solutions Beyond Shelter" plan, which called for reducing homelessness by two-thirds and eliminating chronic homelessness in New York City within five years. The action plan for meeting these goals includes 60 different initiatives designed to:

- overcome street homelessness;
- prevent families and individuals from becoming homeless;
- coordinate discharge planning from jails, prisons, hospitals, and the child welfare system to avoid shuffling clients between institutional settings;
- better coordinate city services and benefits;
- minimize disruptions to families who experience homelessness;
- reduce the length of stay in the shelters for families and adults who are homeless;
- use available funding for prevention and housing, rather than emergency shelter;
- expand permanent housing opportunities, and;
- make better use of data and evaluation techniques to monitor progress in meeting these goals.

Once the Bloomberg Administration's plan is fully implemented, it will have a dramatic effect on the way DHS provides services, which will be felt in every program area. However, most of these 60 initiatives are in the preliminary stages, and have not yet affected the DHS budget or day-to-day activities. There are exceptions—for example, the agency has created a neighborhood-based homeless prevention program (discussed in more detail below), thereby meeting the first step of initiative number 10 under the plan.

The agency also has implemented a new rental supplement program known as Housing Stability Plus (HSP) to help families and adults leave the shelter system, which fits with plan initiative number 49 to "redesign rental assistance to disincentivize shelter." HSP rental supplements phase out over five years, and are available only to public assistance recipients. In conjunction with the introduction of HSP in December 2004, DHS ended the long-standing practice of prioritizing homeless families for federal Section 8 vouchers and public housing. This program design has been controversial, and its ultimate effect on the size of the shelter population remains to be seen (see IBO's "Evaluating the Fiscal Impact of the Housing Stability Plus Program," March 1, 2005, for more information).

Shelter. DHS provides shelter and services to homeless families, defined as adults accompanied by children or childless couples, and to single adults. Almost all the shelter space is provided by nonprofit organizations or private landlords. DHS is mandated to provide families with apartment-like living space, including private bathrooms, and in many cases, kitchens. Like family shelters, most of the shelter beds for single adults are operated by contract agencies, although they may be congregate facilities with multiple beds in one room.

Department of Homeless Services
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Family Shelter and Services	$225.2	$273.0	$344.8	$346.0	$365.7	$346.3
Adult Shelter and Services	166.1	177.5	190.3	200.8	219.3	219.6
Permanent Housing Initiatives	22.1	26.7	30.6	39.5	40.2	38.8
Outreach	17.7	16.7	17.2	20.4	23.5	19.4
Prevention	0.0	0.0	1.6	11.7	19.5	20.0
Other	44.6	46.5	47.9	52.8	57.7	53.9
Unallocated Financial Plan Changes	0.0	0.0	0.0	2.5	0.9	0.9
TOTAL	**$475.7**	**$540.3**	**$632.4**	**$673.8**	**$726.7**	**$698.9**
IBO Adjustments						
State & Federal Categorical Grants					$7.4	$28.0
IBO Projected					**$734.1**	**$726.9**
Full-time Personnel*	1,564	1,514	1,450	2,169	2,295	2,289
Capital Commitments	$16.9	$22.1	$14.4	$9.7	$54.2	$40.8

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 2,220. Excludes part-time and seasonal employees.

Homeless Families Placed in Permanent Housing

Placement Type	2002	2003	2004
Section 8 w. EARP bonus	1,429	2,157	3,862
Public Housing	1,108	1,818	1,891
HPD Units	191	309	154
Other Section 8	540	392	262
Long Term Stayer Program	-	29	232
Other	253	584	605
TOTAL	**3,521**	**5,289**	**7,006**

SOURCES: IBO, Department of Homeless Services Critical Activity Reports, various years.

In 2005, DHS expects to spend $365.7 million on family shelter and services. The current projection for 2006 is $346.3 million. The 2005 budget for adult shelter and services is $219.3 million, more than 9 percent higher than 2004 spending. Although the 2006 budget for adult shelter is currently funded at the 2005 level, additional state and federal funding will eventually be added, causing the 2006 budget to rise.

Over the last several years, the number of families in the DHS shelter system has grown sharply. For example, in 2001, an average of 5,600 families slept in the shelter system on any given night. By 2003, there were 9,000 families in shelter on an average night. In 2004, the family shelter census stabilized, primarily because more families were placed in permanent housing, although there was also a small decline in the number of families entering the system in 2004.

As a result, total spending on shelter for families also leveled off. The DHS budget reflects an assumption of a continued stable family shelter population. The adult shelter population, unlike the family census, has continued to climb relatively steadily. The increased budget for adult shelter and services reflects this growing population.

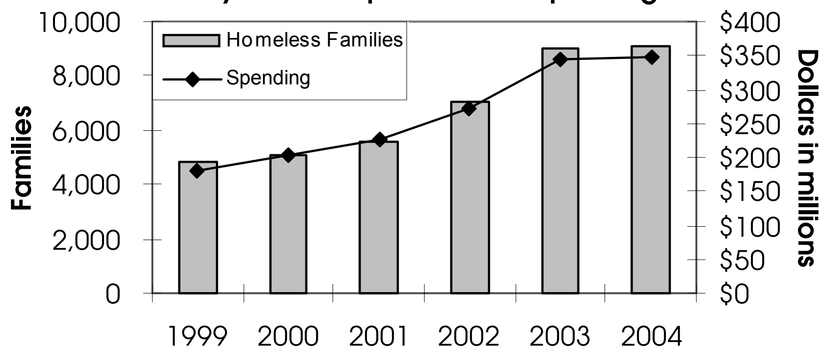
IBO Spending Projections. For families who receive public assistance—about 90 percent of the total—the city pays 25 percent of shelter costs. Another 25 percent is paid by the state, and the federal government covers the remainder (for those families on Safety Net Assistance, however, the city share rises). DHS frequently adds federal and state funding to its budget during the course of the fiscal year. The funds include additional state and federal monies resulting from higher than anticipated reimbursement levels for public assistance recipients, federal Emergency Shelter Grant dollars that are added in as received, and state and federal money when more families than expected enter the shelter system. The January budget plan, for example, swaps $11.5 million in city funds in 2005 and $7.5 million in 2006 for state and federal funding, because more families than expected are on public assistance and therefore eligible for reimbursement. IBO has added $7.4 million in state and federal funding in 2005 and $28.0 million in 2006 to the DHS budget to reflect these mid-year additions of state and federal funding.

Lead Paint Remediation. Family shelter spending for 2005 includes $17.2 million for one-time costs of compliance with the new lead paint law, Local Law 1 of 2004. The funding level assumes that DHS will inspect all family shelter units and remediate those containing lead paint—an estimated 30 percent of units inspected. As of the January plan, virtually all of the funding for this work is included in the 2005 budget, and about $1.5 million for ongoing Local Law 1-related costs is included in the 2006 budget. However, the agency now says that the funding and the work will be largely shifted to 2006.

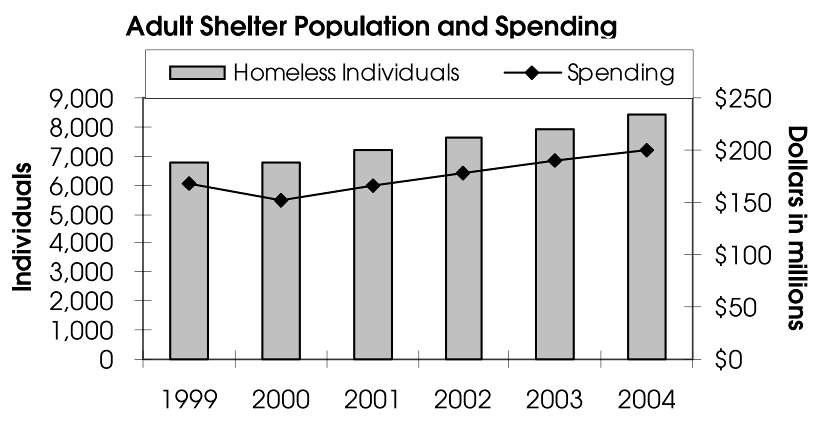
Changes to Intake and Eligibility Review. Family shelter spending includes DHS's spending on intake and eligibility review. The agency recently announced that in accordance with recommendations made by the court-appointed Special Master Panel overseeing services to families, it would be making major changes to the intake process. These changes include building a new intake facility and streamlining the review process. DHS is already implementing this new review process for first-time shelter applicants.

Under the existing intake process, a family applying for shelter is given overnight placements until the Eligibility Investigation Unit completes an initial interview and starts processing their application. After this first interview,

Family Shelter Population and Spending



SOURCES: IBO, Department of Homeless Services.



SOURCES: IBO, Department of Homeless Services.

families are given a conditional placement while DHS determines if they are eligible for emergency shelter. This determination must be made within 10 days. Historically, families are often given one or more overnight placements before they are registered for a conditional stay, which prolongs their total time in shelter, thereby increasing the cost of providing shelter. Furthermore, placing a family in multiple overnight stays violates a New York State Supreme Court order prohibiting this practice. According to DHS testimony to the New York State Assembly Social Services Committee, there have been almost no overnight placements for those families admitted using the new intake process. The January budget plan reflects agency expectations that overnight placements will be eliminated completely by 2007, saving a total of $11 million annually.

Domestic Violence Victims. The January budget plan also transfers $10 million annually to the DHS family budget for provision of shelter to domestic violence victims. The city had hoped to serve all domestic violence victims through Human Resources Administration (HRA) facilities, but has now determined that this is not realistic. DHS will therefore receive the funding—city, state, and federal—for providing this shelter directly, rather than as a payment from HRA. There is an offsetting reduction in the HRA budget.

Eventual spending on shelter for homeless families in 2005 and 2006 will be largely dependent on the size of the shelter population. In turn, the number of families and individuals in the shelters will reflect the state of the economy, the housing market, welfare policy, the success of city policies such as HSP, and a variety of other factors such as the weather.

Permanent Housing. DHS is mandated to provide shelter for homeless people, and in the past, shelter provision has been largely divorced from the housing initiatives of other agencies. Under the Bloomberg Administration, DHS has spent an increasing amount on various permanent housing options—such as bonuses to landlords who rent apartments to homeless families and basic operations funding for single room occupancy developments—rising 79 percent from $22.1 million in 2002 to $39.5 million in 2004. The 2005 budget calls for a 1.6 percent increase in permanent housing spending relative to 2004, but in 2006, spending is scheduled to fall to $38.8 million (a drop of 2.0 percent relative to 2004).

In 2005, support for operations at single room occupancy developments is scheduled to rise by $2.8 million to $17.4 million. At the same time, the budget for the Emergency Assistance Rehousing Program (EARP), which gave one-time bonuses to landlords renting to homeless families with Section 8 vouchers, is expected to drop by $2.1 million, or 12 percent. The EARP program—along with the prioritization of homeless families for Section 8 rental assistance—ended as of mid-December 2004. As of the Preliminary Budget for 2006, the majority of EARP funding remains in the DHS budget, although the program officially no longer exists.

The city is now offering homeless families rent supplements through the Housing Stability Plus program, which IBO expects will represent a larger dollar investment in permanent housing for homeless families than EARP. But Housing Stability Plus will be funded through the Human Resources Administration, rather than DHS, so DHS spending on permanent housing will likely fall substantially.

Adult and Family Rental Assistance. The 2006 budget funds the Adult Rental Assistance Program at $983,000, roughly half of the 2005 budget of $1.9 million, and 60 percent less than actual 2004 spending of $2.4 million. In April of 2003, the Bloomberg Administration cut the budget for the Adult Rental Assistance Program by $900,000. The City Council has since restored the funding one year at a time. Funding for the Family Rental Assistance Program (FRAP) is about $130,000 in 2005 and 2006. Actual spending on FRAP declined from $1 million in 2002 to $184,000 in 2004. According to DHS, few families have been interested in this program, and the agency has been phasing it out as a result.

Outreach. DHS contracts with nonprofit organizations to

DHS Outreach Program

	2000	2001	2002	2003	2004
Individuals Reached	105,596	88,772	100,219	107,951	120,891
Single Adults Placed in Temporary Housing by Outreach Teams	5,069	6,191	6,987	7,648	6,990
Outreach Contacts that Resulted in Shelter Placement	4.8%	7.0%	7.0%	7.1%	5.8%
Dollars/Individual Reached	$ 180	$ 199	$ 167	$ 159	$ 169
Dollars/Shelter Placement	$ 3,757	$ 2,851	$ 2,396	$ 2,243	$ 2,917

SOURCES: IBO, Department of Homeless Services, Mayor's Management Reports, various years.

make contact with street homeless people. This program category also includes drop-in programs, which provide homeless people with basic services without requiring that they go through the shelter intake process. In 2004, outreach teams made more than 120,000 contacts, and placed almost 7,000 individuals in shelter as a result.

Spending for outreach and drop-in programs is scheduled to grow from $20.4 million in 2004 to $23.5 million in 2005, a 15 percent increase, to accommodate growth in outreach activity. In the first four months of 2005, outreach teams made about 41,300 contacts, as compared to 38,800 contacts in the same period in 2004.

The budget for outreach appears to drop in 2006, but about $1 million in outreach programs is funded with the federal Emergency Shelter Grant, which is typically not added to the DHS budget until it is received. IBO has added federal categorical grant funding to the projected DHS budget for 2006 to reflect the Emergency Shelter Grant among other funding sources. In addition, the city funds in the outreach budget for 2006 are at the same level as at 2005 adoption, without taking into account the higher level of outreach activity experienced this year to date.

One component of the Mayor's "Uniting for Solutions Beyond Shelter" plan calls for restructuring and expanding outreach services, thereby cutting the number of street homeless people. The expanded programs are not scheduled to begin until calendar year 2006, and no funding has yet been added to the budget for any major expansion of outreach.

Prevention. Until 2003, DHS spent essentially nothing on homeless prevention programs. Although other city agencies had prevention programs, such as legal services, and one-time rent arrears grants, DHS was not involved in preventive services. Under the Bloomberg Administration, DHS has, for the first time, begun to participate in the city's homelessness prevention initiatives.

In 2003, the agency spent $1.6 million on homeless prevention. A year later, the agency spent $11.7 million. DHS spending on prevention is scheduled to climb again, to $19.5 million in 2005 and $20 million in 2006.

In 2004, $9.4 million of DHS's prevention spending was for anti-eviction legal services contracts, which were moved from the Human Resources Administration, the Office of the Criminal Justice Coordinator and the Department of Housing Preservation and Development (HPD). Although these contracts were new to DHS, they represented longstanding funding commitments. In 2005, the City Council moved all but HRA's anti-eviction legal services funding back to their former agencies. DHS will continue to administer the contracts that originated at HRA, at a total cost of about $6 million in 2005.

In addition, DHS has created a new program called HomeBase, which will fund community-based organizations in six high-risk neighborhoods. The contracted groups will help families at risk of homelessness access services and one-time grants. The DHS 2005 budget includes $11 million for the HomeBase contracts, which represents 10 months worth of operations and one month of start-up costs. In 2006, the contracts will be funded at the full $12 million value.

Administration and Other. The bulk of the "other" line in our table on DHS spending is agency administrative costs, as well as Facilities Maintenance and Development, which works agencywide. The budget for this category increased from $51.7 million in 2004 to $57.6 million in 2005.

The budget for human resources has increased from $2.9 million to $7.7 million between 2004 and 2005. The

DHS Spending on Prevention Programs

Dollars in millions

	2003	2004	2005 Budgeted	2006 Proposed
HomeBase Contracts	$0.0	$0.0	$11.0	$12.0
Anti-Eviction Legal Services	0.0	9.4	6.0	6.0
After Care Services	1.6	2.3	2.5	2.0
TOTAL	**$1.6**	**$11.7**	**$19.5**	**$20.0**

SOURCES: IBO, Department of Homeless Services.

agency is in the process of converting a significant number of per diem employees to standard per annum workers, and the funding here reflects the cost of doing so. Eventually the funding will be dispersed to the different programs in which the employees are working.

There also is $5.6 million in the 2005 budget for fines to be paid to families who spent the night at the Emergency Assistance Unit (EAU), the intake center for homeless families. DHS is required to provide interim shelter to families the day of the request, and leaving a household in the EAU overnight is considered a violation of that requirement. In the past, DHS has had a significant number of families sleeping in the EAU during peak demand periods. The agency is under court order to pay fines to these households. There is no funding for fines in the 2006 budget.

CAPITAL BUDGET

DHS typically commits $10 million to $20 million annually for capital projects. These funds are largely used for repairs to city-owned shelter facilities. Many of the nonprofit shelter operators use city-owned space; repairs in these buildings are also paid for out of the DHS capital budget.

The January Capital Commitment Plan includes $148.5 million in DHS capital needs over the 2005-2008 period. This total is clearly significantly higher than recent commitment levels. In part, this is because planned commitments usually exceed actual capital activity. In addition, the January plan adds $30 million for construction of a new family intake center. DHS already has begun transitioning away from the current Emergency Assistance Unit and expects to have the new Prevention Assistance and Temporary Housing office handling all intake by calendar year 2008.

Department of Youth and Community Development (DYCD)

OVERVIEW

The 2006 Preliminary Budget includes $211.1 million (including intra-city funds) for the Department of Youth and Community Development, $39.8 million less than the current budget for 2005. Federal and state funding are expected to make up 36.2 percent and 7.2 percent, respectively, of the agency's 2006 budget. City funds will make up 52.7 percent, with the remaining 3.9 percent coming from the Administration for Children's Services to provide foster care preventive services as part of DYCD's Beacon school program. IBO's projections of federal and state funding for the agency in 2006 are lower than the Bloomberg Administration's by $2.0 million, reducing IBO's forecast of the agency's 2006 budget to $209.1 million. The agency's proposed full-time headcount for 2006 is 376; this is 1 position less than the level currently budgeted for 2005.

EXPENSE BUDGET

The Mayor's 2006 Preliminary Budget provides $250.9 million in 2005 and $211.1 million in 2006 for the agency. The Bloomberg Administration's lower expectations for federal and state aid explain about two-thirds ($26.2 million) of the difference between 2005 and 2006. Reduced city funds, due to actions taken in this year's Preliminary Budget ($1.4 million) as well as previous baseline cuts for fiscal years after 2005 that have not been restored, account for the rest of the difference between 2005 and 2006.

The $17.2 million reduction for 2005 and $2.2 million increase for 2006 in "Unallocated Financial Plan Changes" shown in our table on DYCD spending is largely explained by the delayed implementation of the agency's Out-of-School Time (OST) program. With OST now not expected to be in place before September 2005, the Preliminary Budget removes $17.6 million from DYCD's 2005 budget and returns these funds to the Administration for Children Services to continue the existing child care contracts for the balance of this fiscal year. In contrast, additional funding for OST administrative expenses—$1.2 million for 2005 and $2.0 million for each subsequent year of the Financial Plan—has been added to DYCD's budget.

The Preliminary Budget also cuts City Council discretionary contracts by $994,000 in 2005 and $282,000 each year in 2006-2009. The plan also includes a reduction for Beacon community centers of $1.2 million in 2005 and $2.0 million each year in 2006-2009. DYCD is working with the city's Human Resources Administration to tap federal Temporary Assistance to Needy Families (TANF) grant money for Beacons. Freed up city funds would be redirected to the new OST program.

Trends in Agency Program Spending. DYCD's total expenditures jumped by 55.2 percent to $244.4 million in 2004 compared to the level of spending in 2003. Most of this increase is explained by the transfer of youth employment programs to DYCD from the Department of Employment (DOE), which was eliminated by the Bloomberg Administration last year. If funds for former DOE programs are excluded, the agency's total expenditures for 2004 were $163.7 million, a 3.4 percent increase from 2003.

DYCD's budget can be divided into two functional areas—youth services and community development. The community development division of DYCD (formerly the city's Community Development

Department of Youth and Community Development
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Youth Services	$102.7	$103.7	$104.9	$189.5	$210.4	$168.7
Community Development	40.2	49.4	52.5	54.9	57.7	40.2
Unallocated Financial Plan Changes					(17.2)	2.2
TOTAL	**$142.9**	**$153.1**	**$157.4**	**$244.4**	**$250.9**	**$211.1**
IBO Adjustments						
State & Federal Categorical Grants					(1.2)	(2.0)
TOTAL					($1.2)	($2.0)
IBO Projected					**$249.7**	**$209.1**
Full-time Personnel*	100	103	107	123	377	376
Capital Commitments	N/A	N/A	N/A	N/A	N/A	N/A

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 285. Excludes part-time and seasonal employees.

Selected Youth and Community Development Programs
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
YOUTH SERVICES						
Beacon Centers	$40.7	$39.8	$40.0	$37.5	$40.8	$32.2
Youth Development and Delinquency Prevention Program	19.2	16.6	21.1	21.7	22.1	22.1
The After-School Corporation	10.5	10.5	10.5	10.5	10.5	10.5
City Council Initiatives	21.7	25.7	22.5	22.9	27.9	8.6
Out-of-School Time (OST) Program[a]	--	--	--	3.1	8.6	44.0
Runaway and Homeless Youth Services	3.6	3.0	3.5	3.6	3.8	3.7
WIA - Youth Program Administration[b]	--	--	--	5.9	7.2	7.2
WIA - In-School and Out-of-School Youth Programs	--	--	--	33.6	31.6	19.9
Summer Youth Employment Program	--	--	--	40.4	33.5	14.1
COMMUNITY DEVELOPMENT						
Community Services Block Grant	$28.3	$37.1	$36.4	$39.5	$37.8	$31.0
Adult Education	2.1	2.0	7.1	8.6	8.0	7.6
Borough Needs	5.1	7.3	5.6	6.6	10.1	0.5
Citizenship NYC	4.2	4.3	3.2	1.1	1.0	1.0

SOURCE: IBO.
NOTES: [a]OST consolidates the agency's Youth Development and Delinquency Program, the After-Three Program administered by The After-School Corporation and child care services provided by the Administration for Children's Services. [b]Prior to 2004 WIA programs were administered by the city's Department of Employment.

Agency) was established to carry out community anti-poverty initiatives funded by the federal Community Services Block Grant. Youth services (including youth employment programs) comprised 77.5 percent of the agency's total spending in 2004; this share is 5.6 percentage points higher than in 2001. Community development accounted for 22.5 percent of the agency's total spending in 2004.

Beacon Centers. Prior to 2004, the bulk of the agency's youth services budget was allocated to Beacons—school-based community centers that offer a mix of educational and recreational activities and family support services. DYCD spent $37.5 million last year, a decline of 7.9 percent compared to 2001, to serve approximately 138,000 children and adults through the agency's 80 Beacon community centers. Beacons accounted for 19.8 percent of the agency's youth services spending in 2004. The Preliminary Budget provides $8.6 million less (a reduction of 21.1 percent) for Beacons in 2006 compared to the current budget for 2005. DYCD also provides roughly $10.5 million annually to The After-School Corporation (TASC) to help support the corporation's after-school programs in city public schools.

City Council Discretionary Funds. City Council Members receive an allocation of city tax-levy funds each year which they distribute to community-based youth organizations at their discretion. Agency spending on City Council discretionary programs varied somewhat between 2001 and 2004, before jumping to $27.9 million in the current year budget. The Preliminary Budget cuts City Council discretionary funds by 69.2 percent to $8.6 million in 2006 compared to 2005.

YDDP. Youth Development and Delinquency Prevention (YDDP) accounted for 11.5 percent of the agency's youth services spending in 2004. YDDP programs provide a broad spectrum of before and after-school services that promote positive youth development. YDDP spending grew by 13.0 percent from $19.2 million in 2001 to $21.7 million in 2004 and is budgeted to remain near that level in 2005 and 2006.

Runaway and Homeless Youth. Services for Runaway and Homeless Youth (RHY) comprised 1.5 percent (or $3.6 million) of the agency's spending in 2004. RHY services include shelter (crisis and transitional beds), case management and treatment, street outreach, a drop-in center and information hotline for young people under the age of 21. Last year the agency provided 60 crisis beds (which allow stays of up to 60 days) and 88 independent living transitional beds (stays of up to a year).

Youth Employment. Beginning in 2004 the agency's youth services budget also included youth employment programs formerly administered by the Department of Employment. These programs, which are primarily funded with federal Workforce Investment Act (WIA) dollars, accounted for 42.1 percent of the agency's youth services spending in 2004.[1] The WIA youth grant supports a wide range of activities and services—including summer jobs—to prepare low-income youth for academic and employment success. Last year the agency spent a total of $40.4 million to provide 39,000 summer jobs. The Preliminary Budget reduces the funding for WIA in-school and out-of-school youth programs by 37.0 percent to $19.9 million in 2006 compared to 2005.

The decline is largely due to the rollover of $7.3 million of WIA funds from 2004 into 2005. Without the rollover the decline in WIA youth programs would be $4.4 million, or 18.1 percent. The plan also reduces the funding for the Summer Youth Employment Program (SYEP) by 57.9 percent to $14.1 million in 2006 compared to 2005. Although in recent years the SYEP program has been funded by state-provided TANF dollars, the Bloomberg Administration assumes that TANF funds will not be provided in 2006.

Community Development. DYCD's community development budget is comprised primarily of the Community Services Block Grant (CSBG), which supports programs that aim to reduce poverty, revitalize low-income communities, and empower poor individuals. Agency spending on CSBG programs grew by 39.6 percent from $28.3 million in 2001 to $39.5 million in 2004. CSBG spending is expected to be at about the same level for this year ($37.8 million) and then fall in 2006, although some of the drop off would likely be reversed if additional block grant funds are received (see below).

Adult Education. Among the smaller community development activities, adult education has grown the fastest since 2001, thanks to a new federal grant (WIA adult literacy) beginning in 2003. The additional funds allowed DYCD to support 17 adult basic education and 32 English for Speakers of Other Languages programs last year, which served a combined total of 12,700 individuals. The budget for 2005 and 2006 for adult literacy declines somewhat from the level in 2004.

Borough Needs. DYCD also sets aside funds to assess and address the unique service needs in each borough. The Borough Needs allocation which is disbursed by the City Council, grew by 29.4 percent from $5.1 million in 2001 to $6.6 million in 2004. Borough Needs comprised 12.0 percent of the agency's community development spending in 2004. The Preliminary Budget reduces the funds for Borough Needs by 95.0 percent to $0.5 million in 2006 compared to 2005.

Citizenship NYC. Spending for Citizenship NYC (CNYC) a program that helps immigrants become naturalized citizens and transition to life in the U.S. has declined from its 2001 level of $4.2 million to $1.1 million in 2004. Last year the CNYC program helped 5,174 immigrants file naturalization applications with the U.S. Citizen and Immigration Service.

Consolidation of School Age Child Care Services. Nearly two years ago in his Executive Budget for 2004, the Mayor proposed consolidating many of the city's school age youth services programs at DYCD. The consolidation initiative, called Out-of-School Time would transfer child care slots from the Administration for Children's Services to DYCD for approximately 10,000 children. (Note that when it was originally announced the plan was to transfer 18,000 slots.) DYCD issued a Request for Proposals for the OST program in December 2004 that assumes $64.1 million in total program funding for each year.

Two of DYCD's youth programs—YDDP and the After-Three Program, which is administered by The After-School Corporation—also would be part of the restructuring. The Mayor's Preliminary Budget for 2006 provides a total of $76.6 million for OST. This includes a restoration of $10 million for YDDP and $2.5 million for TASC, which had previously been removed from DYCD's baseline budget, but it does not restore $15 million removed from ACS's child care budget when the initiative was first announced.

Federal Actions. The President's proposed budget for federal fiscal year 2006 includes no funding for the Community Services Block Grant program. The Bush Administration claims that the program has failed to demonstrate sufficient results. As an alternative, the President recommends consolidating some of the funding that had been used for CSBG in a new economic and community development program. The new program would be administered by the Department of Commerce, instead of the Department of Health and Human Services, which had been running the CSBG program. On average DYCD has received a total of $32 million annually in federal CSBG funds over city fiscal years 2002-2004.

The President's budget request for federal fiscal year 2006 includes $3.9 billion for the proposed WIA Plus Consolidated Grant Program; this is a reduction of $61.5 million compared to funding for the program's individual components in 2005. The Bush Administration's proposal would consolidate the WIA Adult, Dislocated Worker, Youth Activities, Work Opportunity Tax Credit, Labor Market Information and Employment Service state grants into a single grant. The consolidation proposal is intended to give states greater flexibility in targeting resources where they are most needed, to facilitate coordination and to eliminate duplication in the provision of services. Workforce training advocates fear that "block granting" the program will lead to overall reductions in funding and cause the different client groups served by the separate programs to compete against each other for reduced resources. In federal fiscal year 2005, $986.3 million was provided nationwide for youth employment activities. Between 2001 and 2004 the city received a total of $142.4 million for WIA youth employment programs (excluding pilot programs and the $26.8 million WIA administration grant for both youth and adult programs).

The President's budget request for 2006 also provides $250 million for the Community College Initiative, a new federal program which would provide training through community colleges focused on industries with demonstrated labor shortages.

State Actions. The Governor has proposed major changes to how the federal Temporary Assistance to Needy Families grant is allocated, which would likely affect DYCD. In his Executive Budget the Governor recommended creating a new state Flexible Fund for Family Services block grant to consolidate all TANF surplus funds that are not used for public assistance benefits, state operations, and the Earned Income Tax Credit. The block grant, which the Governor proposes to fund at $1.0 billion statewide, would give localities broad discretion in distributing appropriations among all TANF-eligible supportive services. Over the last couple of years DYCD's Summer Youth Employment Program has increasingly relied on the state's TANF surplus. In 2004 the program's $41.8 million budget (actual expenses for 2004 are shown in the table on youth and community development programs) was comprised of $16.3 million in state TANF dollars, $7.5 million in federal WIA dollars, $783,000 in other state funds, $683,000 in other categorical aid, $93,000 in intra-city funds and $16.4 million in city funds. Given the Governor's budget proposal, it is unclear how much funding SYEP would receive for the upcoming summer.

In addition, the Governor's 2005-2006 Executive Budget also maintains funding for the Advantage After-School program at $20.2 million statewide. These funds support 181 programs throughout the state, which provide approximately 29,000 school-aged children with supervised educational and recreational activities during non-school hours. (These program funds do not pass through DYCD's budget but instead are provided directly to community-based providers.)

END NOTE

[1] The figures for WIA spending here and in the table exclude a small amount of WIA-funded pilot programs.

Health and Hospitals Corporation (HHC)

OVERVIEW

The New York City Health and Hospitals Corporation projects expenditures in 2006 of $4.7 billion while revenues are projected to total $4.1 billion, leaving an operating gap of $612 million. However, because HHC expects to start 2006 with a positive opening cash balance of $314.8 million which it would draw down during the year, the corporation is still facing a 2006 shortfall of $297 million. To avoid a deficit at the end of the corporation's fiscal year, further steps will be needed. HHC expects to be able to close the gap through $275 million in state and federal actions as well as $185 million in productivity savings, revenue enhancements, and revenue reengineering. Successfully implementing all of these measures would allow HHC to close 2006 with a positive cash balance of $162.9 million.

RECENT TRENDS

Receipts. Nearly all of HHC's revenues come from third-party payments; in other words, the majority of HHC's revenues come from health care insurers like public programs (Medicaid and Medicare), managed care organizations, and private insurance companies. Since 2002, HHC's revenues from third-party payments have steadily increased from approximately $3.4 billion in 2002 to an anticipated $3.6 billion in 2006. Over this time period, traditional Medicaid reimbursements have accounted for the bulk of HHC's third-party receipts, although these reimbursements have been declining steadily. In 2002, traditional Medicaid reimbursements accounted for nearly $1.9 billion of HHC's total receipts, while in 2006 the corporation expects to receive $1.6 billion in traditional Medicaid reimbursements.

The major growth in HHC's receipts results from a large increase in Medicaid managed care revenues, which have grown from $124 million in 2002 to a projected $553 million in 2006. This funding shift is tied to a major Medicaid policy initiative enacted by the state in 2002 that encouraged the enrollment of New York's Medicaid beneficiaries in managed care plans. In addition to increasing Medicaid managed care receipts, the remainder of the growth in HHC's third-party receipts since 2002 can be attributed to greater Medicare revenues, which have grown from $472 million in 2002 to an estimated $595 million in 2006, as well as increased receipts from the Bad Debt and Charity Care pools.

HHC's third-party payments, which include the city's Medicaid share, are projected to total $3.6 billion in 2006, approximately $160 million less than expected for 2005. HHC expects to receive third-party payments in 2006 from Medicaid fee-for-service reimbursements ($1.6 billion), Medicaid managed care receipts ($553 million), state-administered Bad Debt and Charity Care pools ($549 million), Medicare ($596 million), and health maintenance organizations and other payers ($279 million). Of the $160 million decrease in expected receipts from 2005 to 2006, $130 million results from declining Bad Debt and Charity Care payments. The state has announced its intentions to increase the overall funding for these Bad Debt and Charity Care pools, which are designed to subsidize care for the uninsured, in 2006, but the state must first obtain the approval of the federal government. The state recently gained federal approval for such an increase in 2005. The expected increase in Bad Debt and Charity Care funds would result from a plan to leverage additional federal funds in certain supplemental reimbursement programs.

In addition to third-party payments, HHC will receive $61 million in 2006 under the federally funded Community Health Partnership program, which helps hospitals transition from Medicaid fee-for-

Health and Hospitals Corporation
Dollars in millions

	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Receipts					
Third Party Receipts	$3,400.3	$3,431.6	$3,566.8	$3,772.0	$3,613.6
All Other Receipts	476.4	673.2	532.4	746.8	512.2
Total Receipts	**$3,876.7**	**$4,104.7**	**$4,099.2**	**$4,518.8**	**$4,125.8**
Disbursements					
Personnel Costs	$ 1,778.2	$ 1,940.3	$ 1,895.3	$ 1,994.3	$ 2,022.0
Fringe Benefits	465.9	510.2	568.1	661.7	755.0
Malpractice Costs	154.0	172.4	184.8	183.6	189.9
Debt Service Payments	54.9	60.6	58.4	95.9	106.1
All Other Disbursements	1,495.7	1,579.6	1,535.1	1,627.2	1,664.8
Total Disbursements	**$ 3,948.6**	**$ 4,263.1**	**$ 4,241.6**	**$ 4,562.8**	**$ 4,737.7**
Receipts Less Disbursements	**$ (71.9)**	**$ (158.4)**	**$ (142.4)**	**$ (44.0)**	**$ (612.0)**

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

service to mandatory managed care. Payments to HHC under the partnership will fall to $34 million in 2007 and then decline further as the state retains an increased share of the program funds and distributes less to hospitals.

City Payments. HHC receives an annual lump-sum payment from the city, the bulk of which is for Medicaid and is reported with third-party payments. The non-Medicaid portion of the subsidy is reported with other revenues. The Preliminary Budget for 2006 provides for a lump-sum payment of about $800 million in city funds to HHC, including $773.5 million for the city's share of Medicaid costs at HHC facilities and $27 million for debt service and other expenses. The city's expected Medicaid contribution for 2006 has been increasing to reflect higher than expected growth rates in overall Medicaid expenditures. The projected lump-sum payment to HHC for 2006 has been reduced due to the prepayment of $150 million in city funds originally scheduled to be paid out in fiscal year 2006 that will now be applied to fiscal year 2005. As a result of this advance, the city contribution to HHC in 2005 is expected to equal nearly $990 million.

In addition to the prepayment and an increase in the city's Medicaid contributions, the Mayor's Preliminary Budget for 2006 includes two other significant adjustments for 2006: a reduction in the city's general subsidy to HHC and a swap of a portion of the city-funded general subsidy for an increase in city-funded debt service.

Consistent with a citywide savings target, HHC's general city-funded subsidy for 2006 will decrease by $11.4 million. Rather than target specific programs for elimination or reduction, HHC intends to meet the targeted reduction by spreading the impact throughout the organization. While this reduction is small when compared to HHC's overall budget, meeting the target without affecting services may prove difficult given the shortfall facing HHC in 2006. The decision to meet the required reduction in the expense budget marks a departure for HHC. In 2004 and 2005, when HHC was also required to accept a reduction in the city subsidy to fulfill a citywide target, the target was met through decreased city-funded debt service payments. In 2004, HHC realized the $13.3 million debt service savings through a bond refinancing, while the corporation absorbed the $3 million debt service reduction required for 2005.

Seeking to finance capital improvements at Gouverneur Diagnostic Treatment Center and the Kings County Behavioral Center, HHC also requested a reduction of $1.3 million in the general city subsidy in 2006 in exchange for city-funded debt service for these two capital projects.

City Contract Reductions. The Department of Health and Mental Hygiene (DOHMH) has contracts with HHC to provide a variety of health services. In previous years, DOHMH has proposed decreases in the value of these contracts to help meet its own citywide reduction targets. Although DOHMH has not submitted any new reductions in these intra-city funds for 2006, there are several DOHMH-funded contracts identified for reduction in 2006 in previous years' Financial Plans that have not been restored. Among these contracts are $3.5 million in various mental health and substance abuse programs provided at HHC.

Disbursements Grow Faster than Receipts. Although HHC's receipts have been growing steadily since 2002, the corporation's expenditures have been growing at a much faster rate. In 2002, HHC's expenditures totaled $3.9 billion, while disbursements for 2006 are projected to reach $4.7 billion, a 20 percent increase. In comparison, total revenues over the same period have grown by 6 percent. Almost all of the growth in expenditures has been driven by two factors: increasing personnel costs and the associated fringe benefit costs. In 2002, personnel and fringe costs totaled over $2.2 billion; in 2006, they are expected to cost HHC nearly $2.8 billion.

Between 2005 and 2009, HHC projects total expenditures to increase by nearly 9 percent and total receipts to *decrease* by more than 4 percent. Annual operating deficits are expected to grow from $611 million in 2006 to more than $636 million by 2009. HHC assumes that federal and state actions will produce additional revenues of roughly $275 million in 2006, rising to $350 million in 2008. If history serves as any indication, however, the probability of receiving such a large sum in state and federal aid is low. In 2004, HHC received only $40.8 million in state and federal aid, and HHC expects to receive even less in 2005 ($18.7 million).

Caring for the Uninsured. HHC provides care for a large number of uninsured patients, which accounts for much of the corporation's persistent fiscal woes. While HHC has made significant strides in the past few years to reduce the number of uninsured patients by actively seeking to enroll all eligible patients in Medicaid, the corporation, in fulfilling its mission, still provides a great deal of uncompensated care. Between 2000 and 2004, HHC estimates that its efforts to enroll eligible patients in Medicaid resulted in a 23 percent reduction in the number of uninsured patients treated by the corporation, from approximately 565,000 uninsured patients in 2002 to 435,000 in 2004. The state-funded Bad Debt and Charity Care pools provide some assistance, but these pools do not cover the full cost of providing care to the uninsured. In calendar year 2004, IBO estimates that the cost of treating the uninsured was approximately $835 million. HHC received $637 million in Bad Debt and Charity Care funds in 2004, resulting in a shortfall associated with providing care for the uninsured of about $200 million.

In 2005, the Mayor increased the city-funded subsidy to HHC by $200 million to alleviate some of the financial strain placed upon the corporation as a result of uncompensated care. Increased funds of approximately $150 million per year were included for 2006 through 2008 as well. If current trends continue and the additional state and federal resources are not available, HHC will soon be unable to cover its expenses despite the increase in the city lump-sum payment. It is unclear, however, whether or not the city would be responsible for providing these additional subsidies to HHC if such an event occurs.

STATE AND FEDERAL ACTIONS

State Budget Actions. If the Governor's 2005-2006 state budget proposals are adopted in their current form, HHC stands to lose more than $275 million in 2006. Note that this further reduction in HHC revenue has not been included in the Preliminary Budget figures shown above. The proposals likely to have the most significant effect on HHC are part of the Governor's Medicaid cost containment package. These initiatives include the elimination of reimbursement for certain services currently provided through the Family Health Plus plan, the institution of a 0.7 percent assessment on gross hospital receipts, and a reduction in payments for graduate medical education.

Federal Budget Actions. The new federal Medicare Prescription Drug Benefit, which added prescription drug coverage to the range of Medicare services available to beneficiaries, contains several provisions likely to benefit the Health and Hospitals Corporation. Of particular importance to HHC is the temporary increase in the Disproportionate Share Hospital (DSH) payments detailed in the new law. DSH payments are additional Medicare and Medicaid payments provided to states by the federal government to compensate those hospitals that serve a disproportionately large number of low-income patients. The Medicare Prescription Drug Benefit legislation provides for a 16 percent increase in DSH payments to states beginning in federal fiscal year 2004. HHC can expect a $50 million increase in DSH funds in federal fiscal year 2005 as a result of this provision.

CAPITAL BUDGET

HHC establishes its own 10-year capital program, separate from the city's capital planning process. The 10-year plan has focused on expanding current facilities to meet increased demand, modernizing aging hospital facilities, and upgrading clinics, emergency rooms, and specialty units. The city's September 2004 Capital Commitment Plan substantially increased the total city contribution to HHC's capital program over previous years, raising the city contribution to $910.7 million for fiscal years 2005 through 2008. In contrast, the January 2004 Capital Commitment Plan included city contributions of $691 million for the 2004 through 2007 plan period. The $219 million increase in city-funded capital commitments to HHC almost entirely stems from a Mayoral initiative, announced in 2004, for major modernization projects at Harlem Hospital and Jacobi Medical Center.

In addition to city capital funds, HHC issues debt through the Dormitory Authority of the State of New York as well as on its own behalf. Major HHC capital projects currently in progress include the construction of a new ambulatory care pavilion at Queens Hospital and a major modernization project at Kings County Hospital.

Human Resources Administration (HRA)

OVERVIEW

The Preliminary Budget for the Human Resources Administration projects overall agency spending of $7.17 billion in 2005, an increase of 7.8 percent over the prior year, and spending of $7.25 billion in 2006, an increase of 1.1 percent over 2005. The difference in the growth rates in the two years is in part a result of a temporary increase in the federal matching rate for Medicaid, which resulted in a reduction in city Medicaid expenditures in 2004 that is not available in 2005. Adjusted for the temporary Medicaid change, agency spending will grow by 4.2 percent in 2005. IBO expects that future Financial Plans will make significant adjustments in some program areas for 2005 and 2006, resulting in funding reductions in areas like public assistance and increases in areas such as AIDS services. IBO's current projection for total spending for HRA is $7.07 billion in 2005 and $7.10 billion in 2006. These budget projections include IBO adjustments to the Preliminary Budget for state and federal categorical grants, Medicaid and public assistance

Overall agency spending growth over the last few years has been driven largely by growth in the Medicaid program. From 2001 to 2004, total agency spending increased from $5.72 billion to $6.65 billion—an increase of $931 million or 16.3 percent. Over this period, Medicaid spending accounted for most of the growth, increasing by $819 million (27.8 percent), while non-Medicaid spending grew $112 million (4.1 percent).

The number of full-time agency personnel increased significantly from 11,411 in June 2003 to 14,725 in June 2004 as the agency added about 2,000 budgeted positions to convert per diem lines to per annum, while another 1,000 were added to enable the agency to convert contracted temporary staff to regular full-time positions. The increase also reflects the shift of child support enforcement staff from the Administration for Children's Services. None of these additions resulted in any net cost to the city. The further increase in personnel from 2004 to 2005 reflects the expectation that HRA will complete the conversion of the contracted staff by the end of this fiscal year.

EXPENSE BUDGET

While HRA is still one of the largest Mayoral agencies in terms of its annual operating budget, it is not as large as it once was. In the 1990's city officials made a series of decisions to spin off several program areas into two newly constituted agencies: the Department of Homeless Services and the Administration for Children's Services. These two newer agencies currently have a combined annual operating budget of about $3 billion. As a result of these programmatic reorganizations HRA has become an agency centered primarily around the administration of two large means-tested programs: Medicaid and public assistance. These two entitlement programs account for about 80 percent of the agency's 2005 budget, while much of the remainder is accounted for by supporting programs such as employment programs and child care.

Human Resources Administration
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Medicaid	$2,947.3	$3,290.3	$3,479.3	$3,766.0	$4,260.2	$4,407.3
Public Assistance	1,521.0	1,337.4	1,319.9	1,401.6	1,470.3	1,485.9
Employment Programs	198.5	301.9	309.9	277.1	250.5	209.2
Child Care	145.5	152.0	173.4	214.6	245.0	250.3
AIDS Services	167.5	172.7	177.1	193.3	160.6	153.1
Other Programs	236.2	265.5	283.2	332.6	312.9	299.6
Administration	500.5	452.8	416.9	462.4	453.4	424.5
Unallocated Financial Plan Changes	0.0	0.0	0.0	0.0	15.9	15.9
TOTAL	**$5,716.5**	**$5,972.6**	**$6,159.7**	**$6,647.6**	**$7,168.8**	**$7,245.8**
IBO Adjustments						
State & Federal Categorical Grants					$0.0	$7.0
Medicaid					(54.1)	(21.4)
Public Assistance					(48.0)	(131.0)
TOTAL					($102.1)	($145.4)
IBO Projected					**$7,066.7**	**$7,100.4**
Full-time Personnel*	12,624	12,349	11,411	14,725	15,625	15,567
Capital Commitments	$60.8	$41.1	$53.3	$17.5	$51.4	$40.0

SOURCE: IBO.
NOTES: Full-time personnel: June 30 actuals for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 14,515. Excludes part-time and seasonal employees.

Medicaid. By far the largest program area in HRA is Medicaid, with a total budget of $4.26 billion for 2005 and a proposed budget of $4.41 billion for 2006, about 60 percent of the total agency budget. The Medicaid program area in HRA includes spending on eligibility determination and processing of city residents applying for benefits, providing home care services through contracted vendor agencies, and paying the city's share of payments to health care providers who treat Medicaid-eligible patients. The 2005 budget includes $94 million in personal services funding supporting a full-time staff of about 2,200.

With Medicaid expenditures continuing to grow rapidly this year, the Preliminary Budget added $153 million in city funds for 2005 and $285 million for 2006. This rapid expenditure growth has resulted in part from a significant increase in the number of city residents enrolled in the Medicaid program, from 1.9 million in September 2001 to 2.6 million in June 2004. For a detailed discussion see the Medicaid section of this report.

Public Assistance. The second largest program area in HRA is public assistance, with a total budget of $1.47 billion in 2005 and a proposed budget of $1.49 billion in 2006, about 20 percent of the total agency budget. This budget includes funds for grant payments to eligible families and singles as well as the cost of determining eligibility and administering the program. The 2005 budget includes $161 million in personal service funds supporting a full-time staff of about 3,700.

Starting with the implementation of welfare reform policies in 1995, public assistance spending decreased steadily along with the number of individuals receiving grant payments. These declines in caseload and spending slowed with the economic downturn, however, and eventually reversed. For a detailed discussion see the public assistance section of this report.

Employment Programs. The total 2005 budget for employment programs at HRA is $250 million, while the proposed budget for 2006 is $209 million. This includes funds for program administration and payments to contractors who provide assistance to clients in finding and maintaining private sector employment. It does not include related services such as child care and substance abuse services.

Expenditures for employment programs increased substantially from $199 million in 2001 to over $300 million in 2002 and 2003, before falling to $277 million in 2004. The variations in spending from year to year resulted in large part from changes in the availability of various employment funding streams. In 2002 and 2003 federal Workforce Investment Act (WIA) funds, which primarily provide employment services to non-welfare clients, were transferred from the Department of Employment to HRA. In 2004 these WIA funds and the responsibility for providing services to non-welfare clients were transferred from HRA to the Department of Business Services. In addition, over the last few years the agency has experienced reductions in its allocation of surplus federal welfare funds (see discussion of TANF surplus in Public Assistance section below) for employment programs.

While these funding reductions make it unlikely that the 2005 and 2006 expenditures will equal the 2003 levels, the 2005 and especially the 2006 budgets may well be adjusted upward as the state budget process develops and the availability of TANF funds becomes clearer.

Child Care. The total 2005 budget for subsidized child care at HRA is $245 million, with a proposed budget of $250 million in 2006. This includes funds for program administration and payments to contractors and individuals who provide child care services for families receiving public assistance to allow them to participate in work-related activities such as job-training and work experience programs. Expenditures for child care at HRA have increased significantly from $152 million in 2002 to $215 million in 2004. This expenditure growth resulted primarily from increases in the number of children enrolled in child care. After years of fairly steady enrollment, the number of children in HRA child care increased from an average of 36,000 in 2002 to 44,000 in 2003, and has continued upward reaching 47,000 in November 2004. The increase appears to result from improvements HRA has made in the process of providing clients with information about their child care options. The increased budgets for 2005 and 2006 reflect agency expectations that the increasing demand for child care services will continue.

AIDS Services. The total 2005 budget for AIDS services at HRA is $161 million, while the proposed budget for 2006 is $153 million. This includes funds for program administration and payments to contractors who provide a variety of services including cash assistance, home care services and housing assistance to clients of the HIV/AIDS Services Administration (HASA). It does not include the cost of services such as Medicaid or public assistance grants that these clients receive from other program areas. Over the last two decades HRA's AIDS services caseload has expanded from a few hundred cases in 1986 to 31,000 cases in December 2004. In the last few years caseload growth has slowed, leading to slower expenditure growth as well. Expenditures increased from $168 million in 2001 to $193 million in 2004.

While the HASA caseload growth has slowed, the number of cases is not expected to decrease in the near future, and no program cutbacks are planned. Therefore, IBO expects that the 2005 budget and proposed 2006 budget for AIDS services will be increased in future Financial Plans to meet ongoing costs for these services.

Central Administration. The 2005 budget for central administration is $453 million, and the proposed budget for 2006 is $425 million. This includes all administrative costs, such as those for the agency's budget and contract offices, which cannot be clearly linked to specific program areas.

CAPITAL BUDGET

HRA's four-year Capital Commitment Plan has changed little since the September 2004 plan and calls for $115 million in total commitments for 2005 through 2008, an average of $29 million a year. In contrast, from 2001 through 2004 actual capital commitments averaged $43 million. For 2005, the plan calls for committing $51 million. Actual commitments for any given year can vary significantly from the plan, however. For instance, a year ago the plan projected $42 million in commitments for 2004; actual commitments amounted to only $18 million.

The new commitment plan encompasses two general areas: upgrades to agency computer and telecommunications systems; and the construction, renovation and furnishing of agency facilities.

The agency will continue upgrading its computer and telecommunications systems, including imaging projects to eliminate paper records and streamline agency operations, and the continued development of computer network systems and increased Internet access to provide greater connectivity among personnel, contractors, and clients. In addition, new funds have been provided for the development of an integrated case management system. Planned commitments for computer and telecommunication systems total $29 million for 2005, and $81 million over the four years of the plan.

HRA is also planning a wide variety of construction and renovation projects intended to improve agency facilities including the Agudath Israel Service Center, the Coney Island Vocational Training Center, the Office of Employment Services facility on E. 16th Street, and the Medicaid program office on West 34th Street. Planned commitments for design, construction, renovation and furniture for agency facilities total $21 million for 2005, and $32 million over the four-year period.

Medicaid

OVERVIEW

Since fiscal year 2001, city-funded Medicaid expenditures have steadily increased from approximately $3.2 billion to an expected $4.7 billion in 2005, an increase of 45.2 percent. On average, city-funded Medicaid expenditures grew by 9.8 percent annually, adjusting for temporary state and federal aid. Although the bulk of these expenditures are administered by HRA, a portion of these city-funded Medicaid expenditures are made directly to the Health and Hospitals Corporation (HHC).

The 2006 Preliminary Budget projects total city-funded Medicaid expenditures—including payments administered by HRA and made directly to HHC—will reach $4.924 billion in 2006 and grow to more than $6.005 billion by 2009. IBO estimates the city's total Medicaid liability will equal $4.903 billion in 2006, rising to approximately $5.948 billion by 2009.

Medicaid and HRA. The 2006 Preliminary Budget projects city-funded Medicaid expenditures administered through the Human Resources Administration will total $4.2 billion, a 7.8 percent increase over expected 2005 Medicaid expenditures. The Bloomberg Administration expects Medicaid expenditures to continue growing, rising to $5.2 billion by 2009. The Preliminary Budget made a number of adjustments to the 2006 budget including: an increase of $284.5 million in expected Medicaid expenditures due to higher than expected prescription drug costs and larger caseloads; an increase of $1.2 million to cover the cost of retroactive Medicaid payments for Early Intervention beneficiaries; and a plan to save $5.6 million in Medicaid reimbursements for health services to prisoners, continuing a program first implemented in fiscal year 2002. IBO's projection of the HRA Medicaid spending for 2006 is $4.1 billion—$54 million lower than the Mayor's budget office.

Adjusting for the state takeover of Family Health Plus beginning in 2005 (see below), city-funded Medicaid spending through HRA will grow by 9.3 percent in fiscal year 2006 over fiscal year 2005 to total $4.1 billion. IBO also estimates a 7.9 percent average annual growth rate in expenditures for fiscal years 2007 through 2009. During this period, IBO expects city-funded Medicaid expenditures through HRA to rise from $4.4 billion in 2007 to $5.2 billion in 2009.

Medicaid and HHC. The city's contribution for Medicaid services delivered at the New York City Health and Hospitals Corporation (HHC) is treated differently than reimbursements to other service providers. For all providers other than HHC, HRA is billed by the state for the city's share of Medicaid costs. In the case of HHC, however, the city pays HHC directly for the city's share of the Medicaid services delivered at HHC facilities. The state makes payments to HHC for the state and federal share of Medicaid expenditures. In 2006, the city payment to HHC for Medicaid services is budgeted at $774 million, which accounts for the bulk of the city's $800 million lump-sum payment to HHC.

The 2006 Preliminary Budget includes an estimated $16 million increase in city-funded Medicaid expenses for HHC in 2006. The need for this increase stems from the same factors underlying Medicaid expenses charged to HRA: larger caseload figures and growth in prescription drug costs.

Background. Medicaid is a federal- and state-funded health care safety net program covering more than 45 million low-income individuals across the country. In New York State alone, there were approximately 4.1 million

Medicaid Expenditures
Dollars in millions

	2005 Budgeted	2006 Proposed	2007 Proposed	2008 Proposed	2009 Proposed
Through HRA					
IBO Estimate	$3,955.3	$4,129.0	$4,389.7	$4,764.7	$5,172.0
IBO Growth Rate		9.3%	7.7%	8.3%	8.3%
OMB Estimate	$ 4,009.4	$4,150.4	$4,408.9	$4,793.1	$5,228.6
OMB Growth Rate		7.8%	8.2%	8.4%	8.8%
Through HHC					
IBO/OMB Estimate	$ 754.2	$ 773.5	$ 785.5	$ 782.5	$ 776.0
Total City-Funded Medicaid					
IBO Estimate	$ 4,709.6	$4,902.5	$5,175.2	$5,547.3	$5,948.1
IBO Growth Rate		8.2%	6.8%	7.0%	7.1%
OMB Estimate	$ 4,763.6	$4,923.9	$5,194.4	$5,575.6	$6,004.6
OMB Growth Rate		7.0%	8.9%	10.6%	10.7%

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

individuals enrolled in Medicaid as of June 2004, 2.7 million of whom lived in New York City. Medicaid is a means-tested entitlement program that provides health care services to individuals whose income and resources fall below certain established thresholds. Throughout most of the country, Medicaid is funded jointly by the federal and state governments. Each state participating in the Medicaid program receives federal matching funds for a portion of actual expenditures. The share matched is determined by a state's Federal Medical Assistance Percentage (FMAP). The FMAP varies from 50 percent to 77 percent, depending on the state's per capita income. New York State's federal matching rate is 50 percent.

While Medicaid is a federal- and state- funded program in most other states, New York State requires localities to share the cost of providing Medicaid services. Localities in New York are currently required to contribute 25 percent of the cost of providing acute care services and 10 percent of the long-term care costs. For New York City, this translates to a total contribution of approximately 19 percent of all Medicaid expenditures made on behalf of city residents.

EXPENSE BUDGET

Shifting Costs. The proposals outlined in the 2006 Preliminary Budget continue the city's approach of maximizing federal Medicaid matching funds wherever possible. In particular, the city has focused on obtaining Medicaid reimbursement for inpatient services provided to prisoners as well as enrolling eligible Early Intervention beneficiaries in Medicaid. Savings from extending both these initiatives are included in the 2006 Preliminary Budget.

First, the city expects to once again take advantage of federal rules to bill Medicaid for inpatient services provided to inmates. Without this initiative, these inpatient services would be the responsibility of the city alone; by accessing Medicaid, the city will be able to shift some of the burden to the state and federal governments as well. The most recent proposal extends similar initiatives implemented in 2004 and 2005. The 2004 change saved the city $5.0 million in Medicaid funds in that year; while the 2005 extension is expected to save the city $3.1 million annually. The 2006 proposal would save the city an additional $5.6 million a year from 2006 through 2009—for a total annual savings of $8.7 million in Medicaid costs for inpatient prisoners' services.

The most significant recent example of cost-shifting, however, builds on an initiative first implemented in 2004. The city hopes to enroll all eligible Early Intervention clients in Medicaid. Prior to implementation of this initiative, Early Intervention—a program providing services to children under age three with developmental disabilities—was funded by the state and local governments. Although moving these children to Medicaid resulted in a $6.6 million increase in city-funded Medicaid expenditures in 2004, the initiative allowed the city and the state to share the cost of the program with the federal government, netting a $10 million savings for the Department of Health and Mental Hygiene (DOHMH) in Early Intervention expenditures in 2004. This initiative has proved much more successful than originally expected; DOHMH has increased its estimate of future savings in the 2006 Preliminary Budget, projecting an additional $35 million in annual departmental savings from the shift to Medicaid. In all, DOHMH estimates that Medicaid will cover about 45 percent of all Early Intervention costs from 2006 onward. Previously, Medicaid only covered 38 percent of total program expenses.

The 2006 Preliminary Budget also includes a new Medicaid maximization initiative related to Early Intervention. DOHMH intends to collect retroactive payments from Medicaid and other third-party insurers for services provided through the Early Intervention program in prior years. DOHMH expects that these efforts will result in a reduction in city-funded Early Intervention expenditures of $9.7 million in 2006, but these savings will be partly offset by increased city Medicaid costs of $1.2 million. Net city savings resulting from this initiative are therefore expected to be $8.5 million in 2006.

Medicaid Reestimate. The Preliminary Budget for 2006 includes a $284.5 million Medicaid reestimate from the forecast last October. The Bloomberg Administration's reestimate is based almost entirely on higher than expected enrollment and increasing prescription drug costs (see below). Based on the same factors, IBO has also increased its estimate of 2006 Medicaid expenditures by $330.6 million.

MEDICAID TRENDS

The cost of providing Medicaid services to New York City residents has been steadily increasing. Based on IBO's estimates and adjusting for the partial state takeover of Family Health Plus, the cost to the city of providing Medicaid services through HRA has risen 62 percent overall, from approximately $2.5 billion in 2001 to just over $4.1 billion in 2006—an average annual growth rate of

10.1 percent. The rapid growth in New York's Medicaid expenditures mirrors that of the United States as a whole; nationally, Medicaid expenditures have also been growing at an average annual rate of about 10.2 percent. In New York, the primary drivers of the growth in Medicaid expenditures are the continued growth in Medicaid enrollment, particularly in the Family Health Plus (FHP) program, and increasing pharmaceutical costs.

Increases in Medicaid Enrollment. Since September 2001, Medicaid enrollment in New York City has increased by about 1 million to nearly 2.7 million city residents. There are three major contributors to this increase: the Disaster Relief Medicaid (DRM) program, the implementation of the Family Health Plus program, and the recent economic downturn.

The Disaster Relief Medicaid program was created immediately after Medicaid's computer system was incapacitated in the attack on the World Trade Center. DRM featured a simplified, one-page application and minimal documentation requirements. Prospective beneficiaries needed only to attest that they would meet the eligibility requirements of Family Health Plus. During the four-month enrollment period that ended in January 2002, an estimated 380,000 New Yorkers enrolled in Disaster Relief Medicaid. Beginning in January 2002, the city's Human Resources Administration initiated a transition process that attempted to enroll as many DRM participants into traditional Medicaid as were eligible. The process essentially was completed in December 2002.

In addition to creating Disaster Relief Medicaid in the wake of the attack on the World Trade Center, a federal waiver was issued allowing for the automatic recertification of Medicaid coverage for those Medicaid beneficiaries who were already enrolled in the program and were due for recertification between September 11, 2001 and January 31, 2002. The regular recertification process was not reinstated until January 2003. The reenrollment process requires Medicaid beneficiaries to attend an interview with Medicaid eligibility staff and submit extensive documentation of their eligibility. Typically, half of all Medicaid beneficiaries are not recertified. This does not necessarily indicate that applicants are not eligible; beneficiaries can be removed from Medicaid if they fail to keep their interviews or do not have proper documentation. These individuals often resolve these issues and are able reenroll in Medicaid later in the year.

Since January 2004, the overall Medicaid caseload has continued to grow, albeit at a slower pace than in previous years. In 2002, Medicaid caseloads increased by 23.5 percent, while in 2003, Medicaid caseloads increased by 11.7 percent. In 2004, the number of Medicaid beneficiaries increased by 5.9 percent. This slower growth rate could indicate a return to the sort of cyclical enrollment created by the recertification process, in contrast to the sharp growth under the extraordinary processes used in 2002 and 2003.

The Family Health Plus program, a statewide managed care initiative aimed at low-income working parents and other adults with incomes above regular Medicaid eligibility levels, has provided an additional boost to Medicaid enrollment. FHP was launched in New York City in January 2002, and as of July 2004, (the latest month for which data is available), enrollment had grown to over 340,000. When Family Health Plus was first implemented, income eligibility levels were set at 133 percent of the federal poverty level (FPL) for parents and 100 percent for single adults and childless couples. As planned in the original legislation, the income eligibility requirements for parents were loosened further in October 2002, rising from 133 percent of FPL to 150 percent. The income eligibility level for single adults and childless couples remains at 100 percent of FPL.

Finally, the local economic downturn probably contributed to enrollment growth as well. Research using national data indicates that a 1.0 percentage point increase in the unemployment rate translates into a 3.6 percent increase in Medicaid enrollment, as job losses reduce the income of many households to the point where they can qualify for Medicaid. The city's unemployment rate rose from 5.2 percent in January 2001 to 7.9 percent in December 2003. During that same period, Medicaid enrollment grew by 49.6 percent, more than five times the unemployment rate to enrollment ratio noted above. Thus, while increasing unemployment in the city has likely contributed to the caseload growth, the data suggests that Family Health Plus, Disaster Relief Medicaid, and other policy changes probably contributed even more.

During 2004, the city's unemployment rate steadily decreased, moving from 8.2 percent in January to 5.7 percent in December. During the same time period, growth in overall Medicaid enrollment slowed to 5.9 percent after two years of double-digit growth. Again, the improving economy is likely contributing to the slowdown in enrollment growth.

Increasing Pharmaceutical Costs. Although states are not required by the federal government to offer prescription drug benefits to their Medicaid beneficiaries—it is considered an optional service—New York State made the decision early on to provide this service. Between 2000 and 2003, national Medicaid expenditures for prescription drugs rose at an average annual rate of 17.1 percent. Driven by the combination of rapid increases in prices *and* enrollment, Medicaid prescription drug expenditures in New York City have grown at an average annual rate of 22.3 percent over the same period. In 1999, the city's share of Medicaid prescription drug expenditures totaled $280 million; by 2004, that figure had grown to approximately $715 million. These rapidly increasing pharmaceutical costs combined with the higher than expected Medicaid caseload are the driving forces behind the growth in the city's expected Medicaid expenditures.

STATE AND FEDERAL PROPOSALS

Effect of Governor's Proposals on City Spending. The local share of Medicaid expenditures has recently become a point of strong contention between the state and local governments, with county officials across the state publicly demanding relief from the local Medicaid burden. In response to the county officials' demands, the Governor's Executive 2005-2006 budget proposes a cap on all local Medicaid expenditures. Under the terms laid out in the proposed budget, the state would cap the growth in local Medicaid contributions at 3.5 percent in calendar year 2006, 3.25 percent in 2007, and 3.0 percent in 2008 and beyond. Any expenses in excess of the caps would be picked up by the state. For New York City, IBO estimates that, if enacted, the savings from the cap could total more than $800 million over the next four city fiscal years.

As in previous years, the Governor's proposed 2005-2006 state budget includes several Medicaid cost containment initiatives aimed at reducing the Medicaid burden for both the state and local governments; this year, the state seeks to save over $1.7 billion. While the Governor's budget outlined several initiatives designed to reduce the overall Medicaid burden, the cost containment proposals that would likely have the largest impact on New York City are the reform of the Family Health Plus program and the institution of an assessment on hospital receipts.

The largest change to Medicaid services included in the Governor's budget is the proposed reform of the Family Health Plus program. Although much of the proposal is not new—a proposal to reform FHP was included in the Governor's budget last year as well—the extent of the changes proposed in this year's budget is much greater than any previously suggested. If enacted, the proposal would reduce benefits offered to Family Health Plus beneficiaries, institute co-payments for a range of services, and impose stricter regulations on FHP eligibility (see sidebar). The proposal would also put an end to the facilitated enrollment initiative, which allows approved organizations to assist prospective FHP beneficiaries complete and submit FHP enrollment application forms.

Proposed Changes to the Family Health Plus Program

If enacted, the Governor's Executive Budget for 2005-2006 would significantly transform the Family Health Plus program. Specifically, the budget would:

- Eliminate benefits, including:
  - Inpatient and outpatient mental health and alcohol and substance abuse services
  - Pre-hospital treatment for emergency medical condition provided by an ambulance service
  - Emergency, preventive, and routine dental care
  - Emergency, preventive, and routine vision care
  - Durable medical equipment
  - Speech and hearing services
  - Hospice services
- Institute co-payments for inpatient hospital services ($250), outpatient patient services ($75), and services provided in the emergency room ($50). The emergency room co-payment would be waived if the visit results in admittance to the hospital. Some services will continue not to require a co-payment, such as family planning and maternity services.
- Require a 12-month waiting period for those applicants who previously had group health coverage, except in certain extenuating circumstances, such as unemployment.
- Prohibit coverage for those individuals employed by large businesses. A large business would be defined as a business with 50 or more employees.
- Limit total household savings to $10,000.

The Governor projects that reform of the Family Health Plus program would save the state almost $200 million in state fiscal year 2005-2006. IBO expects city savings related to FHP reform would total more than $70 million in city fiscal year 2006. The city would not receive any savings in city fiscal year 2007 and beyond, however, because the state will cover the entire cost of the Family Health Plus program beginning in January 2006. As part of the state's 2004-2005 enacted budget, the state agreed to take over half of localities' Family Health Plus costs beginning in January 2005 and all of localities' Family Health Plus costs as of January 2006.

The Governor's proposed budget for 2005-2006 also includes several changes to the traditional Medicaid program. Specifically, the Governor's budget recommends eliminating Medicaid reimbursement for three service areas—podiatry services, non-emergency dental services for adults, and psychologist services provided to adults. The proposed budget would tighten eligibility requirements for long-term care recipients by eliminating "spousal refusal" and by extending the moratorium on asset-transfers to 60 months. "Spousal refusal" allows a spouse to refuse financial support to a spouse requiring long-term care services, thereby impoverishing him or her and rendering the spouse eligible for Medicaid. The Governor's budget also proposes a 0.7 percent assessment on hospital receipts. IBO projects that these changes would save the city nearly $35 million in city fiscal year 2006.

Finally, the Governor's budget once again presented a proposal aimed at reducing the cost of providing prescription drugs to Medicaid beneficiaries through the creation of a preferred drug list, also know as a drug formulary. The drugs included in the formulary would be selected based on clinical effectiveness and cost by a panel of independent clinicians, practitioners, and pharmacists. Certain drugs, however, such as anti-retrovirals, atypical anti-psychotics, anti-depressants, and anti-rejection drugs would not be subject to the preferred drug list. If adopted, the Medicaid drug formulary would go into effect in fiscal year 2006. The city could save more than $37 million in city fiscal year 2006 if the formulary is approved.

Effect of Governor's Proposals on HHC. Although IBO estimates that the Governor's Medicaid proposals would save the city an estimated $400 million in fiscal year 2006, the same proposals would *cost* the Health and Hospitals Corporation an estimated $275 million. The enactment of these Medicaid cost-containment initiatives could have a significant and negative impact on HHC's ability to provide services, as the corporation was already facing a $612 million deficit for 2006. Adding in the cost of the Medicaid proposals, HHC's total deficit for 2006 would total almost $900 million, more than 20 percent of its anticipated receipts.

Effect of President's Proposals on City Spending. Concerns over the soaring costs of Medicaid have also become an issue on the national level. In both 2004 and 2005, the Bush Administration introduced a proposal to grant states more flexibility in determining the services provided to optional Medicaid beneficiaries in exchange for the conversion of Medicaid to a block grant program. Currently, Medicaid is an open-ended program requiring the federal government to match a certain percentage of each state's actual Medicaid expenditures.

Details of the block grant proposal were scarce, and most state governments expressed strong opposition to the initiative. The block grant proposal was not accepted in either 2004 or 2005. Although the President's proposed budget for federal fiscal year 2006 does not explicitly reintroduce the idea of a block grant, it does include a Medicaid reform plan that sounds strikingly similar. Although few details were provided, the Medicaid reform put forth in this year's budget, as with the block grant proposal floated in previous years, would provide states with more flexibility in determining the scope of the program without increasing costs to the federal government. Because New York State has taken advantage of many federal waivers and aggressively expanded its Medicaid program through initiatives such as Family Health Plus, a block grant pegged to core (i.e. non-waiver) services could prove expensive for the state—and the city—in the long run and increase pressure to contain Medicaid spending.

The federal government has provided some Medicaid assistance to New York recently, through the Medicare Prescription Drug Benefit established last year. The law, which added prescription drug coverage to the range of Medicare services available to beneficiaries, contains several provisions likely to have an impact on New York City's budget. The most important of these provisions is the new law's designation of Medicare as the sole insurer of the "dual eligibles," those low-income Medicare beneficiaries who qualify for Medicaid.

The savings, roughly $34 million in federal fiscal year 2006, will derive from the new drug benefit covering the cost of prescriptions for the roughly 350,000 city residents who are eligible for both Medicare and Medicaid. The new Medicare Prescription Drug Benefit will shift the responsibility for providing prescription drugs to these dually eligible beneficiaries from Medicaid, which is partially funded by the city, to Medicare, which is entirely federally funded. The resulting fiscal relief for the city is smaller than anticipated, however, due to the existence of a "clawback" clause in the drug benefit legislation. The clawback provision essentially requires states to reimburse the federal government for much of the expenditures they would have made if the new law had not been enacted. In 2006, the reimbursement rate will be equal to 90 percent of the state's estimated prescription drug expenditures on dual eligibles. Without the clawback, New York City would have realized approximately $300 million more in savings in 2006.

The Medicare Prescription Drug Benefit legislation also contained a provision likely to benefit the Health and Hospitals Corporation by temporarily increasing the Disproportionate Share Hospital (DSH) payments. DSH payments are additional Medicare and Medicaid payments provided to states by the federal government to compensate those hospitals that serve a disproportionately large number of low-income patients. The Medicare Prescription Drug legislation provides for a 16 percent increase in DSH payments to states. HHC can expect a $50 million increase in DSH funds in federal fiscal year 2005 as a result of this provision.

Public Assistance

OVERVIEW

The Preliminary Budget projects that the overall number of people receiving public assistance will slowly increase from 429,000 in December 2004 to 438,000 in June 2006, and then level off after that point. Based on this modest caseload growth, the Bloomberg Administration projects that federal, state, and city expenditures for public assistance grants will increase slightly from $1.26 billion in 2005 to $1.27 billion in 2006 and remain largely unchanged in later years. The city's share of welfare spending is forecast to rise from $528 million in 2005 to $534 million in 2006 and then level off for the remaining years of the plan.

There are three distinct components of public assistance, which differ by eligible beneficiary and sources of funding. Those on Family Assistance (FA) qualify for federal Temporary Assistance for Needy Families (TANF) grants. Needy households with children can receive up to 60 months of TANF-funded benefits. The cost of FA is split between the federal government, which pays 50 percent, and the city and state, which each pay 25 percent of the cost. Prior to the 1996 federal welfare legislation, this category was known as Assistance for Families with Dependent Children. Needy single adults can receive Safety Net Assistance (SNA) benefits. SNA is funded by the city and state, each of which pays 50 percent of the cost, with no federal contribution. Prior to 1997, this program was known as Home Relief. If families still qualify for benefits after their 60 months of federal TANF eligibility expire, they can shift to the 60 Month Converted to Safety Net (C-SN) program, which is funded equally by the city and state. As with basic SNA, there is no federal funding for C-SN.

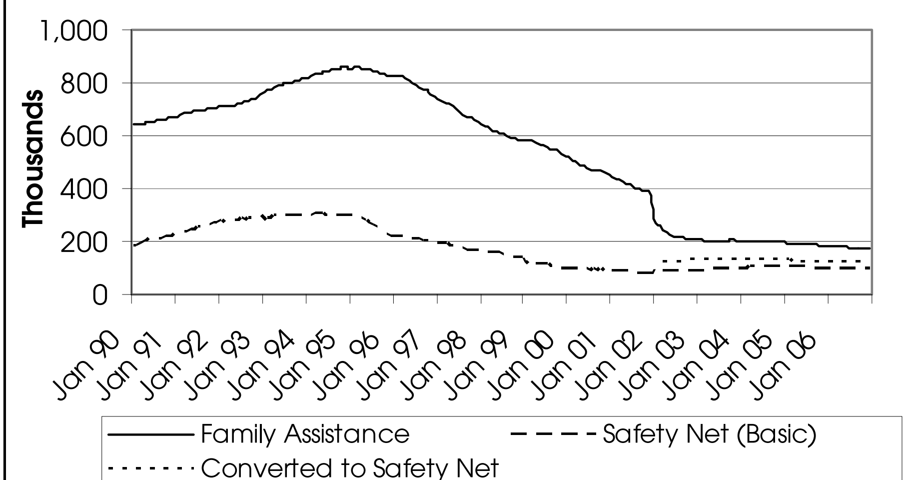
The Preliminary Budget includes separate caseload projections for each of these three groups. Whereas the Bloomberg Administration expects the combined caseload to increase slightly through the end of 2006, IBO projects that public assistance caseloads will decrease modestly through 2006 as the city's job market continues to improve. Based on these caseload projections we expect total expenditures for public assistance grants to decrease from $1.21 billion in 2005 to $1.14 billion in 2006 and $1.11 billion in 2007, and remain flat after that point. Similarly, we project that city grant expenditures (not including administrative costs) will decrease from $505 million in 2005 to $480 million in 2006 and $469 million in 2007, before leveling off in the remaining years of the Financial Plan. IBO's projections for city-funded expenditures are lower than the Mayor's budget office forecast by $23 million in 2005, $54 million in 2006, and $65 million in 2007 and later years.

CASELOAD TRENDS

The number of people receiving public assistance in the city began a long 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 nearly 1.2 million to 464,000, a reduction of 60 percent. The decline was due to a combination of factors including an improving local economy, reform of state and federal welfare policies, as well as major changes by the city. The city initiatives included intensive screening of new applicants, work requirements, and the use of job placement firms to aggressively push recipients into the paid workforce.

The recent economic downturn provided a new challenge to the city's welfare reform policies. Starting in early 2001 the city experienced a significant economic contraction, and the attack on the World Trade Center delivered an additional

Public Assistance Caseloads



SOURCES: IBO; Human Resources Administration.

shock leading to heavy job losses. Between December 2000 and December 2003 the city experienced a net loss of about 240,000 jobs.

Contrary to some expectations, the recession 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 to increase in the fall of 2001, reaching 87,000 in March 2002. This upturn then continued at a slower pace, reaching 96,000 by December 2003. The impact of the economic downturn on the family caseload, which now includes both FA and C-SN, was also modest. While the downturn did not lead to caseload increases, it did slow the rate of decline, and eventually halted it altogether. 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 C-SN, the combined family caseload began a slower downward trend. From April 2002 through December 2002 the family caseload decreased from 353,000 to 335,000, an average decline of about 2,000 people per month. During calendar year 2003 the combined family caseload stabilized, so that by December 2003 it remained at 335,000.

Local employment growth resumed in 2004, and the number of jobs increased by 34,000 from December 2003 to December 2004. This upturn may be starting to have an impact on the public assistance caseload. While the number of SNA recipients continued to rise from 96,000 in December 2003 to 105,000 in June 2004, during the last half of calendar year 2004 it held steady. IBO projects that the SNA caseload will begin to slowly decrease, reaching 96,000 recipients by June 2006. The combined family (FA and C-SN) caseload continued to hold steady during the first six months of calendar year 2004, registering 333,000 recipients in June. Since then the family caseload has resumed its long-term downward trend reaching 324,000 recipients in December 2004. We project that the family caseload will continue to slowly decrease to 297,000 recipients by June 2006. The Bloomberg Administration projects that the combined number of persons on either FA or C-SN will increase slightly from 324,000 in December 2004 to 328,000 by June 2005 and remain largely flat after that point.

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 C-SN program. After rising gradually to a peak of 133,000 in November 2003, the number of C-SN recipients has slowly decreased to 128,000 by December 2004. We project that the number of C-SN recipients will slowly decrease to 119,000 by June 2006. In contrast, the Bloomberg Administration projects that the C-SN caseload will remain steady at its December 2004 level for the remainder of the Financial Plan period.

Taken by itself, the shift from FA to C-SN will have significant budget implications for New York City, due to the difference in the way that the two programs are funded. For C-SN the state and city are responsible for the entire cost of the program, with a city share of 50 percent. For FA the federal government covers half of the costs, with a city share of 25 percent. For this reason any shift of recipients from FA to C-SN will require additional city expenditures. The incremental cost to the city of shifting up to 128,000 persons from FA to C-SN will reach $67 million in fiscal year 2005, and decrease slightly to $64 million in 2006.

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 decreased, the state and the city chose not to spend all of the resulting savings on other programs targeted to low-income New Yorkers.

Until recently, state officials would annually project potential MOE spending shortfalls. To reach the required MOE level they stepped up state spending and required local governments to spend more. For state fiscal year 2000-2001, state officials projected a potential 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 C-SN, however, significantly increases state and local spending against the MOE. Under federal rules, each additional dollar spent in shifting families to C-SN 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 C-SN 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 C-SN is expected to eliminate any potential MOE spending shortfall over the next few years.

The Impact on Recipients. While shifting recipients from FA to C-SN may have little impact on the city budget in the near term, it does have an impact on recipients. Once recipients are shifted to C-SN, 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 C-SN 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 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 C-SN recipients, the implementation of the debit card program has been indefinitely delayed as a result of technical problems.

THE TANF SURPLUS AND REAUTHORIZATION

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 June 2005. 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.

Another focus of local budgetary concern is the increased work requirements for TANF recipients included in the version of the reauthorization bill currently under consideration in 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.

Decisions made by state officials in allocating the TANF surplus over the last few years have created additional risks for the city's welfare and social service budgets. In state fiscal year 2002-2003 state officials expanded the TANF surplus available for allocation to $2.6 billion, primarily 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. In 2003-2004, with no contingency fund to draw on, the state's adopted budget included a reduced TANF surplus of $2.0 billion. But even this reduced level of surplus relied on over $400 million in a one-time addition brought about by postponing TANF transfers to the Child Care Block Grant.

Based on the recent caseload trends and the unavailability of one-shot additions to the surplus, the state's adopted budget for 2004-2005 included a significantly reduced TANF surplus of $1.4 billion. For the most part the budget limited reductions in TANF surplus allocations to localities, by instead eliminating the use of surplus funds for state fiscal relief. The city, however, did receive a reduced TANF allocation for child welfare programs, forcing officials to add $45 million in city funds annually to continue current funding levels for these programs.

The Governor's Executive Budget for 2005-2006 proposes to alter the TANF surplus allocation system by creating a $1.0 billion Flexible Fund for Family Services block grant to localities, in place of the specific program allocations of previous years. Under this new system local governments would receive one large TANF surplus allocation, and would have to decide how to allocate it among the specific programs that have come to rely on TANF surplus funds. City officials estimate that the proposal would reduce the city's TANF allocation by at least $150 million compared to the current year

Whether or not this new allocation system is ultimately adopted by the state, unless Congress increases the TANF block grant future surpluses are likely to remain relatively flat while the costs of the programs that they fund continue to rise.

Department of Environmental Protection (DEP)

OVERVIEW

The 2006 Preliminary Budget for the Department of Environmental Protection is $749.2 million, including $2.5 million in state grants IBO projects for filtration avoidance projects upstate. The 2005 current budget of $773.8 million is 9.1 percent above actual spending for 2004, and funds several one-time programs.

EXPENSE BUDGET

City funds only account for about 5 percent of DEP's budget. The majority of the budget is financed by charges to water 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 $1.93 billion in 2006. From this revenue, the New York City Water Board will pay the city $793.5 million for system operations (including fringe benefits for personnel, not shown in the table on agency expenditures), and $127.1 million as a lease payment for the city-owned water and sewer infrastructure. Another $755.5 million will go primarily for debt service on Municipal Water Finance Authority-issued debt, and $23.1 million will pay for water board and authority expenses. The remaining revenue funds reserve accounts.

Water and Sewer System. Between 80 percent and 82 percent of DEP's annual budget is spent for the operation of the water supply and distribution, and wastewater collection and treatment systems. Three DEP bureaus are responsible for managing system operations—the Bureaus of Water Supply, of Water and Sewer Operations, and of Wastewater Treatment. Total budgeted expenditures for water and sewer system operations are 8.8 percent higher in 2005 than actual expenditures in 2004, including some one-time expenditures, the largest of which is $3 million for maintenance work on remote control equipment at wastewater treatment plant pumping stations. The department typically underspends its budget by $5 million to $10 million, which it rolls over into the next year. The roll from 2004 into 2005 was $11.1 million, with $1.2 million for the Environmental Control Board (ECB).

System expenditures are also rising due to growth in real estate taxes the department pays to the upstate watershed communities in which the city owns land outright or holds a conservation easement. Taxes increased $8.7 million this year, bringing total real estate taxes paid to upstate communities each year to almost $93 million.

Another increase is $3 million for partnership programs in upstate communities, in connection with the upgrade and rehabilitation of watershed septic systems as required by the 2002 Filtration Avoidance Determination. Within city boundaries, DEP began this year to pay $1.2 million for larvicide used in catch basin spraying for West Nile virus, according to a memorandum of understanding with the city Department of Health and Mental Hygiene.

Department of Environmental Protection
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Water & Sewer System Operations	$521.8	$537.7	$559.6	$575.7	$626.4	$613.2
Water Metering & Customer Service	36.1	40.1	40.6	40.6	45.9	40.1
Environmental Control Board	12.9	13.0	13.4	13.5	17.3	16.4
Air, Noise, & Hazmat Enforcement	9.8	10.3	10.1	12.1	12.0	11.9
Envt'l Health & Safety Program	-	-	-	9.2	12.0	6.1
Agency Administration & Support	48.2	51.7	51.1	53.5	56.9	56.9
Other	4.3	15.4	26.8	4.6	3.3	2.1
TOTAL	**$633.1**	**$668.2**	**$701.6**	**$709.2**	**$773.8**	**$746.7**
IBO Adjustments						
State Categorical Grants						2.5
TOTAL						$2.5
IBO Projected						**$749.2**
Full-time Personnel*	5,414	5,430	5,478	5,781	5,996	5,996
Capital Commitments	$1,436.1	$1,870.9	$1,380.2	$1,713.3	$2,884.6	$2,180.0

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 5,728. Excludes part-time and seasonal employees.

Water Metering and Customer Service. To promote water conservation and rate equity, the state Department of Environmental Conservation requires that DEP work toward charging all users on actual usage, rather than on the old "frontage" system, which charged based on property size and characteristics. Currently metering 95 percent of all accounts, the department will spend $17.6 million on water metering in 2005. Expenditures on customer service for all water and sewer billing matters are budgeted to reach $28.3 million this year.

The 2005 budget for water metering and customer service is 13 percent higher than actual program expenditures in 2004. Based on a reestimate of customer call center staffing needs, DEP is spending $1.7 million this year for 95 additional part-time staff needed for both peak and non-peak calling hours. The department is also spending an additional $3 million this year for upgraded computer equipment for the customer services unit. Neither of these items is budgeted beyond the current fiscal year.

Environmental Control Board. The Environmental Control Board is an administrative tribunal operated by DEP that adjudicates hearings on notices of violations issued by numerous city agencies for health and safety and quality-of-life infractions of the city's laws and regulations. Issuing agencies include DEP itself, as well as the sanitation, fire, buildings, and transportation departments, among others.

Spending for ECB had grown at a moderate pace for the past four years, before a 28 percent jump in 2005. Much of this recent increase is due to a growth in the number of cases heard by ECB judges, most of whom are part-time employees. An additional $1.2 million was added to the annual ECB budget for personnel costs, beginning in 2005. Renewed enforcement initiatives on the part of some agencies for which ECB adjudicates violations is prompting the agency to prepare for more hearings beginning this spring. DEP is hiring five additional clerical staff to handle the increase in caseload. In the 2006 Preliminary Budget, another $237,000 in personnel and other costs is added for 2005, as well as $269,000 annually for 2006 through 2009.

The Bloomberg Administration expects the higher revenues resulting from agencies' enforcement initiatives to outweigh the increased costs borne by the Environmental Control Board. In December 2004, ECB promulgated penalties set by issuing agencies for 2,200 violations, approximately 2 percent of which increased recommended fines. No maximum fine amounts were raised, nor minimums eliminated. The sanitation department expects higher revenues of $1.1 million in 2005 and $2.8 million in the out-years. The fire department projects an additional $1 million beginning in the current year. The Environmental Control Board anticipates an additional $399,000 in 2005, and $1.3 million in 2006 through 2009, from agencies other than the two mentioned above.

Environmental Control Board Fine Revenues

Dollars in millions

2001	2002	2003	2004	2005	2006
$42.9	$44.9	$51.6	$58.3	$52.0	$54.4

SOURCES: IBO; Comptroller's Annual Financial Reports.
NOTE: 2001-2004 figures are actuals from the Comptroller's Annual Financial Reports. 2005 and 2006 figures are projected as of the 2006 Preliminary Plan.

Air, Noise & Hazardous Materials Enforcement. Both personnel and non-personnel expenditures increased for DEP's Bureau of Environmental Compliance (BEC) operations in 2004. The BEC responds to hazardous material emergencies, reviews and inspects asbestos abatement projects, and investigates air quality and noise complaints, among other things. In 2004, there were 2,325 hazardous materials emergencies, compared with 1,695 in 2003. The number of BEC inspections (related to air, noise, asbestos, and storage of hazardous materials) also increased, from 30,833 in 2003, to 39,574 in 2004.

Although BEC's workload continues to grow, no further budgetary increase is currently planned. The Hazardous Materials Response Unit handled 829 incidents involving hazardous materials in the first four months of 2005, compared with 725 in the same period last year. Public- and DEP-initiated air, noise, asbestos, and Right-to-Know inspections were up 16.5 percent in the first third of 2005, to 14,843, from 12,728 in the first third of 2004.

Environmental Health and Safety Program. The Environmental Health and Safety (EH&S) program began in response to a federal investigation into certain aspects of DEP's water supply operations, specifically, the alleged release of mercury and other contaminants from DEP facilities into surrounding waters, and the alleged use and operation of certain machinery and equipment at various DEP facilities which may have been contaminated with mercury and/or PCBs. In August of 2001, DEP plead guilty to two criminal violations of federal environmental laws, paid a $50,000 fine, and was placed on probation for three years, with the possibility of two one-year extensions. A federal monitor was appointed by the court to oversee certain DEP activities during its probationary period.

DEP is a large agency with many diverse workplaces containing risks to employee health and safety as well as presenting the potential for harmful releases to the environment. The EH&S program involves every aspect of the agency, and expenditures are occurring throughout DEP. Beginning in 2004, expenditures for the program can be isolated in the budget. They total $9.2 million in 2004, with

$12.0 million and $6.1 million budgeted for 2005 and 2006, respectively. Higher expenditures in 2005 can be attributed to a one-year increase in a contract for removing potentially harmful materials out of sump pumps ($2 million), along with greater funding for health and safety monitoring programs in the upstate watershed ($1.5 million as opposed to $161,000 in the out-years).

A key component of the plea agreement was the establishment of an Environmental Health and Safety Compliance Program—including the establishment of a permanent compliance office—to prevent and detect violations of environmental rules and regulations.

The department hired outside consultants to assist with the formulation of a Compliance Action Program that identifies activities DEP performs that could be subject to various EH&S laws. Examples of these regulatory areas include personal protective equipment, respiratory protection, and storage tanks. Under the action program, the agency is writing standard operating procedures, training employees in EH&S, and implementing regulatory requirements.

CAPITAL BUDGET

DEP has presented a fully articulated 10-year capital program through 2015—something of a novelty for the city in its capital planning process, in which most agencies do not include the full cost of projects beyond the current four-year Financial Plan. The plan, at $15.8 billion, focuses on addressing the urgent needs of the city's century-old water conveyance system that brings water from upstate into the city and distributes it to commercial and residential users. Because the aging system lacks redundancy in many critical areas, there is a risk of a catastrophic failure of water supply.

The plan also addresses the requirements of federal and state clean water mandates, and proposes a new strategy for meeting them that will require a successful renegotiation with the state and federal governments of current agreements. If the city is unable to renegotiate the current requirements, DEP estimates that the total cost of implementing the plan will be substantially higher.

DEP funds nearly 99 percent of the capital program through debt issued by the Municipal Water Finance Authority. The remaining funding is derived from state and federal grants and other sources.

There are five categories in DEP's capital plan—water supply, water quality and distribution, water pollution control, sewers, and equipment.

Water Supply. Twenty percent of DEP's long-term plan is committed to water supply projects. By far the largest project in this category is the Kensico to City Tunnel, which will bring water 16 miles from the Kensico Reservoir to the Van Cortlandt Park Valve Chamber in the Bronx. The current plan includes $1.7 billion in funding; completion is projected for 2020.

DEP also projects spending a total of $1.0 billion on the study and construction of alternative water supplies, which could be used during repairs and inspections of existing aqueducts and tunnels as well as during drought situations.

Water Quality and Distribution. About 26 percent of the total capital funding—roughly $4.1 billion—will be spent on water quality protection and distribution projects. This category includes funding for the Catskill/Delaware ultraviolet light filtration facility ($491.8 million) and the Croton Filtration plant ($1.3 billion). Over $250 million of this total is slated to be spent on improvements to parks, playgrounds, and recreation centers in the Bronx, as mitigation for the siting of the plant at the Mosholu Golf Course in Van Cortlandt Park. Although funded through water authority capital dollars, these projects will be designed and managed by the city's parks department.

Water Pollution Control. This component of the plan—roughly 40 percent of the total—is for water pollution control projects. They include the continued upgrading of the water pollution control plants and combined sewer overflow projects. Four major water pollution control projects—at the Newtown Creek, North River, Coney Island and Owl's Head facilities—are state-mandated by consent decrees and are projected to cost $955 million. The additional needs in this area are driven by mandated upgrades as well as infrastructure needs due to the age of the wastewater facilities, some of which are 50 years old.

DEP is also projecting a total of $581.3 million on Combined Sewer Overflow (CSO) projects. During periods of heavy rainfall, a combination of stormwater and sewage bypasses treatment and is released into the city's waterways via the CSOs.

Finally, the capital plan includes $2.4 billion in funding for sewer construction and replacement and general equipment needs systemwide.

Department of Housing Preservation and Development (HPD)

OVERVIEW

Planned spending for fiscal year 2005 at the Department of Housing Preservation and Development is up sharply from 2004. IBO projects total spending of $521 million in 2005 and $479 million in 2006. The increases are almost entirely due to the budget for implementation of the new lead paint legislation, Local Law 1 of 2004, and increases in federal rent subsidies administered by HPD.

In December of 2002, Mayor Bloomberg announced his five-year, $3 billion housing plan, known as the New Housing Marketplace. The HPD capital plan envisions $1.8 billion in spending over the next four years on various initiatives to fulfill the Mayor's plan.

EXPENSE BUDGET

Preservation. In 2005, almost 30 percent of HPD's budget is devoted to programs to preserve and improve the quality of privately owned housing—a significantly larger share than in previous years, which can be entirely attributed to the new lead paint law, discussed below. This program area includes activities designed to identify and correct maintenance failures, such as code enforcement inspections, neighborhood preservation contracts, and the Article 7A program. Also included here is the Emergency Repair Program, through which HPD corrects emergency violations—such as lack of heat or hot water—when the landlord fails to do so. When a landlord has a track record of serious violations, the HPD Housing Litigation Bureau will take the owner to court to pursue fines and other remedies.

Much of the agency's preservation spending is funded with federal Community Development Block Grant (CDBG) funds. Projections of HPD's CDBG spending generally exceed actual spending levels. As a result, IBO has estimated CDBG spending conservatively for 2005 and 2006, resulting in a drop in the 2005 budget relative to the Bloomberg Administration's projection.

Many of HPD's preservation programs are largely demand driven, and changes in spending from one year to another therefore often reflect factors outside the city's control. For example, during particularly cold winters, HPD typically sees an increase in heat and hot water complaints, and will spend more on enforcement and emergency repairs.

The New Lead Paint Hazard Remediation Law. The only category of preservation spending which has seen major changes recently is lead poisoning prevention. In January of 2004, the City Council passed a major overhaul of the laws governing the treatment of lead-based paint hazards in residential buildings, known as Local Law 1 of 2004. HPD added $51 million to its 2005 budget for implementation of the new law. HPD's costs for Local Law 1 are largely driven by an increase in the number of housing inspectors and the greater number and expense of lead paint-related remediation work the department expects (see the IBO analysis "Local Law 1 of 2004: Explanation of Budgeted Costs," October 18, 2004 for more detail). Most of the new personnel associated with Local Law 1 were hired at the end of fiscal year 2004. As a result, the number of inspectors climbed 38 percent between 2003 and 2004. Some of the anticipated Local Law 1 expenditures are one-time only, such as

Department of Housing Preservation and Development
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Preservation	$75.2	$70.0	$65.9	$71.7	$148.8	$122.7
City Owned Housing	119.5	96.7	77.6	73.7	70.7	74.2
Rental Assistance	128.1	147.0	158.9	196.0	225.9	157.9
Administration	40.0	35.6	32.9	31.4	29.4	29.1
All Other	54.9	58.8	54.5	45.8	59.7	52.6
Unallocated Financial Plan Changes					7.2	7.4
TOTAL	**$417.7**	**$407.9**	**$389.8**	**$418.6**	**$541.8**	**$444.0**
IBO Adjustments						
Community Development Block Grant					($23.9)	($16.1)
Other Federal Categorical Grants					$3.1	$51.5
IBO Projected					**$521.0**	**$479.4**
Full-time Personnel*	2,379	2,353	2,292	2,492	3,042	3,045
Capital Commitments	$388.9	$438.3	$311.2	$283.4	$525.3	$497.2

SOURCE: IBO.
NOTES:*Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual fulltime staffing as of November 2004 was 2,585. Excludes part-time and seasonal employees.

HPD's Preservation Programs
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Spending						
Lead Paint Remediation	$13.7	$13.5	$9.6	$11.7	$87.0	$62.4
Code Enforcement	18.4	21	20	20.5	22.2	22.5
Emergency Repair Program	17.7	15.6	16.9	18.2	18.3	16.1
Anti-Abandonment	6.2	6.3	7.1	6.8	7	7
Housing Litigation Division	4.6	4.6	5.1	6.7	6.4	6.2
Demolition	9.8	5.5	4.8	5.8	6.1	6.1
Article 7A	4.7	3.5	2.5	2.1	1.9	2.4
TOTAL	**$75.2**	**$70.0**	**$65.9**	**$71.7**	**$148.8**	**$122.7**
Housing Inspectors	309	315	301	414	400	NA
Performance Indicators						
Code Inspections Completed	NA	NA	490,737	521,086	NA	NA
Code Violations Issued	322,300	319,300	314,300	311,507	NA	NA
Emergency Repairs Completed	15,611	17,219	24,745	27,411	NA	NA
Housing Litigation Cases Opened	13,445	13,630	13,896	13,034	NA	NA

SOURCES: IBO; Department of Housing Preservation and Development; Mayor's Management Report (various years).
NOTES: NA: not available. Number of Housing Inspectors for 2005 is actual as of the end of January, 2005. Excludes part-time and seasonal employees.

remediation work in city-owned buildings already in the privatization process. The proposed budget for lead-paint hazard remediation is therefore $62.4 million in 2006.

In addition, the budget for lead-related Emergency Repair Program spending is about $13 million in 2005 and $14 million in 2006, substantially higher than the $2 million to $3 million that is usually spent on lead emergency repairs. HPD has consistently over-budgeted this program area, and IBO expects actual spending to be lower than the budgeted amount. As of mid-February 2005, HPD had spent $19.9 million on all lead remediation activities, approximately 23 percent of the amount budgeted for 2005.

Housing Litigation. HPD has increased both city tax-levy and CDBG funding for its Housing Litigation Division, which pursues court cases against landlords with large numbers of and/or particularly serious code violations. Spending jumped 32 percent in 2004, to $6.7 million. The increase was primarily used to hire new staff; the number of full-time employees working in the division grew from 76 at the end of 2003 to 93 a year later. Revenues from fines against landlords also climbed, to $4.2 million in 2004, an increase of 43 percent over 2003.

City-Owned Housing. In the 1970s and 1980s, the city foreclosed on tens of thousands of housing units which were abandoned and/or in serious tax arrears. Most of these buildings were extremely dilapidated. The city stopped taking ownership of additional buildings in 1994, and has been returning the city-owned stock to private ownership. Until the housing is privatized, the city is responsible for all maintenance and operations costs for these units.

Spending on maintenance and operation of the city-owned housing stock has continued to fall as HPD has privatized the bulk of the city-owned housing. However, because HPD has stretched out the timeframe for privatization—the city now plans to finish by 2011, rather than 2007—planned spending is scheduled to increase.

Spending on privatization programs is scheduled to increase in 2005. HPD plans to dispose of more of the units through the Tenant Interim Lease (TIL) program, which supports tenant-owned cooperatives, than was planned initially. Unlike the disposition programs which sell buildings to private or nonprofit developers, under the TIL program HPD trains tenants in co-op management, which requires some additional spending on HPD's part.

Section 8 Rental Assistance. HPD administers about 26,000 federal Section 8 vouchers (including project-based assistance and enhanced vouchers), as well as other federal programs such as Shelter Plus Care. The HPD Section 8 program is targeted to a number of specific constituencies, particularly households living in buildings that have been constructed or rehabilitated with HPD assistance. Tenants pay 30 percent of their monthly income toward rent, with the balance, up to a federally determined local maximum "fair market rent" paid by the federal Department of Housing and Urban Development. The other rental assistance programs are generally limited to specific populations, such as chronically homeless individuals, by federal regulation.

Federal rental assistance funding has increased steadily over the last several years. HPD typically adds in funding for these programs over the course of the fiscal year, as funds are received. For example, in 2004, HPD added about $58 million in Section 8 funds to its budget over the course

Disposition of the *In Rem* Housing Stock
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Expense Budget						
Operations and Maintenance	$101.1	$79.5	$61.6	$51.6	$45.0	$51.0
Privatization	18.4	17.1	16.0	22.1	25.7	23.2
TOTAL	**$119.5**	**$96.7**	**$77.6**	**$73.7**	**$70.7**	**$74.2**
Capital Budget						
Operations and Maintenance	$12.2	$9.6	($6.4)	($2.8)	($1.5)	$-
Privatization	162.5	254.0	177.1	113.5	216.3	236.2
TOTAL	**$174.7**	**$263.6**	**$170.7**	**$110.7**	**$214.9**	**$236.2**
Inventory						
Occupied *In Rem* Apartments	8,299	5,715	4,049	1,104	NA	NA

SOURCES: IBO, Department of Housing Preservation and Development, Mayor's Management Report.
NOTES: Negative figures in parentheses represent cancellation of previous commitments. NA: not available.

Given other proposals of recent years, this is likely to mean allowing localities to serve households with higher incomes.

Other Federal Budget Issues. In addition to the changes to the Section 8 program discussed above, President Bush's proposed budget for federal fiscal year 2006 includes a number of other proposals that, if enacted, could have a significant effect on HPD's funding.

of the year. In order to reflect the full value of the rental vouchers expected for 2006, IBO has added money to our projection of the 2006 HPD budget. Because federal funding for housing programs is uncertain, IBO has conservatively estimated that HPD will receive about $25 million less in rental vouchers in 2006 than in 2005. The $51 million in "other federal categorical grants" that IBO added to the HPD budget for 2006 largely reflects anticipated rental assistance.

The President's proposed budget for federal fiscal year 2006 builds on changes to the Section 8 program and funding that have occurred over the last two years. President Bush has proposed a modest ($734 million, or 5 percent) increase in funding for voucher renewals in 2006. However, through federal fiscal year 2003, the federal government fully funded all in-use vouchers. Therefore as tenant incomes fell and/or rents increased, the city received enough funding to cover all in-use vouchers. Congress and the Bush Administration have changed this funding formula to a "budget-based" system. In federal fiscal year 2005, the federal Department of Housing and Urban Development calculated the average cost of a Section 8 voucher in New York City based on data from May, June, and July 2004. HPD will be provided with enough money to support the average number of vouchers from these months at this average cost. Even if incomes go down and/or rents go up, HPD will not receive additional funding.

The 2006 federal budget would allocate Section 8 funding to communities based on 2005 funding levels, rather than on updated estimates of the cost of providing housing subsidies. In addition, the Bush Administration has indicated that it will seek to make programmatic changes to Section 8 that give localities the flexibility to make changes to the program.

Most significantly for HPD, the President has proposed eliminating the Community Development Block Grant, and creating a consolidated program that includes 17 other funding streams, to be housed at the Department of Commerce. In federal fiscal year 2005, these 18 programs received a total of $5.6 billion nationwide, while the replacement grant program would be funded at $3.7 billion. In addition, it appears that allocation formulas would be changed to prioritize economic development needs over housing, and to favor low-income communities over wealthier ones. To date, there is no authorizing legislation for this consolidation, so it is too early to say precisely how the change could affect New York City. However, it appears that the Bush Administration's plan would significantly reduce the city's allocation of federal grant funds. The city has relied on CDBG aid to fund a considerable share of its housing expenditures. In recent years, as the need for maintenance and operations spending for city-owned housing has diminished, CDBG funds have been shifted to support greater spending on preservation and anti-abandonment programs. In 2004, the city spent $13.2 million in city funds and $56.7 million in CDBG funds on preservation programs (the remaining $2 million was funded through a variety of other federal grant programs).

The President's budget plan also includes a variety of other proposed funding and policy changes, such as a consolidation of homeless assistance grants, and cuts to housing assistance for people with HIV/AIDS and disabilities.

CAPITAL BUDGET

The January 2005 Capital Commitment Plan calls for HPD to commit $1.8 billion over the four-year period 2005-2008.

Privatization of the remaining city-owned in rem inventory and preservation programs each account for about one-third of projected commitments. The balance includes funding for supporting housing development, homeownership programs, and neighborhood development projects. The HPD capital program is roughly 30 percent funded by federal grant aid, particularly the HOME program.

HPD Capital Commitment Plan, 2005-2008
Dollars in millions

Housing Preservation Programs	$608.9
In Rem Privatization	604.9
Supportive Housing	272.1
Homeownership Programs	163.4
Neighborhood Development	156.5
All Other HPD	18.8
TOTAL	**$1,824.6**

SOURCES: IBO; January 2005 Capital Commitment Plan.

Preservation. The Article 8A and Participation Loan Programs ($120 million and $105 million respectively) and the Third Party Transfer program ($254 million) account for the majority of the planned preservation spending. Third Party Transfer is the city's alternative to direct ownership of distressed buildings in tax arrears. Buildings are transferred directly from the private owner to a nonprofit organization, which then returns the buildings to private ownership within a relatively short period of time.

Supportive Housing. Mayor Bloomberg has called for increases in supportive housing development in his New Housing Marketplace Plan, as well as his plan to end chronic homelessness. Since 2000, commitments for supportive housing have averaged just over $40 million annually. Therefore, the total of $272.1 million included in the 2005-2008 capital commitment plan does reflect an increase in funding for supportive housing development. However, it is not clear if this increase will be enough to build the 12,000 units over five years that the Mayor called for in June 2004, even if a portion of the units are funded by the state or other entities. IBO estimates that 12,000 units of supportive housing would cost approximately $1.2 billion.

Homeownership. The bulk of the planned capital spending for homeownership programs is for site acquisition and other pre-development costs. HPD's traditional homeownership programs—Partnership New Homes and Nehemiah—are still producing homes, but the actual development costs are largely privately financed.

HPD is also supporting homeownership in its Expense Budget, primarily through downpayment assistance programs. The Mayor's housing plan included two expense-budget downpayment assistance programs: the Employer Assisted Housing Program and the HomeFirst Downpayment Assistance Program. The Employer Assisted Housing Program has been budgeted at $1 million annually, without any spending in 2004. The HomeFirst Downpayment Assistance Program has a budget of $2.5 million annually, and in 2004, HPD actually spent $322,400. The 2005 and 2006 budgets for these programs are $1 million and $2.5 million, respectively. These programs were new in 2004, and it is likely that 2005 and 2006 spending will closer to budget levels.

Neighborhood Development. The funding for neighborhood development includes $76 million in City Council capital funds, added in 2005 for a variety of projects intended to increase the supply of housing for very low income families. The largest of these is a joint initiative with the Association of Community Organizations for Reform Now and the New York State Association for Affordable Housing, funded at $12.5 million in each of 2005 and 2006, to provide deep subsidies that will allow housing units to be affordable to low income households. All the City Council programs together account for about half of the four-year funding for neighborhood development. The remaining funding is primarily for acquisition, relocation, and demolition in urban development areas.

Progress on the New Housing Marketplace. The Mayor's housing plan calls for spending $3 billion over five years, including spending by the Housing Development Corporation, and private investment generated through the sale of Low Income Housing Tax Credits and other sources.

As of the end of December 2004, 16,473 units out of the 65,000 called for in the Mayor's plan had been started, and 10,330 units have been completed. Somewhat over half of the new starts are new construction.

About 2,000 units—842 completed, and 1,242 started but not yet completed—were financed through the state Housing Trust Fund and the federal Section 202 and 811 programs, which fund units for the elderly and disabled, respectively.

IBO estimates that just over half of the units started or completed under the Mayor's housing plan to date are affordable to low-income households (incomes under 80 percent of Area Median Income).

Department of Transportation (DOT)

OVERVIEW

The Mayor's proposed 2006 expense budget for DOT is $515.1 million. IBO projects that actual state and federal funding in 2006 will be $49.5 million greater than currently projected, for a total 2006 budget of $564.6 million.

In recent years DOT's actual spending typically has been well below the modified budget amounts. In 2003, for example, the January modified amount was $541 million, but actual spending for the year was only $501 million. In 2004 the January modified amount was also $541 million, but department expenditures for the year were $502 million. The difference is usually explained by unused state and federal aid that is rolled over into the subsequent year. IBO expects actual expenditures for 2005 to be higher than for 2004, but in all likelihood not by the full $70 million contained in the latest Financial Plan.

EXPENSE BUDGET

The DOT budget is organized into four program areas in addition to administration: Streets and highways (highway operations); traffic and parking (traffic operations); bridges (bureau of bridges); and transit operations. The program areas are described below, together with major changes introduced in the Mayor's proposed budget for 2006.

Streets and Highways. This program area includes expenses related to the maintenance and repair of streets, highways, and sidewalks. Spending on resurfacing and repair of streets and highways is set to rise this year to $88.4 million, largely due to the higher cost of asphalt, which accounts for $34.0 million of this total. The department expects to spend $31.2 million on asphalt in 2006. State aid will add to total spending during the year. Other expenses in this area include fleet maintenance, capital program management, and permitting.

Street conditions deteriorated somewhat in 2003 and 2004 due to harsh winter weather and increased construction activity.

The department's capital program is typically over $200 million each year for major street resurfacing and reconstruction (see below for an overview of DOT's capital spending plan).

Traffic and Parking. The department's Bureau of Traffic Operations installs, operates, and maintains traffic signs, traffic lights at intersections, and streetlights. It also maintains and collects revenue from metered parking spaces and city-owned parking garages and lots. The cost of electricity for lights and signals is about $49 million annually. Signal maintenance is budgeted at $23.9 million in 2006. DOT's proposed budget for 2006 includes an increase of $1.8 million in the amount paid to private contractors for maintaining traffic lights. This amount reflects inflation and an increase in market rates. Total 2006 funding for signs and markings will increase with the addition of state and federal transportation aid funds during the year.

This program area also includes the city's Red Light Camera Program, which is budgeted at $7.8 million in 2005 and 2006, and is expected to bring in $16.0 million in fines in both years.

The department has also

Department of Transportation
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Streets & Highways	$95.5	$112.5	$103.7	$107.3	$117.3	$105.0
Traffic & Parking	188.7	190.5	193.1	190.7	213.4	187.7
Bridges	56.2	59.0	59.5	57.5	66.1	58.5
Transit	87.9	98.6	98.3	100.7	122.8	115.8
Administration & Operations	50.7	54.4	46.9	45.6	52.4	48.1
TOTAL	**$479.0**	**$515.1**	**$501.5**	**$501.6**	**$571.9**	**$515.0**
IBO Adjustments						
State & Federal Categorical Grants						$49.5
IBO Projected						**$564.5**
Full-time Personnel*	3,941	3,971	3,921	3,978	4,566	4,098
Capital Commitments	$800.8	$587.9	$756.6	$909.6	$1,023.9	$1,407.7

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 4,001. Excludes part-time and seasonal workers.

Streets and Highways

Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Street & Highway Maintenance	$80.6	$89.1	$80.5	$83.7	$88.4	$78.1
Capital Commitments	$222.6	$216.9	$166.4	$226.9	$348.0	$477.7
Performance Statistics						
Lane miles resurfaced	712.2	810.1	717.4	753.4	n.a.	n.a.
Average cost per lane mile resurfaced	$83,134	$89,171	$89,001	$91,231	n.a.	n.a.
Street pavement ratings:						
- Good	82.2%	82.4%	79.8%	74.3%	n.a.	n.a.
- Fair	17.5%	17.5%	20.0%	25.6%	n.a.	n.a.
- Poor	0.3%	0.2%	0.2%	0.1%	n.a.	n.a.
Potholes repaired	121,331	101,280	124,426	190,626	n.a.	n.a.

SOURCES: IBO; Mayor's Management Reports.
NOTE: n.a.: not available.

budgeted $5.7 million in 2005 for planning and research, for bicycle and pedestrian projects, traffic mitigation and safety, and other projects. Additional federal aid will augment the $1.4 million currently budgeted for these projects for 2006.

Parking. Spending on parking meters and municipal garages and parking lots has been between $30 million and $35 million annually, but is projected to rise in 2005 and 2006. (Parking enforcement is the responsibility of the police department, and enforcement-related expenses are found in that department's budget.) Revenues from parking meters increased beginning in 2003 as more meters were installed, and rates were increased and standardized across the city. Parking fees in city-owned lots and garages were also increased. Beginning in 2005, DOT anticipates greater sales of parking cards for its multispace meters, primarily in midtown Manhattan. This initiative will cost $1.49 million to implement in 2005, but is expected to bring in $2.36 million in additional revenue.

Safety. This program area includes safety programs such as the Stop DWI program, the Walk to School and School Safety programs, and the Safety Education for Diverse Communities program. It also includes traffic engineering and other functions designed to improve safety on city roads and streets. Also included are inspections of construction projects permitted by the department because they affect streets or sidewalks. DOT conducted 262,000 such inspections in 2004, and issued almost 23,000 summonses for violations.

Bridges. The proposed 2006 budget for the bridge program is $58.5 million, $7.6 million (11 percent) below the current budgeted amount for 2005. The 2006 budget will rise, however, as additional funding through the state Consolidated Local Street and Highway Improvement Program is received. Funding is provided for the preventive maintenance program ($14.6 million in 2005 and $14.4 million in 2006), the "flag" repair program ($16.9 million and $11.6 million), and the corrective repair program ($7.0 million and $5.7 million).

In addition to the operating budget spending, the department typically has annual capital commitments of over $400 million for the repair and maintenance of city-owned bridges. The significant investment in recent years in bridges-particularly the city's four East River bridges-has yielded improvements in bridge conditions. The expense budget cost of engineering, design and construction management of the bridge capital program is approximately $16.0 million.

Transit. This program area includes oversight of and payments to private transportation providers.

DOT-operated Ferries. DOT projects spending $60.5 million on municipal ferry operations and maintenance, and oversight of private ferry operations in 2005—up 39 percent

Traffic and Parking

Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Lighting & Signals	$110.8	$111.6	$112.2	$109.3	$113.6	$114.3
Signs & Markings	22.2	22.6	25.0	22.8	29.0	12.6
Parking	31.3	30.6	29.9	33.0	40.4	40.8
All Other Traffic	24.3	25.7	26.1	25.6	30.4	20.0
TOTAL	**$188.7**	**$190.5**	**$193.1**	**$190.7**	**$213.4**	**$187.7**
Capital Commitments	$78.2	$66.1	$52.7	$53.0	$83.7	$162.9

SOURCE: IBO.

DOT Parking Meter, Garage & Lot Revenues
Dollars in millions

2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Projected	2006 Planned
$83.8	$83.2	$94.4	$114.9	$112.7	$116.9

SOURCE: IBO; Comprehensive Annual Financial Report of the Comptroller; Mayor's Office of Management and Budget.

from the $43.5 million spent in 2004. For 2006, the budget proposes spending of $52.2 million.

Almost all of the spending for municipal ferry operations is for the Staten Island Ferry, along with a small amount for the Hart's Island ferry. The city has budgeted $18.4 million more for ferry operations in 2005 than it spent in 2004, including $1 million in federal homeland security grant aid, but only $8.7 million more than in 2004 for 2006. Following the major accident on the Staten Island Ferry in October 2003, DOT has increased security in the terminals and on the boats. DOT's new ferry boats also have higher staffing requirements. The department also incurred some one-time costs this year for safety consulting and training.

City Payments to Private Bus Companies
Dollars in millions

2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Planned	2006 Planned
$150.6	$199.4	$213.7	$219.0	$205.9	$232.9

SOURCE: IBO.

Franchise Bus Transfer. DOT oversees the city's franchise agreements with private bus companies. (The operating assistance paid to the companies comes out of the city's miscellaneous budget, not the DOT budget.) After many delays, the city's plan to transfer control of the subsidized private buses to the Metropolitan Transportation Authority is being realized. The city currently hopes to have all the lines transferred by April 30, 2005 (see accompanying analysis of New York City Transit). DOT anticipates a decline in its oversight expenses once it is no longer responsible for overseeing this bus service, but the city will continue to be responsible for paying the difference between operating costs and fare revenues.

Pre-K Transportation. DOT manages the city's contracts with firms that provide transportation to pre-kindergarten special education students. Roughly 20,000 students receive transportation under this program. The total cost, including negotiation, management, and oversight of the contracts, as well as payments for services to the providers, is projected to be $57.1 million in 2005, a 12 percent increase over 2004. The budgeted cost for 2006 is $56.4 million.

CAPITAL BUDGET

DOT's January 2005 Capital Commitment Plan for 2005-2008 totals $4.52 billion. Around 73 percent of the latest commitment plan—$3.3 billion—is city-funded. The largest commitments are for highway bridges ($1.6 billion), highways ($1.5 billion), and waterway bridges ($0.6 billion). Together, highways and bridges make up around 81 percent of the total commitments.

Compared with the September 2004 commitment plan, the January 2005 plan shifts a large amount of commitments from 2005 into later years. Commitments in the January 2005 plan are $499 million lower in 2005, $507 million higher in 2006, $115 million higher in 2007, and $139 million higher in 2008, compared with the September 2004 plan. The most significant shift is the movement of $171 million in commitments for franchise transportation from 2005 to 2006. This money will be used to purchase new [buses] for the private bus lines that are being transferred to the MTA. The delay in these commitments follows the delay in finalizing the MTA takeover. Total 2005-2008 commitments for franchise transportation remain unchanged.

Capital Program, Bridges
Capital commitments, in millions of dollars

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Planned	2006 Planned
Waterway Bridges	$269.3	$34.6	$235.9	$359.8	$173.9	$84.5
Highway Bridges	222.6	216.9	166.4	226.9	255.8	432.9
TOTAL	**$491.9**	**$251.5**	**$402.3**	**$586.7**	**$429.7**	**$517.4**
Bridges rated:						
- Very good	11.2%	11.7%	12.5%	14.7%		
- Good	23.7%	26.1%	26.8%	27.8%		
- Fair	63.4%	61.0%	59.7%	57.0%		
- Poor	1.7%	1.2%	1.1%	0.5%		

SOURCES: IBO; Mayor's Management Reports.

DOT Capital Commitment Plan, 2005-2008

Dollars in millions

	2005	2006	2007	2008
Streets & Highways	$348.0	$477.7	$352.4	$289.3
Waterway Bridges	173.9	84.5	277.5	33.7
Highway Bridges	255.8	432.9	477.5	436.7
Franchises Buses & Equipment	10.1	200.5	31.4	0.0
Ferries	120.1	28.6	17.9	25.6
Traffic	83.7	162.9	80.9	54.9
Equipment	32.4	20.6	4.5	6.0
TOTAL	**$1,023.9**	**$1,407.7**	**$1,241.9**	**$846.1**

SOURCES: IBO; January 2005 Capital Commitment Plan.

By capital program area, the largest increase in commitments since September 2004 has been in traffic. Commitments for traffic projects have increased by 26 percent since September 2004, to $382 million from $303 million. By project, the largest increase is in traffic signal installation. Total commitments have risen to $204 million in January up from $142 million in September 2004. However, commitments for 2005 have been reduced to $17 million from $65 million.

New York City Housing Authority (NYCHA)

OVERVIEW

The New York City Housing Authority is an independent entity that owns and manages New York City's public housing, and coordinates the bulk of the city's Section 8 housing vouchers, which assist households in renting private-sector housing. There are almost 182,000 units of public housing in the city, and close to 92,000 households receiving Section 8 vouchers through NYCHA.

EXPENSE BUDGET

The NYCHA budget, which runs on a calendar year basis, is approximately $2.4 billion per year, and is largely funded with federal subsidies and public housing tenant rent payments. NYCHA forecasts that in 2005, spending will drop about 2 percent to $2.40 billion, relative to projected expenditures of $2.43 billion in 2004 (final 2004 expenditure figures are not yet available). From 2006 through 2008, NYCHA spending is expected to grow an average of 1 percent a year.

As of December 2004, NYCHA projected a balanced budget in 2005. For 2006 through 2008, however, they forecast annual operating deficits of about $106 million on average.

NYCHA has reduced its number of employees by 5 percent, from 14,374 to 13,687 in the last year. It has also reduced contract expenditures by about $45 million annually. These and other smaller reductions are not enough, however, to keep up with growing costs.

A year ago, the authority was projecting a $27.3 million gap in 2005. NYCHA now anticipates receiving more subsidy revenue from the federal government than it did then, allowing them to close the gap. However, relative to the plan of a year ago, the gaps in 2006 and 2007 are substantially larger. NYCHA is now expecting almost $60 million more in pension and other benefit costs for 2006 than it did in its 2004 Financial Plan. Projected utility costs have also climbed by $22.3 million.

There are some indications in the NYCHA Financial Plan that the out-year gaps could grow further. For example, the Financial Plan calls for essentially flat spending on salaries over the full four-year period, which may be unrealistic. Fringe benefits are projected to grow at an average annual rate of 9 percent between 2005 and 2008, but between the 2004 and 2005 Financial Plans, the 2006 budget for fringe costs grew 22 percent. The Financial Plan also calls for flat spending on utilities, despite recent increases in this area.

CAPITAL BUDGET

For 2005 and 2006, NYCHA is projecting significantly higher capital spending than in recent years. NYCHA's capital program, like its Expense Budget, is generally almost entirely funded with federal grant money. However, in 2005 and 2006, taking advantage of federal legislation authorizing housing authorities to borrow against their future federal capital grants, NYCHA anticipates issuing a total of $600 million in bonds through the city's Housing Development Corporation to support capital programs.

The first $300 million in bond funds, to be issued in 2005, will support major improvements—primarily brickwork repairs and roof replacements—at developments in all five boroughs. The second installment of funds will be used for building systems upgrades, including work on kitchens and bathrooms, heating, and plumbing. All the projects focus on preservation of critical building infrastructure, thereby extending the useful life of the developments.

NYCHA Projected Expenses and Revenue, 2005-2008

Dollars in millions

	2005	2006	2007	2008
Expenses				
Salaries and Other Personnel Costs	$ 931.7	$ 983.3	$ 1,009.5	$ 1,021.1
Section 8 Payments	720.0	717.3	717.1	717.1
DFTA Senior Centers	29.0	29.0	29.0	29.0
NYPD Subsidy	70.9	72.2	73.6	73.6
Other	643.9	634.9	629.0	637.6
TOTAL	**$ 2,395.4**	**$ 2,436.7**	**$ 2,458.2**	**$ 2,478.3**
Revenue				
Basic Public Housing Rent	$ 659.9	$ 673.1	$ 686.6	$ 686.6
Section 8 Subsidy	760.5	760.5	760.5	760.5
Other Subsidies	785.6	767.8	781.6	781.6
Other	189.4	134.8	130.4	130.4
TOTAL	**$ 2,395.4**	**$ 2,336.3**	**$ 2,359.1**	**$ 2,359.1**
Gap to be Closed	$-	$ (100.4)	$ (99.1)	$ (119.2)

SOURCES: IBO, New York City Housing Authority 2005 Budget and Financial Plan Briefing.

By issuing bonds, NYCHA is effectively spending a portion of future years' federal capital grants in 2005 and 2006. NYCHA will make payments on these bonds out of its capital budget. By 2007, the debt service is expected to consume 15.6 percent of NYCHA's annual federal capital funding.

Over the last several years, the federal appropriation for the public housing capital fund has fallen steadily, as has NYCHA's share of the total federal appropriation. This has resulted in a 16 percent drop in NYCHA's capital grant since 1999. President Bush has proposed another cut to public housing capital in federal fiscal year 2006 (see below), and interest rates are subject to change. Higher interest rates, in conjunction with smaller grants, could mean that debt service will eventually account for more than the currently projected 16 percent of capital funding.

Furthermore, and perhaps more importantly, it is not clear whether the benefits from borrowing justify the costs. It remains to be seen if the debt-funded expenditures will reduce future capital needs by an amount equal to or greater than the bond issuance. The capital improvements financed by the $600 million in debt must lower future capital needs by an equivalent amount, for example by eliminating the need for more extensive and costly repairs or by reducing operating costs, in order to justify the expense associated with borrowing. NYCHA has not yet provided full details of the work it expects to do or an analysis of the cost-effectiveness of this action.

In the past, NYCHA has had difficulty using all of its capital funding—although the authority clearly has capital needs, administrative and other barriers have slowed the actual commitment of funds. Over the last four years, NYCHA has committed an average of 11 percent of the city funds budgeted for capital projects. It appears to do a better job using federal funds, which account for the vast majority of the NYCHA capital budget, but the authority may still face logistical hurdles in putting the bond proceeds to use in a timely manner. NYCHA has recently implemented a construction management program and financial monitoring system designed to facilitate capital projects, which may alleviate this problem.

FEDERAL FUNDING TRENDS

NYCHA receives about 65 percent of its operating budget and almost all its capital budget from the federal government, and is therefore significantly affected by changes in federal policy. The Bush Administration has implemented or proposed critical changes to Section 8, the public housing operating fund, and the public housing capital fund.

Section 8. Traditionally, Congress has renewed all authorized Section 8 vouchers based on the actual cost of providing the rental subsidy. However, over the last two years the program has effectively been converted to a "budget-based" program—housing authorities are provided funding based on the number of vouchers in use and average costs as of a fixed date. Because vouchers cover the difference between tenant income and fair market rents, if incomes go down and/or rents go up, the average cost of a voucher also goes up. But the housing authority will not be provided with additional funding to cover the difference as they have been in the past. Estimates of NYCHA's resulting Section 8 shortfall for 2005 range from approximately $31 million to $50 million.[1]

To cover the shortfall, NYCHA has reduced its payment standard—the maximum rent a Section 8 voucher will cover—from 110 percent of fair market rent to 100 percent. It also is reportedly holding back vouchers that could potentially have been reissued. Both these measures will help NYCHA absorb federal reductions without taking away vouchers from families currently using them.

President Bush's 2006 budget proposal includes about a 5 percent increase in funding for voucher renewals. The plan calls for distributing the renewal funding based on federal fiscal year 2005 allocations, taking into account an annual adjustment factor that reflects local needs, to be established by the Department of Housing and Urban Development (HUD). This distribution method would further separate funding from the actual cost of providing vouchers. In addition, the President's budget includes some language that suggests he will again seek legislation to reform the structure of Section 8, potentially lifting the existing income targeting requirements and otherwise adding "flexibility" to the program.

Public Housing Operating Fund. Proposed federal fiscal year 2006 funding for the public housing operating fund is $3.407 billion, 5 percent below the 2004 level of $3.579 billion. (Congress changed the timing of housing authority fiscal years in 2005, making comparisons difficult.)

The distribution of operating funds could change dramatically in coming years. HUD is seeking to develop regulations that would allocate operating funds to housing authorities based on actual operating costs, rather than the formula-driven methodology in use now. In 1999, Congress directed HUD to contract with the Harvard Graduate School of Design to conduct a study of the costs of operating public housing. The results of that study—intended to form the basis of the new regulation—have been controversial. Public housing authorities and advocates charged that the methodology, assumptions, and conclusions were deeply flawed. The negotiated rulemaking process to determine the final regulations has been underway for the last year.

Public Housing Capital Fund. Federal appropriations for the public housing capital fund have been declining steadily over the last several years. President Bush has proposed a total of $2.3 billion for the capital fund in 2006, a 9.8 percent drop from the 2005 appropriation of $2.6 billion, and a 22.0 percent decline since 1999.

Estimates of the funding needed to meet the backlog of public housing capital needs nationally range from $20 billion to $23 billion. Projections of NYCHA's unmet capital needs reach as high as $7 billion.[2] Allowing public housing authorities to borrow against future capital allocations is one of the initiatives that have made it possible for the federal government to promote its success in improving the quality of the public housing stock while simultaneously cutting the capital fund.

END NOTES

[1] Center on Budget and Policy Priorities, "Local Effects of Cuts in Housing Voucher Assistance in 2005, New York." February 17, 2005. Chen, David "Cut in U.S. Housing Aid Raises Concerns for Poor." *The New York Times*, January 27, 2005.

[2] Office of the New York State Comptroller, "Public Housing at the Crossroads: Bricks, Mortar, and Public Policy at the New York City Housing Authority," (February 11, 1999). New York City's public housing stock is older and denser than that found in many other communities, although NYCHA has maintained its units better than many other public housing authorities.

MTA New York City Transit (NYC Transit)

OVERVIEW

New York City Transit is the largest operating subsidiary of the state's Metropolitan Transportation Authority (MTA). NYC Transit receives financial assistance from the city, and its operations have a direct impact on city residents. NYC Transit projects a positive closing cash balance of $46 million in 2005, but significant budget gaps in the out-years: $406 million in 2006, $508 million in 2007, and $686 million in 2008. These gaps are computed after factoring in an MTA-wide Program to Eliminate the Gap (PEG) in 2006, and fare and toll increases in 2007.

OPERATING BUDGET

The approved operating budget of NYC Transit for 2005, including projected debt service, is $5.23 billion. This represents an increase of 11 percent over estimated expenses of $4.72 billion in 2004. Pensions and debt service account for the bulk of the increase.

Labor Expenses Up. NYC Transit projects increases in total labor costs driven largely by the costs of pensions and health and welfare benefits. Labor expenses are 75 percent of total NYC Transit expenses, and are projected to increase by $252 million from 2004 to 2005, and by $412 million from 2005 through 2008. Although near-term pension contributions are rising rapidly to make up for market losses in 2001 and 2002, the rate of growth should slow in later years of the plan period.

Debt Service Continues to Climb. Rising debt service continues to be the largest contributor to NYC Transit's out-year gaps. Beginning in 2002 the MTA carried out a restructuring of its existing debt, which is now complete. The restructuring generated around $4.5 billion in short-term budget relief for the MTA, through interest rate savings, lower annual debt service payments, and the release of reserve funds that are not required under the new bond covenants. These additional resources helped to fund the 2000-2004 capital program and the 2002 and 2003 operating budgets. At the same time, however, the restructuring has pushed payments on the MTA's existing debt further into the future. As new debt is added each year, annual debt service will continue to rise until the restructuring bonds are paid off around 2032. The MTA projects that debt service paid out of NYC Transit's operating budget will increase from $398 million in 2004 to $506 million in 2005. By 2008, NYC Transit's debt service is projected to reach $767 million. As a share of total expenses (not including depreciation), debt service will increase from 10 percent in 2005 to 13 percent in 2008.

Revenues. NYC Transit projects that total revenues (including subsidies) will reach $4.6 billion in 2005, an increase of only $56 million over 2004. While farebox revenue is forecast to grow $143 million, this increase is partially offset by a decline in tax-supported subsidies.

Fare revenue is expected to reach $2.71 billion in 2005, an increase of around 6 percent ($143 million) over 2004. The additional revenue is due to an increase in the price

NYC Transit Operating Budget
Dollars in millions

	2004 preliminary actual	2005 projected	2006 projected	2007 projected	2008 projected
Expenses (excluding depreciation)					
Labor	$3,548	$3,800	$3,967	$4,102	$4,212
Debt service	$398	$506	$609	$696	$767
All other expenses	$772	$920	$916	$973	$983
Total Expenses	$4,718	$5,226	$5,492	$5,771	$5,962
Revenues					
Farebox revenue	$2,565	$2,708	$2,761	$2,791	$2,817
Operating assistance & subsidies	$1,701	$1,637	$1,623	$1,643	$1,631
Miscellaneous revenue	$259	$236	$246	$255	$265
Total Revenues and Subsidies	$4,525	$4,581	$4,630	$4,689	$4,713
Operating budget balance	($193)	($645)	($862)	($1,082)	($1,249)
Opening cash balance	$69	$333	$46	$0	$0
Financial stabilization program	$56	$17			
Adjustments to reflect actual cash flows	$401	$341	$277	$275	$265
Surplus/(Deficit) before gap-closing actions	$333	$46	($539)	($807)	($984)
Gap-closing actions			$133	$299	$298
Closing Cash Balance	**$333**	**$46**	**($406)**	**($508)**	**($686)**

SOURCES: IBO; Metropolitan Transportation Authority.
NOTE: The authority's fiscal year coincides with the calendar year.

NYC Transit Labor Costs
Dollars in millions

	2004 Preliminary actual	2005 Projected	2006 Projected	2007 Projected	2008 Projected	Average Annual Growth
Wages and salaries	$2,528	$2,574	$2,599	$2,648	$2,687	1.5%
Pensions	$310	$447	$531	$551	$553	15.6%
Health and welfare	$524	$587	$641	$703	$769	10.1%
Other fringe	$186	$192	$196	$200	$203	2.2%
TOTAL	**$3,548**	**$3,800**	**$3,967**	**$4,102**	**$4,212**	**4.4%**

SOURCES: IBO; Metropolitan Transportation Authority.

of unlimited ride MetroCards and express bus fares, both of which became effective on February 27, 2005. The authority's Financial Plan also assumes an additional fare increase in 2007 that would bring in approximately $170 million annually.

Subsidies. New York City Transit receives operating subsidies from three sources: dedicated tax revenues that are distributed to NYC Transit, the commuter railroads, and other MTA agencies by formula; surplus bridge and tunnel toll revenues, also distributed by formula; and direct operating assistance from the city and state, as well as reimbursements for certain operating expenditures from the city.

The amount of tax-supported subsidies available to aid NYC Transit operations is expected to reach $1.18 billion in 2005, about $70 million less than in 2004. This reduction is due to a sharp drop in revenues from city and state taxes on real estate transactions. Rising interest rates are expected to put a damper on real estate transactions, including mortgage refinancings.

The amount of surplus toll revenue transferred from MTA Bridges and Tunnels to NYC Transit in 2004 is expected to be $139 million, just slightly above the estimate of $134 million for 2004. The surplus available to NYC Transit is expected to decline beginning in 2007. Toll revenue is used first to pay operating expenses of MTA Bridges and Tunnels, including debt service on bonds that are issued both for the bridges and tunnels themselves, as well as on behalf of New York City Transit. As bridge and tunnel debt service rises, the residual available to transfer to NYC Transit shrinks.

NYC Transit receives $158 million per year in operating assistance from the city, and an equivalent amount from New York State—which has been at the same level since 1994. Other direct payments to NYC Transit from the city include $45 million in reimbursement for transportation of school children, and $14 million in reimbursement for the senior discount fare. There is also a city subsidy for paratransit, projected to be around $30 million in 2005.

Private Bus Takeover. The city's Financial Plan for 2005 assumed that the MTA would take over the seven private bus lines subsidized by the city by July 1, 2004. While the transfer did not take place as scheduled, in anticipation of an eventual takeover the MTA board, in October 2004, approved the creation of a new subsidiary, MTA Bus Company. On January 3, 2005, the MTA began operating the former bus routes of Liberty Lines, and on February 27 it took over the service of Queens Surface Lines. The transfer of New York Bus service to the MTA is scheduled for late March, and the deadline for a takeover of Green, Triboro, Jamaica, and Command bus lines is currently April 30. The MTA agreed to the takeover under the condition that it would not incur additional net expenses. As a result, the city has, in principle, committed to paying both the initial cost of the transfer and the MTA's additional net operating expenses, which are budgeted at $206 million in 2005 and $233 million in 2006. While estimates of the city's transition costs are not available, it is likely that at least in the short run, the city will be spending more than when it subsidized the bus service directly.

CAPITAL BUDGET

The 2000-2004 Capital Program. The total value of the MTA's 2000-2004 capital program is $20.6 billion, of which around $14.2 billion is for NYC Transit and MTA Bus projects. Most of the planned spending in NYC Transit's 2000-2004 capital program is for replacement or rehabilitation of existing infrastructure. The capital program funds two expansion projects completely, using federal funds earmarked for Lower Manhattan recovery. These projects are the Fulton Street Transit Center (total cost $750 million) and the South Ferry Terminal (total cost $402 million). The plan also contains $1.05 billion in funding for the Second Avenue subway, and $1.5 billion for East Side Access (Long Island Rail Road connection with Grand Central Terminal). However, this money is primarily for design and preliminary engineering, rather than construction.

The Proposed 2005-2009 Capital Program. In December 2004 the MTA board approved a $27.8 billion capital program for 2005-2009, with roughly $18 billion for NYC Transit projects. However, as of this writing, the new plan has not yet been approved by the state's Capital Program Review Board, in large part due to uncertainties over how it will be funded. For now, the MTA is operating under a combination of the 2000-2004 program and an interim plan for the first quarter of 2005. The Governor has proposed a capital program that is one-third smaller than the one approved by the MTA board, reducing the MTA's proposed core program from $17.2 billion to $14.6 billion, and cutting back expansion projects from $9.9 billion to $4.0 billion. The Governor proposes raising some existing dedicated taxes and fees to back approximately $3 billion in borrowing. Even with this assistance, the MTA would have to issue another $6.7 billion in bonds to fully fund even the Governor's smaller program.

NYC Transit Investment Emphasis: Proposed 2005-2009 Capital Program

Dollars in millions

State of Good Repair	$4.5
Normal Replacement	6.0
System Improvement	1.5
Other	0.2
TOTAL	**$12.1**

SOURCES: IBO; Metropolitan Transportation Authority.

The MTA's proposed 2005-2009 capital program included $12.1 billion for New York City Transit's "core" program. The core program includes the purchase of nearly 1,000 new subway cars and over 1,300 new buses; rehabilitation of 55 subway stations; implementation of computer-based train control on the Flushing and Culver lines; and repair and replacement of maintenance shops, depots, tunnel lighting, and other infrastructure. Investments to restore capital assets to a state of good repair cost $4.5 billion in the proposed plan. About half the total—$6.0 billion—is for normal replacement of assets reaching the end of their useful lives. Another $1.5 billion will be used to enhance the system through fleet expansion, centralized train control, and customer information systems.

System expansion projects—which, with the exception of the extension of the 7 line, funded entirely by the city ($2.0 billion), are only half funded in the Governor's plan—include the first leg of the Second Avenue Subway ($2.8 billion), continued work on the Grand Central connector ($4.6 billion), and beginning work on the rail link between Lower Manhattan and Kennedy airport via Downtown Brooklyn and Jamaica ($400 million). The extension of the number 7 subway line is an integral part of the city's proposal for redeveloping the Far West Side of Manhattan. The city has committed to paying the cost of the extension, but the plan has inherent risks. The city's intention is to give the MTA $2 billion in proceeds from bonds backed by expected future revenues from development on the Far West Side of Manhattan. In other words, some of the benefits from the new subway line will be captured and used to pay for the improvement. The city could incur additional costs if the anticipated level of development fails to materialize, and the MTA would be liable for any cost overruns.

Until 2003 the City of New York committed around $105 million annually to NYC Transit's capital program, plus $1 million to the Staten Island Railway, another MTA component agency. In 2003 the city announced a reduction in its annual commitment by 30 percent, to $75 million. However, because of timing issues the commitment in any given year may be more or less. The city's January 2005 Capital Commitment Plan commits $140 million to the MTA in 2005, $68 million in 2006 and 2007, and $65 million in 2008.

The MTA's proposed 2005-2009 capital program assumes that the authority will obtain $1 billion in funding through the sale of assets. The MTA is currently considering various options for development over the site of its West Side rail yards in Manhattan. Any revenue that the MTA receives from the sale of development rights will be designated to the capital program. Even with these additional resources, a large funding gap will remain.

Civilian Complaint Review Board (CCRB)

OVERVIEW

Civilian Complaint Review Board spending under the 2006 Preliminary Budget would drop by $1.2 million in 2006 as compared to the current year, from $9.7 million to $8.5 million. The key contributing factor associated with the drop in budgeted spending is the Mayor's proposed elimination of 25 positions within the CCRB, which would reduce the agency's total budgeted staffing from 185 to 160. This cut reflects the Mayor's decision not to "baseline" the 24 additional investigator positions that were funded by the City Council in the 2005 budget.

CCRB Maintains Performance Despite Increase in Caseload

	2000	2001	2002	2003	2004
Total complaints received	4,442	4,356	4,122	5,089	5,991
Full investigations as a percentage					
of total caseload	48%	50%	44%	45%	41%
dispositions	59%	67%	68%	66%	62%
Age of unresolved complaints (from date of report)					
0 - 4 months	54%	77%	69%	71%	67%
5 - 12 months	38%	21%	28%	27%	28%
13 months or older	8%	2%	3%	2%	5%
Cases referred to mediation	142	147	347	357	462
Number of investigators (June 30)	110	119	125	124	132

SOURCES: IBO; Mayor's Management Reports.
NOTE: As of January 31st, 2005, the CCRB employed 143 investigators.

The Civilian Complaint Review Board investigates citizen complaints against New York Police Department (NYPD) uniformed personnel. The board is empowered to receive, investigate, and recommend action to the police commissioner on complaints filed by an alleged victim or a witness to an alleged incident. The types of police misconduct falling under CCRB's purview fall into four categories: use of excessive or unnecessary force, abuse of authority, discourtesy, or use of offensive language.

EXPENSE BUDGET

Upward Trend in CCRB Complaints. A report issued by IBO in July 2002 found that increases in CCRB's funding and staffing through 2001 had allowed the agency to complete more investigations in a timely manner. Increasing the timeliness with which complaint cases are investigated helps to improve the board's chances for reaching a conclusive determination as to whether an allegation of misconduct is credible. Delays in investigating complaints, on the other hand, reduce the chance of conclusive outcomes as a result of increased difficulty in finding witnesses and gathering evidence. It is also critical that substantiated complaints of misconduct be forwarded to the NYPD with sufficient time for the police commissioner to review and decide on appropriate discipline, if any, before expiration of the statute of limitations. Except in rare cases, officers cannot be disciplined if more than 18 months has elapsed from the date of occurrence of a substantiated CCRB complaint.

The number of complaints received by the CCRB increased sharply (by 45 percent) between 2002 and 2004. Despite this, the board's performance has not suffered markedly, as it has managed to hire more investigators and send a growing number of cases for mediation. The number of complaints receiving a full investigation declined slightly in 2004, as did the number of investigations that resulted in an "affirmative disposition" (meaning a finding as to the merit of the allegation). Cases were also taking slightly longer to resolve, as evidenced by the age of unresolved complaints.

Administrative Prosecutions Unit. Plans to transfer from NYPD to CCRB responsibility for prosecuting officers that are the subject of substantiated complaints of misconduct have been set aside. The transfer was first scheduled to take effect in June 2001, but was delayed due to legal challenges filed by police unions. The budget plan removes funds from CCRB's budget ($394,000 in 2005 and $444,000 in 2006) that had been intended for the administrative prosecutions unit.

Civilian Complaint Review Board
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Personnel Costs	$7.6	$7.7	$7.3	$8.0	$8.3	$7.2
All Other Costs	1.6	1.6	1.6	2.1	1.5	1.4
TOTAL	**$9.2**	**$9.3**	**$8.9**	**$10.1**	**$9.7**	**$8.5**
Full-time Personnel*	161	172	166	177	185	160

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 179. Excludes part-time and seasonal employees.

Department of Correction (DOC)

OVERVIEW

The drop in crime has lead to substantial cost savings for the Department of Correction, with spending set to fall by over 10 percent, and uniformed headcount by 13 percent, compared to its peak in 2002. IBO projects total spending of $818.6 million in 2005 and $794.2 million in 2006, including additional state aid in 2006. These savings have been realized through the closing of entire jails, as well as wings in those still operating. The department has also sought savings by operating more efficiently.

EXPENSE BUDGET

"Peace Dividend"—Lower Crime Rate Reduces Costs. The city's lowered crime rate—and the resulting drop in the number of inmates in city jails—is driving increasingly significant cost savings. In the January 2005 plan, the Bloomberg Administration recognizes $8.1 million in savings in 2005, increasing to $25.2 million in 2006—all due to lower crime rates. Uniformed staffing is set to fall through attrition by over 200 positions by the end of 2006.

Among the savings in the DOC budget:

- *Less overtime:* The department expects to realize overtime savings of $5.7 million in 2006 from a combination of the smaller inmate population and new correction officer recruit classes.

- *Fewer correction officers:* Reductions in particular inmate populations that have to remain segregated will allow for the closing of additional wings during 2006. This will yield a reduction of 92 uniformed positions, and $2.3 million in savings in 2006. More generally, the reduced inmate population will allow a cut of 15 uniformed positions, which will save the department $322,000 in 2005 and $705,000 in 2006.

- *Reduced food budget:* Due to a smaller inmate population, the department projected savings of $1.7 million in both 2005 and 2006 in its food budget, bringing it to $17.0 million. Spending in 2004, however, was only $15.6 million, suggesting that further savings may materialize.

The department also plans to operate more efficiently, allowing reductions and reassignment of staff in selected areas:

- *Streamlined court staffing:* The department will save $1.9 million through reassigning uniformed positions, saving $3.6 million in 2006. Cases previously heard at the at the Long Island City detention pens will be transferred to Riker's Island—other court pens will improve scheduling and the deployment of officers.

- *Commissary and headquarters savings:* DOC will save $1.9 million through reassigning uniformed positions out of headquarters—cutting 15 uniformed positions—and streamlining the commissary, cutting 27 uniformed and 12 civilian positions.

- *Contracting out:* By contracting services currently performed by the department, DOC anticipates cutting an additional 12 uniformed positions and 21 civilian positions, generating $802,000 in savings for 2006.

Department of Correction

Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Correctional Facilities & Operations	$658.4	$703.6	$689.9	$669.1	$675.9	$656.4
Court Detention Facilities	43.9	40.1	33.1	28.2	21.7	18.0
Hospital Prison Wards	43.9	47.2	47.8	46.5	35.0	33.3
Transport & Correctional Industries	34.8	36.9	37.2	35.8	28.6	28.1
Administration	49.7	59.1	58.4	53.8	56.8	59.6
Unallocated Financial Plan Changes					0.6	(1.5)
TOTAL	**$830.7**	**$886.8**	**$866.5**	**$833.3**	**$818.6**	**$793.9**
IBO Adjustments						
State & Federal Categorical Grants						0.3
IBO Projected						**$794.2**
Full-time Personnel*						
Uniformed	10,616	10,636	9,533	9,410	9,455	9,242
Civilian	1,560	1,631	1,443	1,399	1,504	1,499
Capital Commitments	$107.7	$32.0	$110.0	$30.4	$177.1	$111.1

SOURCE: IBO.

NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 1,336 civilian and 9,291 uniformed officers. Excludes part-time and seasonal employees.

- *Medical leave reduction:* Through the reduction of sick-leave usage, the department anticipates savings of $526,000 in 2006.

In addition, the department reestimated its personal service costs for 2005 and 2006, with savings of $4.5 million and $12.0 million, respectively.

Although as currently budgeted, hospital ward and transportation spending would fall this year and next, IBO anticipates that actual spending will be greater, particularly as centrally budgeted overtime spending is allocated to these and other program areas.

Enhanced Case Processing. The District Attorneys are attempting to shorten case processing times by seeking a speedier resolution to cases. The decreased length of stay is expected to yield savings for the Department of Correction of $563,000 in 2005, rising to $2.8 million in 2006.

Surplus Capacity. The department is now able to lease some of its excess beds to Suffolk County, which is currently experiencing overcrowding in its jails. The department expects to earn $1.6 million in 2005 and $800,000 in 2006.

CAPITAL BUDGET

The department's $575 million capital plan for 2005 through 2008 continues to focus on replacing temporary capacity (known as "modulars" and "sprungs"), built during the late 1980s and early 1990s to accommodate a rapid increase in the inmate population, with permanent facilities. Nearly two-thirds of the plan—$359 million—is for this purpose, with construction of two entirely new facilities planned for later years. Total capacity is set to expand by 1,800 beds.

Department of Juvenile Justice (DJJ)

OVERVIEW

The preliminary 2006 budget for the Department of Juvenile Justice is $96.7 million, which IBO projects will rise to $98.4 million because of federal grant funds the department receives annually—just slightly below the current budget for 2005. Although the cost of secure detention for juveniles awaiting trial is rising due to state mandates, the department's spending has declined substantially since payments to the state for incarceration of convicted juveniles in state-owned facilities fell by $17.2 million in 2004. DJJ, working with the probation and correction departments, is developing an alternative-to-placement initiative that it hopes will allow continued reduction in the number of incarcerated juveniles.

EXPENSE BUDGET

Payments for Incarceration of Convicted Juveniles. DJJ is responsible for making payments to the state Office of Children and Family Services, which operates juvenile incarceration facilities. The cost of incarceration—roughly $150,000 per capita on an annual basis—is split evenly between the city and the state. The cost to the city has typically been over $50 million annually, about half the total DJJ budget. In 2004, OCFS payments to the state fell nearly one third, to $37.1 million.

City-operated Detention Facilities. Detention facilities operated by the city include secure and non-secure detention. In 2004, 4,490 juveniles were admitted into secure detention facilities, and 556 into non-secure facilities.

The department has received additional funding from the state to meet state-mandated staffing ratios and various other requirements. These funds are $2.2 million in 2005, and $2.0 million in 2006. DJJ also is developing an additional non-secure detention location, through contracting with a community-based nonprofit organization.

The department also typically receives federal Juvenile Accountability Incentive Block Grant (JAIBG) funds which it uses to fund secure detention staffing and post-detention planning. No JAIBG funds are recognized in the 2006 Preliminary Budget; our adjustment reflects eventual receipt of these funds.

Alternative to Detention Programs. The Departments of Juvenile Justice, Probation, and Corrections are collaborating to develop a restructured alternative-to-incarceration program. The Department of Probation is also developing a new program, meant to replace the Juvenile Intensive Supervision Program-Project Zero. Greater participation in alternative programs leads to reduced admissions into both state facilities and into city detention.

Medical Attention and Services for Detainees. The department has dramatically increased the percentage of detainees that receive mental health treatment. In 2002, 32 percent of youth received treatment for mental health concerns; by 2004, 67 percent were receiving treatment. The percentage of residents receiving medical screening within 24 hours of admission increased from 92 percent in 2001 to 97 percent in 2004. DJJ screened 100 percent of

Department of Juvenile Justice
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Payments to State OCFS⁺	$54.7	$53.7	$54.2	$37.1	$41.0	$41.7
Secure Detention	$36.6	$36.6	$34.0	$36.0	$36.9	$37.3
Non-Secure Detention	$11.3	$11.0	$11.4	$12.0	$13.2	$14.0
Aftercare & Prevention	$2.0	$2.1	$2.6	$2.0	$1.4	$0.5
Administration	$4.7	$5.5	$6.1	$6.0	$6.3	$4.0
Unallocated Financial Plan Changes					$0.6	($0.7)
TOTAL	**$109.3**	**$108.9**	**$108.4**	**$93.0**	**$99.4**	**$96.7**
IBO Adjustments						
State & Federal Categorical Grants						$1.7
IBO Projected						**$98.4**
Full-time Personnel*	800	787	729	706	927	865
Capital Commitments	$5.0	$0.8	($1.2)	$1.1	$10.0	$3.5

SOURCE: IBO.
NOTES: ⁺Office of Children and Family Services. *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 693. Negative capital commitments indicate rescinded contracts. Excludes part-time and seasonal employees.

New York City Juveniles in State OCFS Facilities

2001	2002	2003	2004+	2005*
1,183	998	880	800	780

SOURCES: IBO; Office of Children & Family Services.
NOTES: As of Dec. 31, except 2005. *As of January 31, 2005. +Preliminary data.

residents in the first four months of fiscal year 2005. Health care costs per youth per day has nearly doubled since 2001—to $41 in 2004.

Aftercare and Prevention Programs. The department has restructured its Community-Based Intervention (CBI) program, in order to provide discharge planning and appropriate referrals to community-based organizations for youth with serious medical and mental health needs. CBI program staff was shifted into detention facilities to help develop discharge plans for the target population. DJJ focused on youth with serious medical and mental health needs, as many of these individuals are at the greatest risk for readmission into correctional facilities. In 2004, 97 percent of those in target groups received a discharge plan; which rose to 99 percent during the first four months of this year. It is still too early to assess the impact of the approach on readmission rates.

CAPITAL BUDGET

The department projects $16.0 million in capital commitments in its 2005-2008 capital plan. This figure includes $4.6 million for renovation of the exterior façade at the Bridges Detention Center, $8.5 million for facility renovations at various locations, and $1.2 million for security upgrades.

Department of Probation (DOP)

OVERVIEW

The Department of Probation budget has declined sharply, from around $90 million in 2001 and 2002, to less than $80 million in 2004, and a proposed $77.4 million in 2006. In the process, the department has undergone a significant restructuring. Probationers considered most likely to commit crimes are under intensified supervision, and receive a greater share of the department's resources.

EXPENSE BUDGET

Supervision and Enforcement. The department's principal function has traditionally been the supervision and enforcement of probation sentences. Spending on the supervision of adult probationers has fallen sharply, however, from $34.1 million in 2001 to $20.0 million in 2004, as the department restructured its supervision programs to focus on high-risk probationers. Caseloads for supervision of probationers assigned to the high-risk unit are around 65:1, compared to over 100:1 in the past, with cases grouped geographically to help facilitate closer supervision. Probationers not considered high risk report monthly to a kiosk in a probation reporting office.

The 2005 budget brings supervision spending down further, due to continued restructuring of caseload management and a sharp drop in the number of cases requiring Department of Probation supervision. The 2006 Preliminary Budget level for supervision and enforcement functions is approximately the same as 2005: $15.8 million.

Loss of Federal Funding. Resource Development Centers in each borough help connect probationers under department supervision with community-based resources, including substance abuse counseling, employment training and job placement services, and other special needs. Due to federal budget cuts to the TANF program, the city and state must now fund the Resource Development Unit, at an additional cost in city funds of $1.3 million annually. The state also contributes approximately $350,000.

Investigations. Spending on sentencing investigations rose 48 percent, from $13.7 million in 2002 to $20.3 million in 2004, with an additional 23 percent increase budgeted for 2005 and 2006. This increase is due to the increased focus on timely completion of background investigations to assist judges in determining appropriate sentences for adults and juveniles. The percentage of background reports submitted 24 hours prior to the scheduled sentencing hearing increased from 88 percent in 2003 to 95 percent in 2004, and to near 100 percent in the first four months of 2005. Faster processing also lowers correction department costs by reducing the period of incarceration for those awaiting transfer to state prisons.

Family Court Intake. Spending on Family Court intake is generally stable, fluctuating with the caseload. The department has increased the diversion of juvenile offenders from Family Court to non-judicial sanctions such as community service, counseling, restitution, and educational services. The percentage of cases receiving such treatment, known as "adjustment," increased from 10 percent in 2002 to 17 percent in 2004, and 23 percent in the first four months of 2005. In 2004, responsibility for the intake of juveniles was transferred from probation to the Department of Juvenile Justice.

Department of Probation
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Supervision & Enforcement	$ 34.1	$ 33.7	$ 28.8	$ 20.0	$ 15.9	$ 15.8
Investigations	14.2	13.7	13.8	20.3	24.9	24.9
Family Court Intake	9.0	9.0	8.6	8.9	8.6	8.6
Alternatives to Detention	9.7	9.7	11.4	11.7	13.7	13.7
Substance Abuse Treatment	4.8	5.0	2.6	0.5	0.4	0.1
Administration & Other	18.6	18.5	18.0	17.9	15.0	14.2
Unallocated Financial Plan Savings	—	—	—	—	0.6	—
TOTAL	**$ 90.5**	**$ 89.7**	**$ 83.2**	**$ 79.3**	**$ 79.2**	**$ 77.4**
Full-time Personnel*	1,525	1,551	1,390	1,327	1,326	1,297

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 1,305. Excludes part-time and seasonal employees.

Alternatives to Detention and Incarceration. The department operates a number of programs for adults and juveniles meant to divert them from jail time, including the Intensive Supervision Program,

Alternatives to Incarceration
Dollars in millions

Program	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Intensive Supervision	$ 2.8	$ 2.9	$ 3.0	$ 2.7	$ 3.1	$ 3.1
Juvenile Intensive Supervision*	1.6	1.5	1.7	1.6	2.2	2.1
Alternatives to Detention	2.4	2.5	4.5	5.4	6.2	6.3
Contracts & other	2.9	2.8	2.2	2.1	2.3	2.3
TOTAL	**$ 9.7**	**$ 9.7**	**$ 11.4**	**$ 11.7**	**$ 13.7**	**$ 13.7**

SOURCE: IBO.
NOTE: The department plans to replace JISP with a new program, Project Zero, in 2005.

Juvenile Intensive Supervision Program (JISP), Alternative to Detention (ATD), and the Juvenile Detention Alternative Initiative.

A principal departmental program is the Alternative to Detention program, which provides a structured day program for youth awaiting trial. Spending on alternative programs has increased citywide over the last four years. Due to initiatives that expedited court proceedings, the average length of stay in ATD fell by 13 days in 2004—saving the city $651,877 in ATD program costs.

Replacing JISP. The department plans to end the Juvenile Intensive Supervision Program in 2005, replacing it with a new program known as Project Zero, with increased funding. JISP provided the most intensive level of supervision for juveniles, as an alternative to placement in state-run juvenile residential facilities. The department has not yet released details on Project Zero.

Substance Abuse Programs. Spending on several substance abuse programs was reduced beginning in 2003, including the Drug Free Treatment Program and the Harlem Juvenile Treatment Court. Substance abuse issues are now addressed through community organizations at the time of release as part of the Department of Correction's discharge planning process. It was determined that such a restructuring will combat recidivism better than the more traditional approaches.

New York City Fire Department (FDNY)

OVERVIEW

The fire department continues to feel the impact of the 9/11 attacks, including higher-than-average sick-leave rates; significant overtime spending; accelerated retirements; and new homeland security duties that must be coordinated with other departments.

In recent years the Bloomberg Administration has proposed several actions to reduce department costs, including removing the fifth firefighter post on engine companies and closing firehouses, all of which have faced stiff opposition from unions representing firefighters and from affected communities. The department's cost-control efforts were generally successful in 2004, reducing spending by $17.5 million compared to 2003—in no small measure due to a reduction of $27.5 million in uniformed overtime.

IBO projects total spending of $1.23 million in 2005 and $1.22 million in 2006, including additional overtime spending and receipt of federal homeland security grant aid in 2006.

EXPENSE BUDGET

High Medical Leave Rates Increase Costs. The department added $40.9 million to its 2005 budget, and $24.3 million to the 2006 budget, to cover additional personnel spending. These increases were primarily needed to cover overtime arising from increased medical leave rates, as well as some additional costs associated with the Republican National Convention in August, and higher salaries.

The department anticipated offsetting some of the increase in 2005 and all of it in 2006 through three measures: eliminating the fifth post at 49 fire companies; reducing overtime usage through management initiatives; and reducing overtime by graduating larger classes of firefighters in the spring and summer.

The department is authorized to eliminate the fifth post at fire companies whenever the average absence rate for the preceding 52 weeks (calculated monthly) exceeds 7.5 percent. Since the World Trade Center terrorist attacks of September 11, 2001, the sick-leave rate has often exceeded the threshold, and the department has removed the fifth firefighter twice before in response. Shortly after the Preliminary Budget was released, however, the average sick-leave rate fell below 7.5 percent. IBO assumes that this action will be reversed, adding $9.9 million in overtime costs in 2005 and $17.0 million in 2006.

Federal Funding for Homeland Security. Increased federal support for high-threat areas has led to an increase in federal funds for homeland security-specific programs in the fire department, from $7.8 million in 2004 to $53.8 million in 2005. The majority of the increase consists of Urban Area Security Initiative grants, garnered after a lobbying effort led by the city's Congressional delegation. The funds expand the capability of the city to prevent, respond to, and recover from acts of terrorism. The city's share has increased from $5.1 million in 2004 to $27.9 million in 2005.

Another program, the State Homeland Security Grant, provides funds to enhance the capability of the city to prevent, deter, respond to, and recover from incidents of terrorism involving the use of weapons of mass destruction and cyber terror. This grant program funds planning activities, the purchase of equipment, and training programs and

Fire Department of New York
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Extinguishment and Response	$793.8	$867.8	$903.8	$872.6	$836.8	$854.3
Homeland Security Grants	0.0	0.0	0.0	7.8	53.8	0.0
Investigation/Prevention	33.6	35.2	34.2	31.1	29.0	28.8
Administration	95.2	208.5	113.2	108.5	115.5	114.8
Emergency Medical Service (EMS)	150.6	154.9	150.0	157.6	161.5	160.0
Unallocated Financial Plan Changes	0.0	0.0	0.0	6.1	26.9	(13.3)
TOTAL	**$1,073.1**	**$1,266.4**	**$1,201.2**	**$1,183.7**	**$1,223.5**	**$1,144.6**
IBO Adjustments						
Homeland Security Grants						50.0
Overtime					11.9	22.0
TOTAL					$11.9	$72.0
IBO Projected					**$1,235.4**	**$1,216.6**
Full-time Personnel*						
Uniform	11,336	11,321	10,881	11,260	11,163	11,163
Civilian	4,306	4,533	4,299	4,262	4,385	4,411
Capital Commitments	$120.3	$149.1	$99.0	$69.2	$184.4	$88.9

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. The actual full-time staffing as of November 2004 was 11,206 uniformed and 4,285 civilian. Excludes part-time and seasonal employees.

Fire Department Paid Absence Rates

	2000	2001	2002	2003	2004
Sick Leave	2.1%	2.0%	1.9%	1.9%	2.0%
LODI/WC	4.6%	4.6%	5.4%	6.3%	5.0%
Total Absence Rate	6.6%	6.6%	7.3%	8.2%	6.9%

SOURCES: IBO; Mayor's Management Reports.
NOTES: LODI: line-of-duty injury. WC: workers' compensation. Absence rates are calculated by dividing sum of absence for all employees by paid scheduled hours for all employees.

exercises. The city's share increased from $1.7 million in 2004, to $20.3 million in 2005.

Hazmat Readiness. Despite increased homeland security funding, debate continues regarding the decision to forego additional hazardous material (hazmat) units beyond the existing one, in favor of broad "recognition"-level training across the department, as required by federal law. "Recognition" training trains first responders to recognize the existence of a hazardous materials emergency, but provides no cleanup or other response training.

An August 2002 McKinsey and Company report on improving FDNY's emergency preparedness had recommended the creation of an additional hazmat unit. However, due to previous budgetary constraints, the department shifted its resources to recognition-level training for all firefighters in lieu of a specialized unit. Given the increase in federal funding, FDNY may be able to revisit this decision.

Emergency Medical Services. The department's emergency medical services (EMS) requested and received funding for additional emergency medical technicians (EMTs) and paramedics to maintain the number of ambulance tours beginning this year. EMS was also funded for an additional 25 EMT lieutenants to enhance field supervision and staff the Kings County Hospital station.

Equal Employment Opportunities. The department is significantly less diverse than fire departments in other large cities. Women are currently less than 0.5 percent of FDNY's uniformed firefighting staff, compared with up to 3 percent in other large cities. Minorities make up 9 percent of uniformed firefighters compared to 30 percent to 50 percent in other large cities. In order to address issues that may be keeping women's and minorities' participation rates low, the FDNY has funded five additional equal employment investigators.

Revenue Initiatives. Increased fines, improvements in the collection of fines and fees, and expanding existing fee-for-service activities—such as private alarm connections and advance life support services—will lead to an additional $9.9 million in 2005 and $17.2 million in 2006.

CAPITAL BUDGET

The fire department's four-year capital plan for 2005 through 2008 totals $362 million. Half this amount is slated for improvements to department facilities, including renovations or gut rehabilitations of fire houses. Another $90.6 million is for vehicle replacement and acquisition. Computer upgrades to modernize department operations will result in $19.8 million in capital commitments, while fire alarm communications will cost another $8.9 million.

Emergency Communications Transformation Project. The FDNY capital program also includes $39.3 million to upgrade the department's Emergency Response System as an interim step toward the Emergency Communications Transformation Project, or ECTP. The Department of Information Technology and Telecommunications will manage the $1.3 billion project to upgrade and better integrate the city's emergency response functions. Police, fire, and Emergency Medical Service dispatch operations will be co-located in two redundant state of the art facilities, which will house a shared Computer-Aided Dispatch system for all three services. In addition, the project will install Automated Vehicle Locator technology in emergency vehicles, and renovate existing fire department facilities to ensure that they maintain operations until the new dispatch facilities are completed.

New York City Police Department (NYPD)

OVERVIEW

IBO estimates that police department spending will dip by about $60 million in 2006 as compared to the current year, from $3.71 billion to $3.65 billion. A key contributing factor is increased attrition from the police force (through retirements) in recent years, which in turn has resulted in the replacement of more senior (and therefore more costly) personnel with new police officers earning lower salaries.

Of the additional $32 million IBO anticipates NYPD receiving this year, $25 million constitutes yet to be received aid promised the city as reimbursement for expenses incurred during last August's Republican National Convention. The remaining $7 million is asset forfeiture money routinely modified into the NYPD budget at various points of the year.

With respect to 2006, IBO anticipates that NYPD will receive $58 million more in outside aid than reflected in the 2006 Preliminary Budget. This includes $30 million in additional asset forfeiture funds, $16 million in federal antiterrorism aid, and about $12 million in state aid for various NYPD initiatives.

EXPENSE BUDGET

Uniformed Staffing. The five unions representing the department's roughly 36,000 uniformed personnel (about 80 percent of its total full-time workforce) are all currently working from expired contracts. The city is currently in binding arbitration with the roughly 26,000-member police officers union (the PBA) before the state Public Employment Relations Board (PERB). The PERB may take into consideration both the comparability of New York City police compensation with that of other local jurisdictions, and the affordability of raises to the city. New York City police officers are less well compensated in almost every dimension than their colleagues in nearby jurisdictions such as Nassau, Suffolk, and Westchester counties. Substantial increases to police officer pay, however, would be costly. Although the city has made provision for increases based on the District Council 37 settlement reached last year, each 1 percentage point increase above that pattern would cost roughly an additional $37 million per year. Final briefs from both sides were delivered to the PERB at the end of

Police Department
Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Central & Citywide Operations	$1,416.0	$1,466.6	$1,450.8	$1,411.1	$1,586.0	$1,612.8
Precinct & Borough-Based Operations	1,176.4	1,142.6	1,216.5	1,191.3	1,024.2	1,024.1
Antiterrorism Operations	0.0	0.4	30.7	98.2	131.6	35.8
Policing of Public Housing	109.6	113.2	117.8	116.1	127.8	127.0
Policing of Transit System	182.7	166.6	180.3	175.7	181.0	181.0
School Safety Operations	113.5	139.3	139.4	154.8	158.0	159.1
Traffic Enforcement	100.6	97.1	95.2	107.9	110.3	103.1
Administration	292.6	302.8	329.2	326.9	364.3	354.6
WTC Recovery Costs	0.0	278.0	29.7	0.1	0.0	0.0
Unallocated Financial Plan Changes					(73.4)	(98.1)
TOTAL	**$3,391.3**	**$3,706.7**	**$3,589.6**	**$3,582.2**	**$3,609.8**	**$3,499.3**
IBO Adjustments						
State & Federal Categorical Grants					$32.2	$58.0
Overtime					63.0	89.0
TOTAL					$95.2	$147.0
IBO Projected					**$3,705.0**	**$3,646.3**
Full-time Uniformed Personnel*	38,630	36,790	36,120	35,442	34,824	34,824
Full-time Civilian Personnel*	9,374	9,213	9,024	9,401	9,347	9,352
Capital Commitments	$43.0	$119.0	$81.0	$65.0	$159.0	$94.0

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 9,202 civilian and 35,738 uniformed. Excludes part-time and seasonal employees.

Changes in Deployment of Police Officers

	June 2000	November 2004	Change	Percent Change
Central & Citywide Operations				
Narcotics Division	3,296	1,678	-1,618	-49%
Chief of Operations & Training	2,452	2,585	133	5%
Detective Bureau	410	756	346	84%
All Other	5,216	4,696	-520	-10%
Subtotal, Central & Citywide	11,374	9,715	-1,659	-15%
Precinct & Borough-Based Operations				
Precinct-Based Staffing	16,900	14,682	-2,218	-13%
Borough-Based Staffing	4,826	4,378	-448	-9%
Subtotal, Precinct & Borough	21,726	19,060	-2,666	-12%
Policing of Public Housing	1,839	1,715	-124	-7%
Policing of Transit System	2,911	2,620	-291	-10%
School Safety Operations	33	172	139	421%
Traffic Enforcement	413	374	-39	-9%
Administration	1,965	2,082	117	6%
TOTAL	**40,261**	**35,738**	**-4,523**	**-11%**

SOURCE: IBO.

February, with a final ruling expected in late March or early April, in time to be incorporated into the Executive Budget.

The 2006 Preliminary Budget includes $261 million for uniformed and civilian overtime expenditures. However, IBO projects that an additional $89 million (or a total of $350 million) will ultimately be spent by the NYPD on overtime next year.

The 2006 Preliminary Budget calls for a slight increase of 50 uniformed police personnel (police officers and other "sworn" personnel of higher rank) as compared to the previously planned staffing level. The increase will be partially funded by the federal COPS in Schools program with the understanding that the 50 additional police officers will be assigned to duty in city schools.

The Mayor's current Financial Plan proposes scheduling new classes of recruits twice each year over the 2006 through 2009 plan period, on July 1 and January 1. With the hiring of each new class, uniformed staffing will be elevated to 37,038 and then subsequently scheduled to decline (via attrition) to 34,824 just prior to the point at which the next class is to be hired. As a result, average police staffing from 2006 through 2009 will be about 36,000.

Average annual police staffing reached an all-time high of 40,078 in 2000 and then declined by roughly 3,700 officers (9.2 percent) through 2004. Some observers have expressed concern that the decline in police staffing would invite a resurgence of crime, particularly given the added burden of antiterrorism duties that the NYPD has assumed since the September 2001 terrorist attack on the World Trade Center. Thus far, however, major crime statistics continue to trend downward.

Changes in Uniformed Personnel Deployment. As the total force declined by 11 percent from its peak staffing of 40,261 in June 2000 to 35,738 last November, the deployment of officers has changed as well. The drop in uniformed personnel assigned to precinct or borough commands (12 percent) was slightly lower than the overall drop in central and citywide deployments (15 percent.)

Two areas that saw staffing increases over the period were detectives and officers assigned to city schools. The number of detectives rose by 84 percent, from 410 in June 2000 to 756 in November 2004. Over the same period, the number of officers assigned to city schools increased more than fivefold, from 33 to 172. These uniformed police personnel either directly provide law enforcement services in the schools or supervise the roughly 5,200 civilian school safety agents that have been working under NYPD command since 1999. As noted above, 50 additional police officers will be assigned to duty in city schools beginning this year.

Civilianization. The January Financial Plan calls for civilian staffing of about 9,350 (actual civilian staffing was 9,202 in November 2004.) Many observers have long argued that inadequate civilian staffing in the agency has led to police officers performing tasks that do not require law enforcement expertise, thereby diverting them from crime-fighting. A February 1999 report by the City Comptroller found that the NYPD could utilize the services of almost 9,900 civilian personnel, with each civilian hired up to that level making possible the redeployment of a police officer to law enforcement duties. The department disputed the Comptroller's figure. Since 2001 the actual level of full-time civilian staff at NYPD has varied from year to year, with a low of 9,024 at the end of 2003, and a high of 9,401 a year later.

Antiterrorism Efforts, Homeland Security Funding. With the release of the January 2005 Financial Plan, the Mayor again urged Congress to allocate homeland security funding to those areas within the country most vulnerable to attack, with New York City obviously at or near the top of that list. He also acknowledged progress in this regard, with the federal Urban Areas Security Initiative (UASI) allocating more than one fifth of its total funding to the city this year, up from just 6 percent last year. However, a majority of overall homeland security funding continues to be distributed on the basis of population, with each state and territory guaranteed a minimum amount under a statutory formula. If the UASI methodology were to be applied to all homeland security funding, the Mayor's office contends that the city would receive an additional $200 million a year in federal antiterrorism funding.

Federal Local Law Enforcement Block Grant. In New York City, the federal Local Law Enforcement Block Grant (LLEBG) is used primarily to pay the salaries of 911 call takers. However, LLEBG funding to the NYPD was cut last year from $11.2 million to $6.9 million, and is being reduced by another $2.5 million in 2006. In order to maintain adequate 911 staffing, additional city funds are replacing the lost federal aid.

CAPITAL BUDGET

NYPD's four-year capital plan for 2005 through 2008 totals $404 million. Major planned capital commitments included within this total include:

- Improvement to various NYPD precincts and other facilities, totaling $164 over the plan period.
- Procurement of "ultra high frequency" radio and telephone equipment at a cost of $96 million.
- Acquisition and installation of computer equipment at a cost of $77 million.

Department of Buildings (DOB)

OVERVIEW

The Department of Buildings budget has risen substantially over the last five years. IBO projects that the DOB 2006 budget will be $64.4 million. The 2005 budget as of the January budget plan is $66.4 million. The number of DOB full-time employees has grown 25 percent since 2001. DOB continues to expand the ranks of inspectors, plan examiners, and clerical staff positions to accommodate high levels of construction activity. The Department also continues to invest in operational improvements and in professionalization of its staff.

EXPENSE BUDGET

Continued High Levels of Construction Activity. The preliminary budget adds $952,000 to the 2006 budget (growing to $2.3 million in 2007) to provide an additional two years of funding for 35 inspection and administrative staff for construction permitting, building code violations inspections, and the overhaul of the building code. The funding for these employees was first included in the 2004 budget, and was scheduled to phase out under the assumption that construction activity would decline. Because this has not occurred, the department is continuing funding.

The department also has hired temporary staff for the current year through a $500,000 contract with a staffing agency to accommodate the continued high level of construction activity. These temporary workers will provide support for both construction and building system inspections.

Plan Examination. In order to obtain a building permit, the plans for constructing a building or making an alteration other than an ordinary repair must be prepared by a licensed engineer or architect, who then submits the plans to the department for review. The number of plan examiners was increased substantially 2002 in response to high levels of construction activity.

The department also allows engineers and architects to “professionally certify” that the plans comply with the building code. Almost 40 percent of jobs are now professionally certified. In 2004, 26 percent of the professionally certified jobs were audited by DOB.

The January budget plan calls for hiring 25 new plan examiners, which would cost $1.4 million in 2006 and beyond. DOB also plans to hire 10 clerical staff at a cost of $325,000 annually to work on the Plan Examination Notification System, a streamlined system for scheduling examinations.

Construction Inspection. Inspectors based in the borough offices inspect construction sites, and can issue violations, summonses and stop work orders for conditions that violate the Building Code or Zoning Resolution. These inspections are done both as routine monitoring of construction activity, and in response to complaints.

In 2004, DOB completed 180,423 construction inspections, an all time high. The department attributes the record number of inspections to productivity increases such as better scheduling. In addition, construction activity has been high citywide, which has increased the need for such inspections. In 2004 the department also performed almost 13,000 inspections of construction equipment (so-called “crane and derrick” inspections).

Included in the Preliminary Budget is $190,000 in 2005 and $603,000 in 2006 for 10 new inspectors and two clerical staff to inspect the excavations associated with the development of new small buildings across the city following several recent incidents in which construction undermined the stability of adjoining buildings.

Building System Inspections. DOB is responsible for inspecting both general construction sites, and a range of specific building systems such as elevators, electrical wiring,

Department of Buildings
Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Personal Services	$35.0	$40.1	$41.0	$44.8	$49.1	$51.0
Other than Personal Services	13.5	16.2	16.8	13.1	17.3	9.5
TOTAL	**$48.5**	**$56.4**	**$57.9**	**$57.9**	**$66.4**	**$60.5**
IBO Adjustments						
Elevator contracts						$3.9
IBO Projected						**$64.4**
Full-time Personnel*	685	737	798	844	932	972

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 858. Excludes part-time and seasonal employees.

Department of Buildings Fulltime Employees by Program Area

	2001	2002	2003	2004	2005
Plan Examination	51	81	83	79	78
Construction Inspection	94	87	81	82	82
Building System Inspections	155	144	173	188	197
Emergency Response and Other Safety Services	51	62	62	58	61
Illegal Occupancy	15	8	8	9	9
Borough Office Management	130	137	145	166	171
Administration and Information Technology	97	114	123	131	134
Other	92	104	123	131	126
TOTAL	**685**	**737**	**798**	**844**	**858**

SOURCES: IBO, Department of Buildings.
NOTES: 2001-2004 as of June 30th. 2005 as of November 2004. Excludes part-time, seasonal, and contractual employees.

and plumbing. These building system inspections account for the largest group of DOB employees.

As of November 2004, there were 75 people at DOB working on elevator inspections. All elevators in New York City must be inspected five times every two years. The Department of Buildings is responsible for conducting three of these inspections (the other two are done by private companies approved by DOB and hired by the building owner). Many of the DOB inspections are actually contracted out to private companies, because the agency does not have the in-house staff to handle all inspections. The agency typically adds the funding for this contract to its budget in the Executive Budget, released annually in April. IBO has added $3.9 million to the 2006 DOB budget in anticipation of the routine funding of the elevator inspection contract. The January budget plan also adds funding for a three-year quality assurance contract to monitor the performance of the elevator contractors. The annual cost of the quality assurance contract is $400,000.

Electrical inspections are another critical program area for DOB. These inspections have traditionally been handled by the central DOB office, although the department is in the process of creating borough-based electrical inspection teams. As of November 2004, there were 66 people working on electrical inspections.

Emergency Response and Other Safety Services. This program area includes the emergency response team; the Building Enforcement Safety Team, which performs safety inspections of major construction sites, including all buildings that will be greater than 15 stories high; façade inspections; and the Materials Equipment Acceptance unit, which approves certain building components that affect public safety.

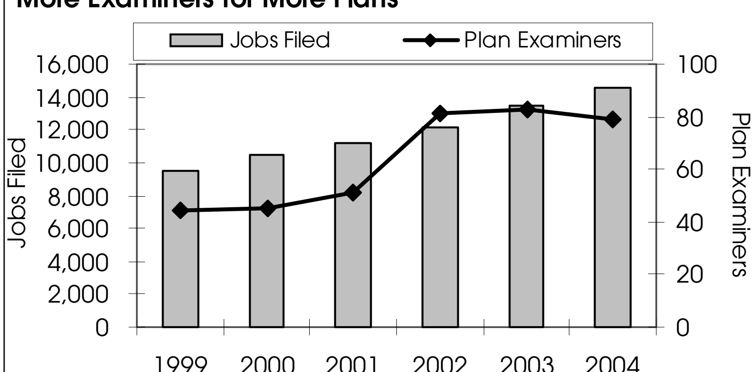
The biggest increase in this program area is for emergency response. The number of emergency complaints received by DOB increased 47 percent between 2003 and 2004, and has risen almost 200 percent since 2000. The growth in complaints is a function of both the 311 call center, which makes it easier for New Yorkers to register complaints, and the relatively high levels of construction activity, which can lead to emergency conditions.

Illegal Occupancy. Illegal conversions of nonresidential space into housing and of single family homes into multifamily dwellings continue to be a major issue in neighborhoods throughout the city. An analysis by the Citizens Housing and Planning Council suggests that there may be more than 100,000 illegal housing units in the city. As the recent tragic deaths of firefighters and inhabitants have shown, these units often present serious safety hazards, as well as straining neighborhood infrastructure. At the same time, they offer an affordable housing alternative in a city where housing is scarce.

DOB spending on identifying illegal units is limited—less than $1 million annually, and since 2002, staffing has remained steady at about 9 people. The January budget plan includes funding ($125,000 annually) to hire two new inspectors to increase the identification and inspections of illegal conversions of industrial buildings to residential uses.

Borough Office Management. DOB maintains an office in each borough. Borough offices issue permits, schedule inspections, and examine building plans. The total number of employees working in borough office management has risen from 130 at the end of fiscal year 2001, to 171 as of November 2004.

More Examiners for More Plans



SOURCES: IBO, Mayor's Management Reports, various years.
NOTE: New buildings and major renovations only.

DOB Building System Inspections

	1999	2000	2001	2002	2003	2004
Elevator Inspections	74,092	68,855	64,004	68,583	74,297	78,403
Electrical Inspections	47,364	45,121	42,847	41,118	40,718	43,661
Plumbing Inspections	44,135	58,096	57,806	47,166	36,685	39,200
Boiler Inspections	19,358	15,527	17,108	12,771	7,369	9,388

SOURCES: IBO, Department of Buildings, Mayor's Management Report.

Most of this growth has been in the Brooklyn, Queens, and Staten Island offices. Brooklyn and Queens have also seen the largest increases in the number of building permits issued since 2001.

Improving Department Operations. The buildings department continues to overhaul its operational processes, trying to simplify the steps needed to take a project from permit approval to certificate of occupancy. The department is working to completely change the entire process, and has implemented a number of discrete initiatives designed to address particularly pressing concerns.

The number of people working on information technology at DOB is now at an all-time high of 38 people, and the Preliminary Budget calls for adding another 8 people at a total cost of $680,000 to continue work on enhancements to the Building Information System, (BIS). DOB is now using BIS to record certificate-of-occupancy applications, schedule inspections, and track inspection results. BIS also allows online access to building records including violations, certificates of occupancy, and inspection results.

DOB is also assigning "project advocates" to shepherd individual projects through the different examination, permitting, and inspection processes more efficiently.

DOB is getting $1.1 million in 2005 and $311,000 in 2006 to make computer modifications that will allow builders and architects to file plan documents over the Internet.

Professionalization of the DOB Workforce. Under the Bloomberg Administration DOB has placed a premium on reducing corruption and increasing the professionalism of its staff. The number of investigation and discipline staff rose 37 percent between 2001 and November 2004 to 26 people.

The Preliminary Budget also provides funding for training and professional certification for DOB employees. In particular, the department is creating a "training academy," which will offer classes to inspectors, plan examiners, and other staff in part of the ongoing effort to make DOB a more professional and efficient agency. This academy is expected to cost $190,000 annually beginning in 2006. Most of the funding will be for two employees who will staff the program.

International Building Code. DOB is engaged in efforts to overhaul the city's Building Code. In 2002, the Bloomberg administration formed a mayoral commission to look at the feasibility of using a model building code. The commission recommended adopting the International Building Code (IBC), and the city created 13 technical committees to develop New York City-specific amendments to the IBC.

The City Council must approve the adoption of a new code, which has proven to be controversial, because of some Council Member and union support for the National Fire Protection Association Building Construction and Life Safety Code. DOB still hopes to pass the IBC during calendar year 2005, and have the new code go into effect in January 2006.

REVENUE

The Department of Buildings generates revenue through fines and fees for inspections and permits. Construction activity has been high in recent years, and DOB fee revenue has risen accordingly. Similarly, when there is more construction activity, DOB issues more violations and collects more fines, because most of the fines collected by DOB are for plans that were filed late, or construction or alterations without the appropriate permits.

Both DOB's planned expenditures and anticipated revenue reflect the assumption that construction activity will decline modestly over the next few years.

Department of Buildings Revenue

Dollars in millions

	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Planned
Construction Permits	$ 50.9	$ 47.1	$ 51.7	$ 56.7	$ 60.0	$ 50.7
Inspection and Other Fees	16.3	16.7	17.6	17.8	17.4	15.4
Fines	7.3	7.7	9.0	11.5	9.5	6.3
Other Permits	6.5	7.4	7.2	7.6	7.3	5.6
Elevator Inspection Fees	3.1	3.1	3.9	4.5	3.1	2.5
Licenses	1.0	1.1	0.9	1.2	0.9	0.9
Other	-	0.1	0.2	0.0	-	-
TOTAL	**$ 85.0**	**$ 83.3**	**$ 90.5**	**$ 99.5**	**$ 98.1**	**$ 81.2**

SOURCES: IBO; Annual Financial Report of the Comptroller, various years; Office of Management and Budget.

Department of Consumer Affairs (DCA)

OVERVIEW

The 2005 budget for the Department of Consumer Affairs is $15.2 million, up slightly from previous years. IBO projects that the 2006 budget will be $14.9 million.

EXPENSE BUDGET

Licensing. DCA is responsible for licensing more than 60,000 businesses in 55 categories such as home improvement contractors, cigarette dealers, sidewalk cafes, general vendors, parking lots, and cabarets. DCA also administers 45,000 licenses and permits for businesses that fall under the purview of the Department of Health and Mental Hygiene (DOHMH).

Enforcement. DCA enforces city and state consumer protection laws. The number of DCA inspectors has hovered at about 75 to 80 over the last several years. Due to a recent cross-training program, most DCA inspectors now enforce licensing, consumer protection, and weights and measures laws (which pertain to the calibration of scales and the accuracy of devices). This allows the inspectors to conduct comprehensive inspections, rather than sending multiple inspectors to examine separate issues on separate occasions at a single site. According to the 2004 Mayor's Management Report, cross training the inspectors allowed DCA to increase the number of inspections by 17 percent.

Communications. DCA handles complaints from consumers about fraudulent business practices, and educates New Yorkers about their rights as consumers. The agency spends just over $1 million annually on these services.

DCA recently restructured the process for receiving and resolving consumer complaints. The complaints intake staff in the Communications Division handles all initial consumer inquiries which come by phone, mail, walk-ins, email and from the 311 call line. This staff resolves simple complaints and requests special inspections when warranted. Valid complaints that cannot be resolved within three days are forwarded to the mediators in the Litigation and Mediation Division for their services.

The only substantive change to the DCA budget in the January plan is the proposed addition of $140,000 to the communications budget for the NYC Earned Income Tax Credit (EITC) Campaign. These funds will be used for staff, design, printing, and distribution of materials.

Adjudication and Collections. The 2005 budget for adjudication and collections is $1.6 million, and in 2006 the agency proposes spending $1.7 million. Spending in recent years has hovered at about $1.4 million. All of the funding for adjudication and collections is for personnel costs, and the budgeted number of positions is higher than actual headcount for recent years. As a result, planned spending is also higher than actual recent expenditures.

Adjudication. DCA has hearing authority over the businesses it licenses. In these situations, the agency offers most respondents who have been served with violations the opportunity to settle their cases for a reduced penalty. If the respondents choose not to settle, their cases are heard by a DCA Adjudication Law Judge.

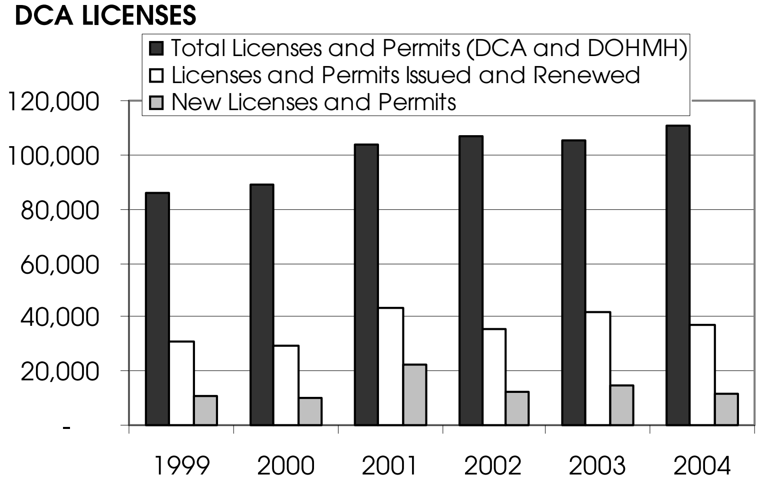
DCA recently has begun requiring pre-hearing settlement conferences. The result has been that about half of all respondents who would otherwise have gone to hearings now settle instead without a hearing, and settlement revenue

Department of Consumer Affairs

Dollars in millions

Program Area	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Budgeted	2006 Proposed
Enforcement	$3.4	$3.4	$3.4	$3.4	$4.1	$3.7
Licensing	2.0	2.0	1.9	2.1	2.1	2.1
Adjudication & Collections	1.4	1.4	1.4	1.3	1.6	1.7
Communications	1.3	1.3	1.2	1.0	1.1	1.2
Youth Tobacco Enforcement	0.8	1.0	0.8	1.5	0.8	0.0
Administration	5.0	5.2	5.2	5.3	5.4	5.4
TOTAL	**$13.9**	**$14.3**	**$13.9**	**$14.6**	**$15.2**	**$14.1**
IBO Adjustments						
Youth Tobacco Enforcement Grant						$0.8
IBO Projected						**$14.9**
Full-time Personnel*	233	222	222	228	241	241

SOURCE: IBO.
NOTES: *Full-time personnel: June 30 actual for 2001 through 2004; budgeted positions for 2005 and 2006. Actual full-time staffing as of November 2004 was 224. Excludes part-time and seasonal employees.



SOURCES: IBO, Mayor's Management Report, various years.

compliance rate has also increased, from 75 percent in 2000 to the current level, around 85 percent.

The youth tobacco enforcement program is funded through a combination of city funds and a New York State grant administered by the New York City Department of Health and Mental Hygiene, which then supplies funds to DCA. As of the January budget plan, the grant which covers the period October 1, 2006 through September 30, 2007 has not been secured. This grant is awarded on an annual basis, and IBO projects that the agency will eventually receive funding for this program comparable to past years.

has grown from $1.9 million in 2001 to $2.6 million in 2004. Through February 2005, the agency has already garnered $2.5 million in settlements for 2005. Beginning in August 2002, the department also began issuing default judgments without a hearing against respondents who failed to appear, which saves the time and money of an inquest hearing.

Litigation and Mediation. In cases where violations are served to non-licensed businesses, DCA can only pursue the cases in a New York State court.

The Bloomberg Administration would like to adjudicate violations by non-licensed businesses through its administrative tribunal, rather than state court. Previous attempts to change the law to allow this have failed, but the City Council Consumer Affairs Committee recently conducted its first hearing on Intro 390 of 2004, introduced at the request of the Mayor. Intro 390 would add a new section to the City Charter allowing DCA to adjudicate all violations that it issues in the administrative tribunal.

The collection rate is generally higher for DCA-licensed businesses than it is for non-licensed businesses, which DCA attributes to its lack of docketing power over such businesses.

Youth Tobacco Enforcement. DCA seeks out businesses selling tobacco products to minors and issues violations to those who break the law. The number of inspections—done by teenagers working undercover for the department—has risen steadily, from 5,602 in fiscal year 2000 to 14,588 in fiscal year 2004. The

REVENUE

DCA's licensing and enforcement activities generate revenue for the city. Between 2003 and 2004, total DCA revenue jumped 42 percent. Most of this growth reflected increased collection of outstanding fines and sidewalk café fees. In 2005, the city anticipates collecting a total of $18.4 million in DCA revenue. The city has estimated DCA 2005 and 2006 revenue conservatively. For example, sidewalk café revenue is projected to drop, although the 2005 Preliminary Mayor's Management Report calls for a modest increase in the number of cafes licensed, and the city recently amended its zoning laws to allow for sidewalk cafes in more neighborhoods. If the agency performs as expected, and depending on the number of new applications, revenue will be higher than currently anticipated.

DCA recently improved its collection procedures, including computerizing records of outstanding fines and standardizing the collection practice across all collectors. These measures have helped the agency collect more revenue.

The city completely overhauled its licensing process and fee structure for sidewalk cafes at the end of fiscal year 2003. It now costs more to open a sidewalk café, even so, the agency has seen an increase in applications. As a result of this, as

DCA Legal Settlements

	1999	2000	2001	2002	2003	2004
Settlements from Lawsuits and Seizures (Thousands)	$837.2	$483.4	$618.7	$535.0	$1,167.0	$2,259.4
Number of Settlements	220	255	378	231	467	915
Average Settlement	$3,806	$1,896	$1,637	$2,316	$2,499	$2,469

SOURCES: IBO, Mayor's Management Reports.

DCA-Generated Revenue
Dollars in millions

	2001	2002	2003	2004	2005	2006
License Fees	$7.4	$7.9	$7.2	$8.1	$6.9	$7.4
Fines	4.2	4.4	4.7	7.3	5.3	4.8
Sidewalk Café Fees	2.2	2.5	2.8	6.1	4.6	4.5
Other	1.2	1.1	1.2	1.2	1.6	1.3
TOTAL	**$15.1**	**$15.9**	**$16.0**	**$22.7**	**$18.4**	**$17. 9**

SOURCES: IBO, Office of Management and Budget, Comprehensive Annual Financial Report of the Comptroller, various years.

well as increases in the efficiency of licensing procedures, total revenue from sidewalk cafes have more than doubled between 2003 and 2004.

Appendices

Appendix A

IBO Expenditure Projections

Dollars in millions

	2005	2006	2007	2008	2009	Average Change
Health & Social Services						
Social Services						
Medicaid	$ 4,113	$ 4,291	$ 4,552	$ 4,927	$ 5,334	6.7%
All Other Social Services	2,953	2,809	2,789	2,789	2,789	-1.4%
HHC:						
Medicaid - HHC	754	774	786	783	776	0.7%
All Other HHC	238	27	171	161	157	-9.9%
Health	1,475	1,465	1,481	1,498	1,513	0.6%
Children Services	2,226	2,089	2,090	2,089	2,089	-1.6%
Homeless	703	696	704	715	715	0.4%
Other Related Services	477	403	399	399	399	-4.4%
Subtotal	*12,939*	*12,554*	*12,972*	*13,361*	*13,772*	*1.6%*
Education						
DOE (excluding labor reserve)	13,591	13,706	13,985	14,070	14,149	1.0%
CUNY	513	479	476	476	476	-1.9%
Subtotal	*14,104*	*14,185*	*14,461*	*14,546*	*14,625*	*0.9%*
Uniformed Services						
Police	3,558	3,499	3,569	3,583	3,585	0.2%
Fire	1,233	1,215	1,225	1,224	1,223	-0.2%
Correction	818	793	786	786	786	-1.0%
Sanitation	1,035	1,039	1,081	1,080	1,081	1.1%
Subtotal	*6,644*	*6,546*	*6,661*	*6,673*	*6,675*	*0.1%*
All Other Agencies	5,115	4,982	5,097	5,124	5,139	0.1%
Total before Other Expenditures	38,802	38,267	39,191	39,704	40,211	0.9%
Other Expenditures						
Fringe Benefits (excluding DOE)	3,023	3,233	3,428	3,666	3,913	6.7%
Debt Service	5,002	2,241	5,155	5,501	5,841	4.0%
Pensions	3,107	3,758	4,158	4,545	4,473	9.5%
FEMA Insurance Program	1,000	-	-	-	-	n/a
Judgments and Claims	612	641	676	718	769	5.9%
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	204	189	189	189	189	n/a
All Other Agencies	285	257	257	257	257	n/a
Pay-As-You-Go Capital	200	200	200	200	200	n/a
Expenditure Adjustments	(187)	67	122	166	217	n/a
Total Expenditures	**$ 52,148**	**$ 49,153**	**$ 53,676**	**$ 55,246**	**$ 56,370**	**2.0%**

SOURCE: IBO.

NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 8.2 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. Expenditure adjustments include energy, lease, non-labor inflation estimates, and prior year adjustments. Estimates exclude intra-city sales.

Appendix B

Contributors to this report:

Eldar Beiseitov	Sales and excise taxes
David Belkin	Business income taxes
Rachelle Celebrezze	Public health, Health & Hospitals Corporation, Medicaid
Theresa Devine	Economic outlook, property tax
Elisabeth Franklin	Sanitation, parks, environmental protection
Darnell Grisby	Fire, correction, probation, juvenile justice
Michael Jacobs	Personal income tax, finance, business services
Derek Kershaw	Labor and pensions
Joel Kraf	Children's services, cultural affairs, libraries
Paul Lopatto	Social services, public assistance, City University of New York
Bernard O'Brien	Police, Civilian Complaint Review Board
Molly Wasow Park	Housing, public housing, homeless, buildings, consumer affairs
Adira Siman	Education
Lawrence Tang	Debt service
Alan Treffeisen	Transportation, NYC Transit, property transfer taxes
Ana Ventura	Education (capital), youth services, seniors

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