

Preface

This report provides IBO's analysis of the Mayor's Preliminary Budget for 2008 and Financial Plan through 2011. It includes our own economic and revenue forecasts and presents an examination of the key budget proposals made by the Mayor. The report also presents IBO's reestimates of projected spending by agencies as well as agency-by-agency reviews of proposed Capital Budget spending.

Because many of the sections contained in this report were first made available in conjunction with the City Council budget hearings that began March 6th, they may not reflect all of the latest events and information.

Continuing IBO's ongoing efforts to make understanding the city's budget easier and more representative of how most New Yorkers think about municipal services, we have sought wherever possible to present agency spending in terms of programs. Based on these program categories, we provide spending comparisons from prior years, the current year, and the projection for 2008. This offers a better representation of how spending may be changing than in the standard Preliminary Budget and Financial Plan format, which only shows plan-to-plan, or quarterly, shifts. To ensure comparability with the Mayor's Preliminary Budget, we also discuss the main spending changes in the same dollar terms as presented in his proposals.

As we have over the past five years, IBO has also produced a companion volume to this report, *Budget Options for New York City*. Released in February, the latest report presents 62 ways to reduce costs to the city and to raise revenue. For each of the measures we review, IBO discusses its pros and cons along with our projection of savings or revenue.

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

This Preliminary Budget report is the product of the expertise and hard work of IBO's team of budget analysts and economists. A list of staff contributors and their areas of responsibility are included at the end of the report. The report was written under the supervision of Deputy Directors Frank Poscillo, George Sweeting, and Preston Niblack with the help of Assistant Deputy Directors Ana Ventura, Nicole Fleming, and Paul Lopatto. Tara Swanson coordinated production and distribution and Doug Turetsky provided editorial assistance.

Ronnie Lowenstein

Director

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Overview

IBO projects the city will end 2007, the current fiscal year, with a surplus of \$3.9 billion and 2008 with a surplus of just over \$1 billion. These surpluses reflect the city's bright near-term fiscal picture as tax revenues continue to come in at better-than-expected levels. Indeed, IBO has now increased our 2007 tax revenue estimates by \$1 billion over what we had projected just two months ago. But as our projected budget shortfalls for 2009 and beyond signal, revenue growth may not be sufficient to keep pace with expected spending increases.

The city's near-term fiscal strength allowed the Mayor to offer a number of new proposals in the 2008 Preliminary Budget, including several tax cuts that widen our projected out-year budget gaps. In addition to continuing the \$400 per year tax rebate for homeowners, the Mayor proposed a 5 percent reduction in the property tax rate that would cost by his estimate \$750 million in 2008. Although he presented it as a one-year measure to be considered for extension "if conditions permit," the tax cut is included in each year of the Financial Plan through 2011. He also proposed roughly \$300 million in permanent tax cuts, including a child care tax credit for low-income working families, the elimination of the city's sales tax on clothing and shoes, and tax breaks for small businesses and S-corporations.

The large surplus expected in 2007, which will be used to prepay some of next year's expenditures, enabled the Mayor to also propose putting \$500 million more in the Retiree Health Benefits Trust Fund in 2008. In addition, the Financial Plan assumes the 2008 surplus will be used to prepay some 2009 expenses, reducing the expected shortfall for that year to \$2.8 billion based on IBO's projections.

IBO's estimated budget gaps for the remaining years of the Financial Plan are higher than in 2009, \$3.3 billion in 2010 and \$3.1 billion in 2011. The gap estimates in all three of these years assume the property tax rate reduction remains in place, reductions that comprise more than one-quarter of each year's gap.

Some key highlights of our analysis and reestimate of the 2008 Preliminary Budget and Financial Plan through 2011 include:

- IBO has increased its tax revenue estimate for 2007 by \$1 billion more than we had projected just two months ago and now expect the city to end this year with a surplus of \$3.9 billion.
- Higher than expected taxes from property sales and business income are responsible for most of the 2007 increase.
- Although a weaker real estate market and slower growth in corporate profits will dampen the growth rate of tax revenues over the next few years, IBO still expects a surplus of just over \$1 billion in 2008.
- The budget plan includes a number of tax reduction proposals that will cost the city \$1.3 billion in revenue in 2008, rising to \$1.6 billion in 2011.
- With large surpluses no longer available to mask underlying shortfalls in the budget, IBO projects gaps of around \$3 billion in 2009, 2010, and 2011.
- The same "big ticket" items that have propelled spending growth in the past—debt service, pensions, and health care and other fringe benefits for city workers—continue to rise. But there is now also spending growth in some other areas of the budget such as education, the Mayor's new antipoverty

Total Revenue and Expenditure Projections						
<i>Dollars in millions</i>						
	2007	2008	2009	2010	2011	Average Change
Revenues	\$58,144	\$58,024	\$59,451	\$62,571	\$64,762	2.7%
<i>City-funded Revenues</i>						
<i>Taxes</i>	35,639	36,283	37,690	40,051	42,246	4.3%
<i>Tax Reduction Program</i>	-	(1,318)	(1,427)	(1,517)	(1,626)	n/a
<i>Other Revenues</i>	6,862	6,965	6,366	6,436	6,488	-1.4%
Expenditures	58,144	58,024	62,282	65,828	67,833	3.9%
<i>City-funded Expenditures</i>	42,501	41,930	45,460	48,227	50,179	4.2%
IBO Surplus / (Gap) Projection	\$-	\$-	(\$2,831)	(\$3,257)	(\$3,071)	
<small>NOTES: IBO projects a surplus of \$3.91 billion for 2007, \$27 million below the Bloomberg Administration's forecast. The surplus is used to prepay some 2008 expenditures, leaving 2007 with a balanced budget. IBO projects a surplus of \$1.05 billion for 2008, \$328 million below the Bloomberg Administration's forecast. The surplus is used to repay some 2009 expenditures, leaving 2008 with a balanced budget. Estimates exclude intra-city revenues and expenditures.</small>						

Pricing Differences Between IBO and the Bloomberg Administration					
Items that Affect the Gap					
<i>Dollars in millions</i>					
	2007	2008	2009	2010	2011
Gaps as Estimated by the Mayor	\$-	\$-	(\$2,617)	(\$3,681)	(\$3,621)
IBO Pricing Differences					
Revenues					
Taxes					
Property	15	(96)	(91)	(104)	116
Personal Income	(86)	154	20	248	164
General Sales	80	(25)	77	91	57
General Corporation	11	(91)	(63)	(85)	(100)
Unincorporated Business	108	146	248	288	288
Banking Corporation	(26)	(64)	96	83	79
Real Property Transfer	(17)	(71)	20	59	82
Mortgage Recording	(20)	(48)	(3)	43	51
Hotel Occupancy	1	18	23	27	27
Commercial Rent	(12)	(33)	(34)	(34)	(34)
Cigarette	1	1	1	1	2
	55	(109)	294	617	732
Tax Program					
Real Property Tax Rate Reduction	-	(8)	(10)	(11)	(24)
City Sales Tax Exemption- Clothing	-	(10)	(11)	(13)	(14)
Business Tax Reductions	-	(2)	(4)	(4)	(4)
	-	(20)	(25)	(28)	(42)
STaR Reimbursement	(39)	(44)	16	33	33
Total Revenues	16	(173)	285	622	723
Expenditures					
Public Assistance	(1)	5	9	9	9
Education	(17)	(55)	(102)	(104)	(104)
Campaign Finance	-	-	-	(25)	-
Overtime - Police	(25)	(75)	(75)	(75)	(75)
Buildings	-	(3)	(3)	(3)	(3)
Total Expenditures	(43)	(128)	(171)	(198)	(173)
Total IBO Pricing Differences	(27)	(301)	114	424	550
IBO Prepayment Adjustment 2007 / 2008	27	(27)	-	-	-
IBO Prepayment Adjustment 2008 / 2009	-	328	(328)	-	-
IBO Surplus/(Gap) Projection	\$-	\$-	(\$2,831)	(\$3,257)	(\$3,071)
SOURCE: IBO.					
NOTE: Negative pricing differences (in parentheses) widen the gaps, while positive pricing differences narrow the gaps.					

programs, and the cost of exporting the city's trash to landfills.

- Despite the size of the planned increase in capital spending under the preliminary 10-year capital strategy, it will not have a significant effect on the future growth in city debt service because a large portion of the new projects are expected to be funded by water authority and state dollars.

ECONOMIC AND REVENUE ESTIMATES

IBO's economic outlook for the coming years, much like that of the Mayor's budget office, is generally cautious. On the national level, we expect a moderate and short-lived slowdown. The ongoing weakness in the national housing market and cuts in vehicle production will slow U.S. growth, particularly during the first half of the 2007 calendar year. Corporate profits have grown at an extraordinary rate over the past five years, a trend that most forecasters do not think can continue.

Locally, the residential real estate market has remained unexpectedly strong. Still, there has been a decline in the number of residential sales in the last six months of calendar year 2006 compared to the same period in 2005. Prices have continued to rise, but at a slower pace. Reflecting the slowdown in the national economy this year, IBO expects employment growth to slow in the city from 1.2 percent in calendar year 2007 to an average annual rate of 1.0 percent in 2008 through 2011. Likewise, the growth rate in local business profits and personal income is also expected to slow.

While tax collections for the rest of this fiscal year are projected to greatly exceed earlier expectations, our outlook casts a dimmer picture for 2008 and then begins to rebound in 2009 and beyond.

IBO now projects tax revenues to total \$35.6 billion in the current fiscal year, 5.7 percent above last year. This new projection, fueled by the continued strength in real estate and financial markets, Wall Street bonuses, and the vigor of the city's broader economy, is \$1 billion more than we estimated just two months ago, and \$3.3 billion more than the Mayor expected when the budget was adopted last June. IBO projects that revenues from all sources (taxes, fees and fines, state and federal categorical aid, and other revenues) will total \$58.1 billion in 2007.

2008 and Beyond. With the expectation that the real estate market will weaken and corporate profits grow more slowly, the tax revenue outlook for 2008 is quite different. Revenue

from the real property transfer taxes will fall and collections from the business income taxes and sales tax will be relatively flat. Excluding the impact of the Mayor's proposed tax reductions, 2008 baseline tax revenues are expected to grow only 1.8 percent above their 2007 levels, to \$36.3 billion. This projection is roughly \$100 million *below* the level expected by the Mayor's budget office. With moderate growth (2.5 percent) expected from non-tax sources, total revenues, excluding the proposed tax cuts, are projected to equal \$59.3 billion in 2008, an increase of 2.1 percent.

It is somewhat unusual for IBO's tax revenue forecast to be below the Mayor's, and it reverses in 2009 through 2011. We do not see the economy slowing as much nor as long as the Bloomberg Administration expects. IBO projects tax revenues will grow somewhat faster after 2008, with tax collections rising to \$37.7 billion in 2009 (not including the proposed tax cuts) and reach \$42.2 billion by 2011. Over the 2007-2011 period, annual baseline tax revenue growth will average 4.3 percent.

Property Tax Drives Growth. The real property tax accounts for much of the tax revenue growth in the years after 2007, when it is expected to grow by 7.9 percent annually. The strength of the property tax derives from the continued appreciation of property values and IBO's projection of a large pipeline of assessment increases in apartment and commercial buildings still to be phased in. This pipeline will help keep assessments for tax purposes growing briskly.

This growth comes despite IBO's assumption that some property assessments will be significantly reduced when the final assessment roll is released in May. A change in assessment procedure in order to spur the filing of required forms by the owners of income-producing properties sharply increased the assessments on certain residential and commercial buildings. While the Mayor's budget office apparently assumed that there would not be significant changes in assessments and the resulting tax collections, IBO assumed there would be. The finance department has indicated that if the forms are filed, many owners are likely to see lower assessments.

Tax Cut Proposals. The Mayor's budget plan contains a number of proposed tax policy changes that would reduce property, sales, and personal and business income taxes as well as provide a tax credit for child care for low-income working families. IBO estimates that if all of the proposals were enacted, the total cost of the tax program in 2008 would be \$1.3 billion, rising to \$1.6 billion in 2011. As a result, total tax revenues would be \$35.0 billion in 2008 and \$40.6 billion

in 2011, reducing average annual growth over the 2007-2011 period by 1 percentage point to 3.3 percent.

The costliest of the proposals is the reduction in the property tax rate. IBO estimates the rate cut would reduce revenues by \$758 million in 2008, growing to \$941 million by 2011.

SPENDING TRENDS

IBO projects that under the Mayor's current Financial Plan total city spending will rise at an average rate of 3.9 percent annually, growing from \$58.1 billion in 2007 to \$67.8 billion in 2011. Despite this increase of \$9.7 billion over five years, the level of services to be provided by most city agencies will remain relatively constant.

The same "big ticket" items that have propelled spending growth in the past—debt service, pensions, and health care and other fringe benefits for city workers—continue to rise. But there is now also spending growth in some other areas of the budget such as education, the Mayor's new antipoverty programs, and the cost of exporting the city's trash to landfills.

Education. IBO estimates that spending by the Department of Education will rise at an average rate of 5.0 percent annually under the Mayor's plan, growing from \$15.7 billion in 2007 to just over \$19 billion in 2011 (not including the education department's reserve fund for wage increases). This rise in spending is fueled by the new funds anticipated from the state—\$723 million in 2008 growing to \$2.3 billion in 2011—as a resolution of the Campaign for Fiscal Equity lawsuit as well as the normal year-to-year growth in the city's own share of education spending.

Our estimate of city education spending is somewhat higher than anticipated in the Financial Plan because of uncertainty over an assumption in how a portion of the recent contract settlement with the United Federation of Teachers will be funded. The Preliminary Budget included an assumption that a larger share of state and federal aid would be available to use for the settlement than may be the case. Because of this, IBO expects \$55 million more in city education spending in 2008, \$102 million more in 2009, and \$104 million more in each of the ensuing years.

Capital Spending and Debt Service. Along with the Preliminary Budget for 2008 the Mayor also presented a \$77.3 billion Ten-Year Preliminary Capital Strategy. This new strategy, presented biennially, is \$14.9 billion more than the 2006 10-year strategy. Most of this new capital spending—

\$14.3 billion—is for school construction and water and sewer projects.

Despite the size of the planned increase in capital spending, it will not have a significant effect on the future growth in city debt service. This is because borrowing for the water and sewer projects is paid with revenue from water and sewer fees and the capital strategy assumes that half of the school construction costs will be covered by the state

Debt service nonetheless continues to be one of the fastest growing portions of the budget. IBO projects that debt service will increase at an average rate of 7.7 percent annually, when adjusted for prepayments from the budget surplus, and excluding debt service on bonds issued by the Transitional Finance Authority (TFA) for school construction. The principal and interest payments on the money the city borrows for its capital projects will grow from \$4.5 billion in 2007 to \$6.2 billion in 2011. While debt service continues to grow, it is declining as a share of tax revenues—a common indicator of debt affordability.

Debt service for the TFA's bonds for school construction, Building Aid Revenue Bonds, or BARBs, is carried "off budget." With it included, debt service is projected to grow to \$6.6 billion in 2011—an annualized growth rate of 8.7 percent. The debt service on these bonds is at least partially covered by an increase in state Building Aid.

Pensions and Fringe Benefits. The city's contributions for pensions for the municipal workforce also continue to climb at a fast pace over the Financial Plan period. Rising at an annual average rate of 6.4 percent, the city's pension contributions are projected to rise from \$4.7 billion in 2007 and then level off at \$6.1 billion in 2010. Part of the increase is due to anticipated changes in actuarial assumptions that will cost \$230 million annually beginning in 2009.

The cost of health care and other fringe benefits for city workers (excluding those in the Department of Education) is growing at a slightly faster pace than pension contributions and is rising from \$3.5 billion in 2007 to \$4.6 billion in 2011, an average annual increase of 7.0 percent. This does not include the proposed \$500 million dedicated for the Retiree Health Trust Fund in 2008.

Other Spending Changes. The Mayor has also added several new ongoing spending commitments to the budget plan. In response to the recommendations of his Commission on Economic Opportunity, the Mayor has proposed \$65 million

in new spending initiatives through a number of different city agencies. This effort includes \$15.1 million in programs to provide out-of-school youth with internships and encourage other young people to remain in school funded through the Department of Youth and Community Development and \$14.4 million in adult workforce training and job retention services funded through the Department of Small Business Services (see appendix for full program list).

The Bloomberg Administration has also decided to incorporate in the Financial Plan roughly \$60 million in spending that in prior years was part of the annual budget negotiations between the Mayor and the City Council. This includes \$37 million in 2008 (and \$35 million in the out-years) for cultural affairs programs, \$14 million annually for parks services, and \$10 million annually for child care subsidies.

In addition, the Bloomberg Administration has increased its estimate of the annual cost of exporting the city's trash to landfills as well as spending related to the closure of Fresh Kills. The cost is projected to rise by \$15 million to total \$312 million in 2008 and then grow more rapidly to reach \$413 million in 2011, \$115 million more than previously expected.

CONCLUSION

New York City's near-term fiscal picture remains bright, as tax revenues, particularly from the real estate and financial

services industries, continue to exceed expectations. Because of this, IBO has increased its tax revenue estimates from just two months ago by \$1 billion for the current fiscal year.

IBO, along with the Bloomberg Administration, the Congressional Budget Office, and the *Blue Chip* consensus of about 50 private economists, expects a moderate and short-lived slowdown of the national economy. Slower economic growth is expected to dampen the growth rate of city tax revenues in the upcoming years. With anticipated spending growth exceeding projected increases in tax collections, budget shortfalls of around \$3 billion a year are expected to emerge in 2009 through 2011.

These gaps are smaller both in dollar terms and as a share of city-generated tax and other revenues—about 7 percent—than just a few years ago. Still, if IBO's economic forecast is correct, closing these gaps may require the kinds of actions—tax increases or spending reductions—the Mayor and City Council have largely been able to avoid in recent years. With the proposed property tax rate reduction comprising about one-quarter of the shortfall in each year, the rate cut may be particularly hard to maintain as represented in the Financial Plan unless spending reductions or other tax increases are used to offset the cost.

Revenue

Economic Outlook

RECENT DEVELOPMENTS

The U.S. economy started calendar year 2006 strong, but then slowed down.¹ According to the latest reports from the federal Department of Commerce, real (inflation-adjusted) gross domestic product (GDP) grew at an annual rate of just 2.2 percent in the fourth quarter of 2006 and 3.3 percent in the year overall. The housing market weakened significantly, as interest rates rose sharply. Inflation remained above 3 percent for the second consecutive year, propelled in part by rising prices for energy.

Not all economic news for 2006 was bad, however. Payroll employment gained nearly 2.5 million jobs (1.8 percent) in its third consecutive year of growth.² The unemployment rate fell for the third year in a row as well to 4.6 percent, down from its 2003 peak of 6 percent. And corporate profits rose by 21.7 percent, the highest level in five years of double-digit growth.

New York City's economy continued to expand in 2006, with personal income up by 8.2 percent and payroll employment up 1.5 percent. The gain of 54,200 jobs represented more than a quarter of the 191,400 jobs lost between 2000 and 2003. Although manufacturing lost 3,900 more jobs (3.4 percent), other industries had job gains: financial activities, 9,300 jobs (2.1 percent), with a gain of 6,700 (4.0 percent) in securities; professional and business services, 8,100 (1.5 percent), although employment services, which includes temporary workers, lost jobs; leisure and hospitality, 8,200 jobs (3.0 percent); information, 2,000 jobs (1.2 percent); education, 4,900 jobs (3.4 percent); health, 8,600 jobs (2.3 percent); social services, 4,800 (3.1 percent); construction, 2,900 jobs (2.6 percent); and trade, transportation, and utilities, 6,200 jobs (1.1 percent). Retail trade gained 5,400 jobs (1.9 percent) in 2006, down somewhat from gains in the previous two years, but enough to rise above the 2000 peak in retail trade employment.

Even with this growth, total employment was still below the 2000 peak. Overall, there were 69,500 fewer jobs (1.9 percent) in the city in 2006 than in 2000, including 17,900 fewer jobs (9.1 percent) in the high-paying securities industry.

New York City's unemployment rate for the year was 4.6 percent. After declining throughout most of the year, the city unemployment rate averaged 4.4 percent in the last quarter, dipping below the national unemployment rate and reaching a local historic low. In a less favorable comparison, local

inflation of 3.8 percent in 2006 exceeded the national inflation rate of 3.2 percent.

Wall Street had a great year in 2006, with profits reaching \$16.9 billion. A broader and possibly more useful gauge of Wall Street's impact on the city economy may be the industry's net revenue—gross revenue less interest expenses. Net revenue includes earnings distributed as profits, regular wage and salaries, bonus compensation, and purchases of goods and services. With interest rates rising, the interest expenses of securities firms grew by about 50 percent from 2005 to 2006. Nonetheless, net revenue rose from \$108.8 billion in 2005 to \$127.9 billion in 2006.

New York City's residential real estate market has remained unexpectedly strong. Despite a decline in the number of residential sales in the last six months of 2006 compared to the corresponding period in 2005—the number of apartment sales fell by 11.0 percent and the number of conventional home sales fell by 26.4 percent—prices have continued to rise, albeit at a slower pace. The same holds for the commercial market. The office rental market has tightened substantially. Class A direct office vacancy rates fell to 3.8 percent in January for the midtown and midtown south sections of Manhattan and to 4.9 percent for downtown.

NATIONAL ECONOMIC OUTLOOK

IBO—along with the Bloomberg Administration, the Congressional Budget Office, and the *Blue Chip* consensus of about 50 private economists—expects a moderate and short-lived slowdown at the national level; the on-going housing correction and cuts in vehicle production will slow U.S. growth, particularly during the first half of the year. Real GDP is projected to grow just 2.6 percent in 2007, a slower pace than the last few years, but then grow 3.2 percent in 2008 and average 3.0 percent annual growth in 2009 through 2011.

Similarly, national payroll employment is expected to grow by just 1.0 percent this year (1.8 million jobs), but then build up to 1.4 percent in 2010-2011. Personal income (not adjusted for inflation) is expected to grow by 5.2 percent this year and next year, down from 6.4 percent in 2006, and then grow slightly more slowly in the later years of the forecast period. Inflation-adjusted personal income should show less of a slowdown, however, because inflation is expected to drop from 3.2 percent in 2006 to 1.8 percent this year and then stay just above 2 percent in 2008 to 2011. While the 10-year U.S.

IBO versus OMB Economic Forecasts						
	2006	2007	2008	2009	2010	2011
National Economy						
Real GDP Growth						
IBO	3.3	2.6	3.2	3.1	3.0	2.9
OMB	3.3	2.2	3.1	3.4	3.3	2.8
Non-farm Employment Growth						
IBO	1.8	1.0	1.1	1.3	1.4	1.4
OMB	1.4	0.9	1.2	1.5	1.4	1.0
Inflation Rate (CPI-U)						
IBO	3.2	1.8	2.1	2.1	2.2	2.3
OMB	3.2	1.7	2.0	1.8	1.8	1.8
Personal Income Growth						
IBO	6.4	5.2	5.2	5.1	5.0	5.0
OMB	6.4	4.9	5.3	6.1	6.1	5.6
Unemployment Rate						
IBO	4.6	4.8	4.8	4.8	4.7	4.7
OMB	4.6	4.9	5.0	4.7	4.5	4.4
10-Year Treasury Bond Rate						
IBO	4.8	4.9	5.3	5.6	5.6	5.5
OMB	4.8	4.6	4.9	5.5	5.5	5.5
Federal Funds Rate						
IBO	5.0	4.9	4.7	4.7	4.5	4.5
OMB	5.0	5.0	4.8	4.9	5.0	5.0
NYC Economy						
Non-farm New Jobs (thousands)						
IBO	54.2	42.9	36.5	34.6	40.9	38.1
OMB	54.2	27.9	24.0	40.2	43.3	35.5
Employment Growth						
IBO	1.5	1.2	1.0	0.9	1.1	1.0
OMB	1.5	0.8	0.7	1.1	1.2	0.9
Inflation Rate (CPI-U-NY)						
IBO	3.8	1.7	2.2	2.4	2.6	2.6
OMB	3.8	2.1	2.2	2.0	2.0	2.0
Personal Income (\$ billions)						
IBO	376.7	417.0	434.5	453.2	473.1	492.6
OMB	371.0	389.0	400.0	419.0	442.0	466.0
Personal Income Growth						
IBO	8.2	10.7	4.2	4.3	4.4	4.1
OMB	7.1	4.7	3.0	4.6	5.5	5.5
Manhattan Office Rents (\$/sq.ft)						
IBO	55.95	66.96	69.71	71.95	74.54	77.36
OMB	53.59	61.31	63.29	65.89	72.66	77.83
SOURCES: IBO, Mayor's Office of Management and Budget.						
NOTE: Rates reflect year-over-year percentage changes except for unemployment, 10-Year Treasury Bond Rate, Federal Funds Rate, and Manhattan Office Rents. The local price index for urban consumers (CPI-U-NY) covers the New York / Northern New Jersey region. Personal income is nominal.						

Treasury bond rate is expected to jump significantly in 2008 and then again in 2009, and then stay at 5.5 to 5.6 percent, the federal funds rate is expected to decline gradually during the forecast period. IBO expects the national unemployment rate to rise slightly this year, but reach just 4.8 percent, and then drop to 4.7 percent in 2010-2011.

The national economic forecast of the Mayor's Office of Management and Budget (OMB) differs somewhat from IBO's forecast. OMB anticipates steeper declines in the growth rates for real GDP, personal income, and employment this year, but then slightly greater rebounds starting next year.

LOCAL ECONOMIC OUTLOOK

IBO expects New York City employment growth to slow down with the national economy this year, but not bounce back as quickly. IBO expects payroll employment to grow by 1.2 percent this year, and then by an average annual rate of 1.0 percent in subsequent years. The total gain projected for the 2007-2011 forecast period is 193,000 jobs. The 42,900 new jobs forecast for calendar year 2007, if realized, will bring the city close to its 2000 employment peak (3.723 million jobs); the 36,500 new jobs forecast for 2008 would take the city's total employment above its 2000 peak.

One-third of the new jobs projected for the forecast period—63,400 jobs—are expected to appear in professional and business services. Growth of 2.5 percent (14,300 jobs) is expected for 2007; growth of 2 percent or more is expected in all subsequent years.

The securities industry is expected to gain just 400 jobs in 2007 and then grow slowly but fairly steadily, averaging 1 percent growth per year through the rest of the forecast period. The total job gain projected for securities for 2007 to 2011 is 7,900, which will leave securities with about 10,000 fewer jobs (5.1 percent) than it had in 2000. This job outlook is consistent with IBO's forecast for Wall Street profits: a 15.0 percent decline to about \$14.3 billion this year, followed by a climb to \$16.8 billion in 2011. Revenue net of interest expense is expected to decline in 2007 and 2008, despite declines in interest expenses in both years, and then grow—although it is not expected to regain its 2006 level by the end of the forecast period. Overall, the financial activities sector is expected to gain just 10,000 jobs.

Information is expected to grow steadily, adding a total of 12,600 jobs in calendar years 2007 through 2011. Adding this projected gain for information to the gains projected

for professional and business services and financial activities produces a total projected gain for office employment of 86,000—about 45 percent of the total expected gain and just over the number needed to pass the 2000 office employment peak (1.3 million jobs) in the last year of the forecast period.

New jobs in education, health, and social assistance services are expected to account for another large share of the projected increase in city employment, both in 2007 and in subsequent years. The forecast for employment growth this year in this sector—which includes private education providers, social service agencies, and medical establishments like doctor's offices and nursing services—is 2.1 percent (14,600 jobs, with 6,800 in health, 3,100 in education, and 4,700 in social assistance). For the 2007 to 2011 period overall, the expected gain is 70,300 jobs, about 36 percent of citywide growth. These industries are important for the city's economic health because they generally are less sensitive to the business cycle and thus provide a more stable basis of employment growth than most other industries.

Leisure and hospitality industries have benefited greatly in recent years from the return of visitors to the city, particularly from abroad—at least partly due to the weak dollar. Employment growth in these industries is expected to continue, though at a more moderate pace. IBO projects a gain of 4,300 jobs (1.5 percent) this year, followed by gains of 1.1 percent to 1.3 percent through 2011. In retail trade, after a large employment gain this year of 5,000 jobs (1.7 percent), steady but significantly smaller gains of 0.3 percent to 0.5 percent are projected.

Manufacturing is expected to lose another 1,300 jobs this year, bringing the industry's total loss since 2000 to about 67,700 jobs (38 percent). IBO expects manufacturing employment to stay essentially flat during the rest of the forecast period.

In 2007, personal income growth is expected to be quite high—10.7 percent—in part due to extraordinary bonuses received by Wall Street employees early this year. For 2008 through 2011, IBO forecasts personal income growth will range between 4.1 and 4.4 percent.

Local inflation is expected to decline from 3.8 percent in 2006 to 1.7 percent this year, but then climb to 2.2 percent in 2008, 2.4 percent in 2009, and 2.6 percent in 2010. For 2008 to 2011, IBO's forecast for local inflation exceeds the forecast for national inflation.

IBO's local economic forecast differs from OMB's forecast in

some important ways. Although both IBO and OMB expect economic growth to slow, OMB forecasts a steep drop in employment growth from 1.5 percent in 2006 to 0.8 percent this year, while IBO forecasts a more gradual slowdown. Overall, IBO's forecast of the total number of jobs to be added to the city's economy from 2007 to 2011 exceeds OMB's by about 22,100 jobs (12.9 percent).

IBO's forecast of personal income growth for 2007 is also much stronger than OMB's—10.7 percent, as compared to 4.7 percent. While both IBO and OMB forecast slower personal income growth in 2008, OMB projects a lower growth rate from a lower base. Thus, although OMB's forecast for personal income growth exceeds IBO's in 2010-

2011, IBO's projected level of personal income in 2011 is still higher than that of the Mayor's budget office. IBO's inflation forecast starts the forecast period lower than OMB's, but exceeds it in 2009 through 2011. Finally, the two forecasts of Manhattan office rents end up at almost identical levels in 2011, but IBO expects office rents to grow faster than OMB does in 2007 and 2008, and slower from 2009 through 2011.

END NOTES

¹Economic data and dates in this section refer to calendar years.

²IBO's forecast has been completed shortly before the March 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 for the current fiscal year, particularly from tax sources, has greatly improved since the 2007 budget was adopted last spring, fueled by continued strength in real estate and financial markets, employment gains, and Wall Street bonuses. IBO projects that revenues from all sources (taxes, fees and fines, state and federal

categorical aid and other revenues) will total \$58.1 billion in 2007. Tax revenues are up 5.7 percent this year over last, but revenue from other sources is growing even faster. IBO's projection for total revenues in 2007 is 8.0 percent higher than the total for 2006.

Excluding the impact of the Mayor's proposed tax changes, 2008 baseline tax revenues are expected to grow only 1.8

IBO Revenue Projections						
<i>Dollars in millions</i>						
	2007	2008	2009	2010	2011	Average Change
Tax Revenue						
Property	\$12,956	\$14,131	\$15,286	\$16,402	\$17,575	7.9%
Personal Income	7,498	7,773	7,765	8,342	8,688	3.8%
General Sales	4,618	4,619	4,813	5,043	5,271	3.4%
General Corporation	2,784	2,772	2,748	2,896	3,088	2.6%
Unincorporated Business	1,553	1,608	1,692	1,793	1,884	4.9%
Banking Corporation	786	749	754	776	808	0.7%
Real Property Transfer	1,466	1,193	1,183	1,237	1,289	-3.2%
Mortgage Recording	1,371	1,141	1,115	1,175	1,210	-3.1%
Utility	356	363	378	393	409	3.5%
Hotel Occupancy	333	350	361	377	389	4.0%
Commercial Rent	500	517	532	549	567	3.2%
Cigarette	121	118	114	112	111	-2.1%
Other Taxes and Tax Audits	1,297	949	949	956	957	-7.3%
Total Tax Revenue	35,639	36,283	37,690	40,051	42,246	4.3%
Tax Program						
Property Tax Rebate- Extension	-	(256)	(256)	(256)	(256)	n/a
Real Property Tax Rate Reduction	-	(758)	(820)	(879)	(941)	n/a
NYC Child Care Credit	-	(42)	(43)	(44)	(45)	n/a
City Sales Tax Exemption- Clothing	-	(120)	(128)	(132)	(136)	n/a
Business Tax Reductions	-	(142)	(180)	(206)	(248)	n/a
Total Taxes including Tax Program	35,639	34,965	36,263	38,534	40,620	3.3%
Other Revenue						
STaR Reimbursement	1,054	1,104	1,137	1,176	1,210	3.5%
Miscellaneous Revenues	4,005	4,103	3,474	3,499	3,522	-3.2%
Unrestricted Intergovernmental Aid	340	340	340	340	340	0.0%
Other Categorical Aid	1,062	1,027	1,042	1,049	1,045	-0.4%
Inter-fund Revenues	416	406	388	387	386	-1.9%
Disallowances	(15)	(15)	(15)	(15)	(15)	0.0%
Total City Funded Revenue	42,501	41,930	42,629	44,970	47,108	2.6%
State Grants	9,940	10,608	11,352	12,129	12,178	5.2%
Federal Grants	5,703	5,486	5,470	5,472	5,476	-1.0%
Total Revenues	\$58,144	\$58,024	\$59,451	\$62,571	\$64,762	2.7%
SOURCE: IBO.						
NOTES: Personal Income Tax includes Transitional Finance Authority (TFA) dedicated personal income tax revenue. Estimates exclude intra-city revenues.						

percent from their 2007 levels. With moderate growth (2.5 percent) expected for non-tax sources, total baseline revenues are projected to equal \$59.3 billion in 2008, an increase of 2.1 percent. IBO's forecast of baseline tax revenue growth from 2007 to 2011 (annual average of 4.3 percent) exceeds the annual growth from other city revenue sources (2.7 percent average).

Assuming the Mayor's tax proposals are adopted, total revenue for 2008 would be \$58.0 billion, a decrease of 0.2 percent. Thereafter, total revenues resume growing, reaching \$64.7 billion by 2011. Overall, revenues from all sources are expected to grow from 2007 to 2011 at an average rate of 2.7 percent annually.

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

TAX REVENUE FORECAST

Tax collections in 2007 have been soaring, thanks to the continued strength of the city's real estate and financial markets, high Wall Street bonus payments, and the sustained strength of the city's broader economy. IBO now projects that tax revenues will total \$35.6 billion in 2007, \$3.3 billion (10 percent) higher than anticipated by the Mayor's Office of Management and Budget (OMB) when this year's budget was adopted last June. The forecast for the two property transfer taxes—the real property transfer tax (RPTT) and the mortgage recording tax (MRT)—is now \$1.1 billion (63.6 percent) higher than when the budget was adopted. The business income taxes are also up \$981 million (23.7 percent) since last June's estimate.

Total tax revenues in 2007 are now expected to be 5.7 percent higher than their 2006 level, with much of the increase coming in the business income taxes (up 17.9 percent), RPTT (up 13.2 percent), and hotel occupancy tax (up 12.3 percent). The combined transfer tax revenues for 2007 are now expected surpass the record that was set last year.

IBO's outlook for 2008 is quite different, however. The number of real estate transactions has fallen, and growth in sales prices has slowed significantly. With these conditions expected to hold for the next 12 to 24 months, revenue from the transfer taxes is expected to fall by 18 percent from their 2007 levels, although they will still total \$2.3 billion, higher than any year before 2006. With the growth in the local

economy expected to slow towards the end of this calendar year and remain slow throughout most of 2008, and growth in corporate profits in the U.S. economy expect to slow from its recent torrid pace, revenue from the business income taxes is expected to be virtually the same as in 2007, ending several years of strong growth. Likewise, we expect little change in sales tax revenue from 2007 to 2008, while growth in the personal income tax will be moderate at 3.7 percent. Among the major taxes, the property tax is forecast to grow the most rapidly, increasing by 9.1 percent from 2007 to 2008. Overall, baseline revenues from all taxes are projected to grow by only 1.8 percent from 2007 to 2008. Excluding the recession year, 2002, this would be the lowest one-year growth in tax revenues since the mid-1990s.

Tax revenues begin to grow somewhat faster after 2008 with revenues expected to reach \$42.2 billion by 2011. Over the 2007-2011 period, annual baseline tax revenue growth will average 4.3 percent. Note that this average annual growth would be much smaller than the rates that have prevailed in the last 10 years, again excluding 2002.

The real property tax accounts for much of the tax revenue growth in the years after 2007, when it is expected to grow by 7.9 percent annually. This growth comes despite IBO's assumption that there will be a significant downward revision in some assessments before the final assessment roll is released in late May. The strength of the property tax derives from the continued appreciation of property values and IBO's projection of a large pipeline of assessment changes in apartment and commercial buildings that remain to be phased in. This pipeline will help keep assessments for tax purposes growing briskly.

The Preliminary Budget contains a number of proposed tax policy changes. These include a 5 percent rate cut for the property tax, extension of the current \$400 property tax rebate for homeowners, a new child care credit targeted at low income working families, elimination of the sales tax on clothing items costing over \$110, and a series of proposals that would benefit small businesses and their owners. IBO estimates that if all of the proposals were enacted, the total cost of the tax program in 2008 would be \$1.3 billion, rising to \$1.6 billion in 2011. If adopted, the program would cut total tax revenues to \$35.0 billion in 2008 and \$40.6 billion in 2011, reducing average annual growth over the 2007-2011 period by 1 percentage point to 3.3 percent.

For 2007, IBO's tax forecast differs only slightly from the forecast presented by the Bloomberg Administration in the

Preliminary Budget. But the projections diverge in 2008 when IBO's tax forecast is \$108 million lower than OMB's. Some of the difference is in the property tax forecast, where estimating the extent of the revisions to commercial and rental building assessments this year is particularly difficult. OMB apparently assumed that there would not be unusual changes, while IBO assumed there would be, as property owners respond to a change in assessment procedure.

IBO's 2008 outlook is also more pessimistic for the transfer taxes, sales tax, and the corporate income tax. Among the major taxes, there are only two (personal income and the unincorporated business taxes) where IBO's forecasts are higher than OMB's. For these two taxes, the difference between the two forecasts is probably due to differences in assumptions about the timing and extent of the economic slowdown that both offices anticipate. The Mayor's budget office expects growth to begin slowing sooner and is forecasting a more pronounced slowdown than IBO. Thus, IBO is expecting more modest impacts on employment and personal income, both important factors in our outlook for revenues from these taxes.

The unusual situation of having IBO's tax revenue forecast below the Mayor's lasts only one year, with IBO projecting somewhat higher revenues than OMB each year from 2009 to 2011, although the differences are somewhat less than in recent forecasts.

- IBO projects tax revenues for 2007 will be \$35.6 billion, up 5.7 percent from the prior year and \$3.3 billion from the level assumed when the budget was adopted in June.
- Revenue growth this year is fueled primarily by the business income taxes (up 17.9 percent from 2006), and real property transfer tax (up 13.2 percent).
- Although real property transfer taxes in 2007 are now expected to be slightly higher than last year's record level, this forecast is 63.6 percent above the amount the Bloomberg Administration anticipated when the budget was adopted.
- Baseline revenues will grow by only 1.8 percent in 2008, pulled down by a lack of growth in the business income taxes and a combined decline of 18 percent in the transfer taxes.
- Somewhat stronger revenue growth resumes beginning in 2009, with revenues expected to increase by 3.9 percent, followed by gains of 6.3 percent in 2010, and 5.5 percent in 2011.
- The Preliminary Budget contains a number of tax policy proposals, which in the aggregate would cost the city \$1.3 billion in revenue in 2008, rising to \$1.6 billion in 2011.

- For the 2007-2011 period, baseline revenue growth will be sustained by the property tax, which is expected to grow by an average of 7.9 percent annually due to a forecast of continued but more moderate growth in property values and the pipeline of earlier assessment increases still being phased in.
- Business and personal income taxes and the general sales tax are expected to grow at more modest rates (averaging 3.1 percent, 3.7 percent, and 3.4 percent respectively) over the 2007-2011 period, consistent with IBO's outlook for slower growth in the local and U.S. economies than in recent years.

REAL PROPERTY TAX

IBO projects property tax revenue to reach \$14.1 billion in 2008, an increase of 9.1 percent over the 2007 level of \$13 billion. From 2008 to 2011, strong growth in property tax revenue is expected to continue, with annual growth averaging 7.5 percent. IBO's forecast for property tax revenue is slightly less optimistic than OMB's forecast for 2008 through 2010; the difference is less than 1 percent each year.

Background. The amount of tax owed on real estate in New York City depends on the type of property, its value for tax purposes (as calculated by the city's Department of Finance from estimated market values), and the applicable tax rate.¹

Under the property tax law, every parcel is assigned to one of four tax classes: Class 1, consisting of one-, two-, and three-family homes; Class 2, composed of apartment buildings, including cooperatives and condominiums; Class 3, made up of the real property of utility companies; and Class 4, composed of all other commercial and industrial property. Each tax class can have its own assessment ratio (the share of market value actually subject to tax). Tax rates also vary from class to class.

The tax classes also differ in how market value appreciation is reflected in assessments. In Class 1 and the portion of Class 2 consisting of apartment buildings with 10 or fewer units, annual assessment increases are capped, regardless of how rapidly market values are rising. In Class 1, increases are limited to 6 percent per year and no more than 20 percent over five years. For the small residential properties in Class 2, the limit is 8 percent in one year and no more than 30 percent over five years. In Class 4 and the balance of Class 2, there are no limits on annual assessment increases, but when computing the value for tax purposes assessment increases are phased in over five years.

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 and the smaller residential buildings in Class 2 is essentially lost forever. When market value increases for capped properties exceed the assessment cap, assessed values fall further and further short of the maximum, or target, assessment ratio for the class (6 percent of market value in Class 1 and 45 percent in Class 2). Even in weak real estate markets, values rarely fall so far that assessments “catch up” to the target assessment rate for Class 1.

Although owners of rapidly appreciating properties benefit from a lower tax burden thanks to the caps, some of the benefit is offset when slower appreciating properties with increasing assessment ratios reach the target assessment ratio. Under the state law governing the city's property tax system, the shares of the tax levy borne by each class are based largely on each class' share of market value. When properties in Class 1 do hit the target assessment ratio, the tax rate for the class as a whole must be increased because 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 target assessment ratio bear a higher burden than they would if the target ratio were higher.

With the process for determining assessed value in each class varying so greatly, there are wide differences between the classes in terms of shares of total market value, assessed values, and tax burdens (levies). On the 2007 assessment roll, Class 1 homes account for 54.5 percent of market value in the city, but only 11.6 percent of assessed value for tax purposes and 15.2 percent of the tax levy. In contrast, Class 4 properties account for 21.6 percent of the market value, but 45.9 percent of assessed value for tax purposes and 40.6 percent of the tax levy. The other two classes also 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 2008. In January, the Department of Finance released the tentative 2008 assessment roll. Because of the timing of the assessment process, the market values on the 2008 roll largely reflect economic conditions in calendar year 2006. Market values on the 2008 tentative roll showed an overall increase of 19.0 percent over 2007, with Class 2 showing the largest increase at 26.3 percent and Class 4 not far behind with an increase of 22.3 percent. Class 1 market values grew 16.3 percent. Assessed value for tax purposes (billable taxable assessed value) showed an increase of 8.9 percent, with growth for Class 4 at 12.0 percent and Class 2 at 9.7 percent. After taxpayer challenges and other finance

department adjustments are processed, the values will be finalized in May and used for setting 2008 tax bills.

IBO expects changes from the tentative roll to the final roll to be larger than usual this year for both Class 2 and Class 4 because about one-quarter of the tentative increases in those classes result from a change in assessment procedure to spur filing of required information forms by owners of income-producing properties. The Department of Finance has announced that if the forms are filed, some owners are likely to see lower assessments based on the newly supplied information.

The Department of Finance usually estimates market values for commercial and rental apartment buildings using income and expense information, which building owners are required to report annually. In the past, if no report was filed for a property, the assessor would estimate the income and expenses or adjust the most recently reported income and expense information for intervening price changes. This year, for properties without income and expense statements filed (about 35,000 properties, according to the finance department Web site) assessors were told to use the highest income and lowest expense reported by owners who filed income and expense statements for the same property types to compute estimated net income. They then applied the lowest authorized capitalization rate for that type of property (the lower the cap rate, the higher the resulting market value) to the net income to calculate the new market value.

The results were staggering increases in market values for effected properties. For example, the citywide market value of Class 2 rental buildings rose 32.2 percent between the 2007 final roll and the 2008 tentative roll; in contrast, the increase between the 2006 final and 2007 tentative rolls was 1.6 percent for this building type. Outside Manhattan, where non-filing is more prevalent, the median increase for rental buildings that did not file was almost 100 percent.

The Department of Finance is encouraging property owners who did not file statements earlier to provide the information by May 1, 2007. IBO expects many property owners to take advantage of this opportunity, so that the expected decline in market values and assessments between the tentative roll and the final roll will be greater than usual this year. Note, however, that IBO still expects growth between the 2007 final roll and the 2008 final roll to exceed past growth, even with these larger than usual adjustments. Presumably, many owners who had not filed income and expense statements enjoyed lower tax liabilities in the past because of their inaction, and

now their assessments will grow significantly, albeit less than as shown on the 2008 tentative roll.

Outlook for Market and Assessed Values in 2008. IBO projects that total billable taxable assessed value on the final 2008 tax roll will grow to \$123.9 billion, 7.6 percent more than the 2007 roll. While Class 1 market value on the 2008 assessment roll is expected to grow by 16.3 percent, Class 1 billable taxable assessed value is expected to grow only 5.0 percent, largely because of the caps on assessment increases. In contrast to past years, the Class 2 difference between market value growth and billable taxable value growth—26.3 percent and 9.3 percent, respectively—exceeds the Class 1 difference. This is due to large market value increases in the Class 2 subcategory for small buildings with fewer than 11 units, where because of assessment caps, the assessment increases are generally much less than the market value increase. The difference for Class 4 is also very large. IBO projects that market value for Class 4 will grow by 11.7 percent and billable taxable assessments will grow by 9.4 percent on the final 2008 tax roll.

Outlook for Market and Assessed Values in 2009-2011. IBO expects market values to continue to grow strongly in 2009 through 2011 for classes 1 and 4. IBO projects that market values in Class 4 will grow at an average annual rate of 8.6 percent over the three years, while annual growth in Class 1 will average 4.8 percent. Growth in Class 2 is expected to slow in 2009, but then rise again.

This healthy growth in market values should translate into healthy growth in billable taxable assessments through 2011. Average annual growth of 4.7 percent is expected for Class 1, with little variation. Assessment growth in Class 4 is expected to average 8.6 percent over the same period. With coop and condo assessments, particularly in Manhattan, expected to continue their rapid increases, IBO projects growth of 9.7 percent for Class 2 billable taxable assessments in 2009 to be followed by slower growth; average annual growth is expected to be 7.9 percent. Overall, annual billable taxable assessment growth for all classes of property is expected to average 7.6 percent in the three years 2009 to 2011.

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 in 2003, the City Council had observed an informal freeze in the average tax rate since 1992. IBO's baseline property tax revenue forecast assumes that the 2007 average tax rate,

which includes the increase from 2003, will be maintained at 12.28 percent of the aggregate assessed value for tax purposes on the assessment roll. But as discussed below, the Mayor has proposed reducing the overall rate for 2008.

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. Taking these other factors into account, IBO projects that property tax revenue for 2007 will total \$13 billion, 3.9 percent above revenues for 2006. For 2008, revenue is forecast to grow by 9.1 percent to \$14.1 billion. In 2009 through 2011, growth is projected to average 7.5 percent, with revenue totaling \$17.6 billion by the last year of the forecast period.

IBO's property tax revenue forecast is quite similar to OMB's for 2007, differing by only \$14.8 million. For subsequent years, OMB's property tax revenue forecast exceeds IBO's. The difference is \$96 million for 2008, and then widens to \$104 million by 2010. By 2011, IBO's forecast is slightly higher than OMB's, by \$116 million. Much of the difference appears to be due to IBO's assumption that the adjustment to the 2008 final roll will be larger than normal. OMB's revenue forecast, which was released very shortly after the finance department released the 2008 tentative roll, assumed a more typical revision.

Tax Policy Changes. There are two Mayoral proposals that would affect property tax revenue. In addition, the Governor has proposed an enhanced state exemption

Temporary Tax Rate Cut. The Mayor has proposed a 5 percent property tax rate reduction. IBO projects a cost of \$758 million in foregone tax revenue for this cut in 2008; in 2011, the cost would be \$941 million. The reduction would be applied to the overall tax rate rather than to assessed values; depending on how much a taxpayer's market value has grown, some, if not all, of the tax savings from the rate reduction would be offset by a higher billable taxable assessment. Moreover, because each class' tax rate varies under the complex structure of the property tax law, year-to-year changes in rates will differ with Class 1 owners likely to see a decrease of less than 5 percent compared to the final 2007 rate.

The Mayor has described this proposal as a temporary, one-year reduction in the rate. He has said that it is too early to know whether the city can afford the cut beyond 2008, implying that the rate would revert to the 2007 level again, beginning in 2009. (Of course, the property tax rates are set each year by the City Council making each year's rate in one sense "temporary.") Nevertheless, the Mayor's January 2007

Financial Plan projections for 2009 through 2011 assume that the lower overall rate will remain in effect.

Total property tax revenue with the 5 percent tax cut would be \$13.4 billion in 2008, 3.2 percent above its 2007 level. OMB cost estimates differ slightly because of differences in projected total levies without the tax cut. In years that the OMB projected levy exceeds IBO's forecast, adoption of the 5 percent tax cut would reduce the size of the projected OMB-IBO gap in total property tax revenue, and vice versa.

Homeowner Rebate. The Mayor's Financial Plan assumes that authorization for the \$400 tax rebates for owners of houses and apartments, provided they reside in these properties, will be extended. Over 650,000 homeowners received the rebate in 2007, at a total cost of \$256 million. IBO expects the cost of the rebate to be about \$256 million again in 2008.

The Mayor's proposal to extend the rebate (initially authorized for only three years, 2005-2007) was first introduced in the November 2006 Modification of the 2007 Budget and is also reflected in the 2008 Preliminary Budget. In the current plan, it would be extended through at least 2011. The state law authorizing the rebate requires that any extension of the program beyond its first three years be accompanied by a reduction in the property tax burden for all taxpayers, not just the homeowners currently eligible for the rebate. OMB has argued that the Mayor's proposed cut in property tax rates for all tax classes satisfies this requirement.

Enhanced STaR Property Tax Exemption. Governor Spitzer's Executive Budget for the state's 2007-2008 fiscal year calls for a major three-year expansion of the STaR program. The main feature of his proposal is creation of a new Middle Class STaR program that would provide additional benefits based on income. Under the Governor's proposal, the value of the STaR property tax exemption would be increased by 80 percent for homeowners with incomes below \$80,000 in the New York City metropolitan area and below \$60,000 elsewhere. The exemption enhancement would decline as income increases, reaching zero at \$235,000 upcoming year. In subsequent years, these brackets would be indexed for inflation.

Although this proposal, if adopted, would benefit New York City homeowners, it would not affect New York City property tax revenue because the state reimburses the city and other school districts across the state for the tax revenue lost to the STaR exemptions.

PROPERTY-RELATED TAXES

Mortgage Recording and Real Property Transfer Taxes.

Revenues from the mortgage recording tax and the real property transfer tax (collectively referred to as the transfer taxes) will likely set another record in 2007. Overall real estate activity, as measured by the number of transactions, has slowed during the past year, and prices in some submarkets have been stagnant or slightly declining. In general, however, prices remain strong. Declining office vacancy rates in Manhattan have stimulated the purchase of office towers. A number of very large sales, including the Stuyvesant Town/Peter Cooper Village residential complex for \$5.4 billion and the office tower at 1211 Avenue of the Americas for \$1.5 billion, have been an important factor in keeping transfer tax revenues at high levels.

IBO projects that transfer tax revenues will decline by 17.7 percent in 2008, as fewer very large transactions occur. In addition, as residential sales prices realign with apartment rents it will reduce the differential currently favoring buying over renting. IBO expects revenues to inch down in 2009, and then begin to rise in 2010.

Even as revenues bottom out in 2009, however, they will still reach \$2.3 billion, a level considered unimaginable just a few years ago. By 2011, IBO projects that RPTT revenues will reach \$1.3 billion and MRT revenue \$1.2 billion. For both taxes, 2011 revenues will be about 12 percent below their 2007 peak in nominal terms. Adjusted for inflation, the decline is expected to be 19 percent.

IBO and OMB project an almost identical decline in MRT and RPTT revenues between 2007 and 2009. But IBO expects over 90 percent of the decline to occur in 2008, while OMB projects that around one-third of the drop will take place in 2009. IBO projects a faster recovery beginning in 2010. By 2011 IBO's MRT forecast is 4.4 percent above OMB's, and our RPTT forecast 1.7 percent higher than OMB's.

Background. The MRT and RPTT are levied at opposite ends of residential and commercial real estate transactions. The RPTT is levied directly on the sale price and is typically paid by the seller. The MRT is levied on the mortgage used to finance the purchase (usually the sales price less the down payment) and is paid by the buyer. Sales of coop apartments are subject to the RPTT but are exempt from the MRT because coop financing loans are not technically mortgages.

Refinancing an existing mortgage also generates MRT revenue.

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.

While sensitive to general business cycle changes, the two transfer taxes are also responsive 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 rose and then fell, but were always at relatively low levels by historic standards. IBO forecasts the 30-year rate to remain below 7.0 percent until 2010, and then hover around 7.0 percent through the first part of the next decade.

MRT and RPTT revenues remained strong even through the local economic downturn of 2001-2003, but began an extraordinary takeoff in 2004. Even as property markets in much of the United States weaken, 2007 will be another record-setting year for transfer tax revenue in New York City. Because of a falloff in mortgage refinancing activity, however, MRT revenue will increase only slightly (1 percent) over the 2006 level, while for RPTT the increase will be 13 percent.

Forecast. Revenues from these two taxes are expected to decline in 2008 and 2009, due to a drop in the number of very large transactions—mostly apartment buildings and office properties—and a return to conditions that are less frenzied and more consistent with market fundamentals. In recent years, sales prices for properties have increased much faster than household incomes or potential rental income, even after adjusting for the lower monthly payments resulting from favorable interest rates.

Although fewer properties were sold in the first half of fiscal year 2007 than in the first half of 2006, prices have generally continued to rise. For example, the number of Manhattan coops sold dropped 11 percent in the first half of 2007 compared with a year earlier. For Class 1 properties (one-, two-, and three-family houses) outside Manhattan, the decline in the number of transactions was even steeper—a fall of 26.4 percent compared with the first half of 2006. In both cases, however, the average sales price continued to rise. For Manhattan coops, the mean sales price for the first

half of fiscal year 2007 was \$1,019,300, 14.1 percent above the average price of \$893,027 for the first half of fiscal year 2006. For Class 1 properties outside Manhattan, the increase was a more modest 8 percent, from \$543,441 in the first half of 2006 to \$586,924 in the first half of 2007. (All of these calculations consider only “arms-length” transactions, and exclude sales made at prices far below market values.)

IBO is projecting a drop of roughly 19 percent in transfer tax revenues between 2007 and 2009 (in nominal terms), with virtually all that decline occurring in 2008. Revenues will increase moderately in 2010 and 2011, but a portion of this increase can be attributed to changes in the overall price level rather than a real rise in the value of real estate transactions. By 2011, revenues in nominal terms will be around 12 percent below their 2007 peak, but will still be above 2005 levels.

It seems clear that a new, higher baseline level of “normal” RPTT and MRT revenues has been established. One factor that leads to the higher baseline is that properties with a sales price over \$500,000 are subject to a higher RPTT rate than are lower-valued properties. The same is true of the MRT: mortgages of \$500,000 or more are taxed at a higher rate than smaller mortgages. Prices have now risen so much that even a major collapse in prices would leave many transactions above these \$500,000 thresholds.

Commercial Rent Tax. IBO expects commercial rent tax (CRT) revenue to total \$500 million in 2007, a 4.8 percent increase over 2006. Surging rents, particularly in midtown Manhattan, are responsible for much of the increase. We project a smaller increase for 2008, with revenues reaching \$517 million.

Background. The CRT is paid by commercial tenants, with liability based on the amount of annual rent paid. Between 1994 and 2002, a series of tax policy changes significantly altered the incidence of the 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 former 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 post-2000 downturn, CRT revenues remained surprisingly strong, with annual growth averaging 4.8 percent from 2001 through 2006. 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 \$477 million in 2006.

Beginning in 2006, additional targeted CRT cuts were enacted as part of the city and state aid package for lower Manhattan. These new benefits, which replaced some expiring benefits dating from the mid-1990s, have reduced 2007 CRT revenues by an estimated \$6.7 million, with the cost expected to grow to \$32.6 by 2011.

Forecast. With the impact of the property tax rate increase for most commercial tenants now fully reflected in existing rents and with rents for new leases expected to grow by about 6.7 percent annually in the next few years, IBO projects slower growth in CRT revenue. After 2007, CRT revenue growth will average 3.2 percent annually, with revenue reaching \$567 million in 2011. By comparison, CRT revenue grew by 5.9 percent over the previous four years ending in 2007.

IBO's commercial rent tax forecast differs somewhat from OMB's, particularly with the outlook for 2008. OMB's forecast for the coming year is \$550 million, which would be an increase of 7.2 percent over their 2007 estimate. After 2008 the growth rates for the two forecasts are fairly similar, leaving IBO's projections lower each year through 2011.

PERSONAL INCOME TAX

Personal income tax (PIT) receipts have continued growing this fiscal year and are forecast by IBO to reach \$7.5 billion in 2007, a 2.5 percent increase over the previous year. (This and other figures for PIT collections in this section are net—gross collections minus refunds—and include PIT receipts dedicated to the Transitional Finance Authority.)

Though this modest increase is dwarfed by double-digit growth rates of the past three years, in large part it results from tax policy changes that reduce current year collections relative to 2006 revenue. Slower economic growth in the city, expected to begin later on this calendar year, will limit revenue in the coming fiscal year, though in the absence of any major tax policy changes, IBO forecasts a 3.7 percent growth in PIT collections in 2008. PIT collections are not expected to grow in 2009, but IBO forecasts a resumption of revenue growth

afterwards. PIT growth in 2010 and 2011 is expected to average 5.8 to reach \$8.7 billion.

IBO's current year forecast of PIT revenue is \$86 million higher than OMB's. IBO and OMB both expect local economic growth to slow in the coming years, with IBO forecasting a later slowdown than is OMB. As a result, IBO's forecast of PIT revenue is somewhat higher than OMB's estimate for 2008 and about the same for 2009.

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. Currently, the combined tax rate (i.e., incorporating both the base rate and surcharge) is 2.907 percent for the lowest of the four brackets, compared with 3.648 percent for the highest bracket.² These rates have been in effect since January 2001, with the exception of calendar years 2003 to 2005 when two additional tax brackets were created 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.

By fiscal year 2001, a number of tax cuts and credits enacted in the previous five years—including the 1998 expiration of the 12.5 percent “criminal justice” surcharge, the elimination of the commuter tax in 1999, the STaR program's PIT credit and rate cut beginning in 1999, and a temporary reduction in 2001 of the 14 percent 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 that 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 confidence in corporate accounting—had a particularly negative effect on employment and profits in the financial sector. As a result, PIT receipts plummeted 22.2 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 growth did not resume and receipts declined slightly to their lowest level since 1997.

PIT growth resumed in 2004, when receipts increased by 24.5 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 three-year tax increase enacted in the middle of 2003, which added \$701 million of revenue. PIT collections again grew strongly in 2005, by 17.6 percent, and then again in 2006, by 12.5 percent. Had the three-year increase continued after December 31, 2005, collections would have been roughly \$300 million greater in 2006, resulting in almost the same percent growth of PIT revenue (17.1 percent) as in 2005. Revenue from withholdings has grown steadily, reflecting general economic growth plus a surge in the financial sector's bonus compensation. Collections from estimated payments soared 165 percent in three years to reach nearly \$2 billion in 2006, fueled by the large increases in capital gains realizations that began in calendar year 2004.

Revenue in the Current Year. PIT collections to date this fiscal year are about 10.8 percent greater than collections in the comparable period last year, reflecting continued employment and, especially, income growth in the city economy. To date in the fiscal year, withholding collections are 8.3 percent greater than the comparable period in 2006. This growth is impressive because in contrast to last year's withholdings, 2007 withholdings receive no boost from the 2003-2005 tax increase.³ Reflecting the strength of Wall Street profits in 2006 and the resulting year-end bonus compensation, paid typically from December to March, withholding receipts in January were exceptionally high—\$918 million, almost a third greater than any previous month's withholding revenue. Quarterly estimated payments of PIT liability by investors and the self-employed are also up so far in 2007, by 14.9 percent over the previous year, due to capital gains realized in real estate and, especially, financial markets, many of which have reached new record highs in the past year.

In spite of the strength in 2007 withholdings and estimated payments, the two largest components of PIT revenue, for the entire fiscal year IBO forecasts only a modest 2.5 percent growth of PIT collections, to \$7.5 billion. For withholdings, strong revenue will continue in the remainder of the bonus period but then moderate in the final quarter of the fiscal year. More significantly, IBO expects estimated payments to be lower in 2007 than in 2006. Estimated payments reached

a record high in 2006 in large part because of an exceptional surge last April in payments made by filers asking for extensions in filing their 2005 returns. This surge accounted for nearly \$700 million of revenue, far more than in any previous year, and there is no expectation that this amount of extension payments will again be collected this spring.

Also limiting PIT growth in 2007 is an expected decrease in final return payments relative to 2006 and an expected increase in refunds. Because withholdings and estimated payments for liabilities in tax year 2006 have been strong, final returns payments accompanying 2006 returns (which are received mostly in the latter half of the current fiscal year) are not expected to be as large as last year, and refunds are expected to be greater. But most of the expected decline in net revenue from these two PIT components results from the near doubling of the per filer STaR credit that took affect at the start of calendar year 2006, thereby reducing 2007 final returns and increasing 2007 refunds. The increase in the STaR credit is reducing collections revenue by roughly \$220 million—2.9 percent of the total PIT forecast for 2007.

IBO's forecast of 2007 PIT revenue is \$86 million (1.1 percent) less than OMB's. While IBO expects more revenue from estimated payments than does OMB, we project lower withholding receipts and a lower level of payments with final returns.

The Forecast for 2008 and Beyond. After 2007, IBO expects PIT revenue growth to pick up only slightly, to 3.7 percent in 2008, with collections almost reaching \$7.8 million. There currently are no enacted changes in tax rates or credits that would dampen 2008 collections. (See below for discussion of new proposed policy changes.) Rather, the modest revenue growth results from slower income and—to a lesser extent—employment growth IBO expects for this calendar year.

Withholding is expected to continue growing at a solid if not spectacular rate (a projected 3.9 percent), but much of this revenue growth will be offset by a fall in estimated payments and an increase in refunds. With a projected softening of both real estate and financial markets, realized capital gains are expected to decline slightly in 2008. Also, estimated payments will be affected by a slowdown in income growth from proprietor's incomes and from dividends, interest, and rents. Slower income and employment growth later on this year will result in some taxpayers overpaying their calendar year 2007 liabilities, which in turn will lead to a rise in refunds a year from now, in the second half of fiscal year 2008, when taxpayers file their 2007 returns.

IBO's forecast for 2008 is 2.0 percent (\$155 million) greater than OMB's. The Mayor's budget office expects a sharper and earlier slowdown in the local economy, resulting in hardly any increase in PIT revenue from 2007 to 2008. OMB expects a small decline in withholding (1.8 percent), and the divergence of withholding projections accounts for most of the difference between the two forecasts. Although OMB's withholding forecast is considerably below IBO's, OMB's projections of both estimated payments and final returns revenue exceed IBO's, lessening the difference between the two PIT forecasts.

IBO projects no change in PIT revenue from 2008 to 2009. With the forecast for an economic slowdown that will persist into fiscal year 2009, withholdings are expected to grow even more slowly (1.9 percent), and estimated payments are not expected to increase at all. Also, a \$100 million decline in 2009 in revenue from city/state offsets—an accounting component of the PIT collections flow from the state to the city—will offset whatever revenue growth is expected to occur. With a pick-up in the local economy coming sooner in its forecast, OMB expects PIT revenue to increase slightly in 2009, by 1.9 percent. As a result, there is little difference in IBO's and OMB's personal income tax 2009 projections. IBO's forecast is only \$20 million (0.25 percent) higher than OMB's.

In the final two years of the forecast period, IBO expects PIT revenue to grow at an average rate of 5.8 percent, to reach \$8.3 billion in 2010 and \$8.7 billion in 2011. Revenue from withholdings is expected to increase at a faster pace as employment and income growth begin to pick up. Moreover, assuming that there is no change in current federal tax law, there will be a sharp increase in capital gains realizations in calendar year 2010 in anticipation of the expiration of many Bush Administration tax cuts, most importantly the preferential treatment of income from capital gains. Due to our higher withholdings and estimated payments projections, IBO's personal income tax forecasts are \$249 million (3.1 percent) higher than OMB's in 2010 and \$164 million (1.9 percent) higher in 2011.

Proposed Tax Policy Changes. The Mayor's Preliminary Budget includes several tax policy changes that would reduce PIT revenues if enacted. These include changes aimed at reducing tax burdens for operators of small businesses, as well as the creation of a city-level child care credit that would parallel similar federal and state credits. These proposals, and the impact of a proposed enhancement of the state's STaR credit available to city PIT payers, are discussed below.

Enhanced UBT-PIT Credit. The tax reduction program includes a proposal to enhance the existing PIT credit for unincorporated business tax (UBT) payments. Unlike most changes in city tax law, enacting this proposal would not require New York State legislative approval.

The Existing Credit. City residents who are sole proprietors or partners in businesses paying the UBT also pay taxes on their personal income that includes already taxed business income. Beginning in tax year 1997, however, these residents have been entitled to a partial credit against their PIT liability for UBT payments. The amount of the credit varies with residents' taxable income. Residents with New York State taxable incomes of \$42,000 or less may claim 65 percent of their UBT payments as a PIT credit. The share of UBT liability allowed for the credit decreases by one-tenth of a percentage point for every \$200 increase in taxable income until it reaches a minimum credit of 15 percent of UBT payments, for taxpayers with annual incomes greater than \$142,000.

The state law authorizing New York City to establish the UBT-PIT credit enables the city to increase the credit without having to obtain state legislative approval. Thus, unlike most other local tax reforms, this proposal could be put into effect by the city itself.

Proposed Credit Increase. The proposal presented in the Preliminary Budget would enhance the credit by increasing the percentages of UBT payments allowed for the credit. The taxable income levels setting the maximum and minimum credit percentages would not change, but the percentages would become 100 percent of UBT liability for residents with taxable incomes of \$42,000 or less, phasing down to 23 percent for residents with incomes over \$142,000.

If this increase in the credit were to begin in the current calendar year, IBO estimates that PIT revenue would be reduced by \$30 million in 2008, increasing gradually thereafter to \$35 million by 2011. These estimates are \$2 million to \$4 million a year greater than OMB's. The estimates assume that the number of taxpayers who receive the credit would remain almost the same as the most recent data indicates—roughly 21,000. If the rise in the value of the credit induces more taxpayers to take advantage of it, the cost of the proposal would rise.

Because of its structure as a credit against the PIT, which is paid only by city residents, an increase in the UBT-PIT credit reduces the double taxation of city residents' business income without forfeiting the city's ability to tax (through the UBT)

the incomes of commuters' unincorporated businesses.

Distribution of Benefits. In addition to establishing the PIT credit for UBT payers over 10 years ago, the city targeted reductions for small businesses directly through the UBT, eliminating liability for over 20,000 small business proprietorships and partnerships, resident and commuters alike. Given that many small businesses no longer pay the UBT, it is not surprising that the distributions of the UBT credit—and of the proposed increase—are heavily weighted toward UBT payers with high personal incomes. For calendar tax year 2004, 56 percent of all taxpayers claiming the UBT credit had taxable incomes above \$142,000. These taxpayers also received 82 percent of the total value of the UBT-PIT credit, in spite of their being allowed only the minimum credit (15 percent of UBT). If this proposal were enacted, taxpayers with incomes over \$142,000 would receive an estimated 86 percent of the benefits for calendar year 2007. Still, by providing UBT payers tax with taxable incomes of \$42,000 or less a credit equal to 100 percent of their PIT liability, IBO estimates that the UBT liability of almost all taxpayers in this group—about 700 taxpayers—would be entirely offset by the enhanced PIT credit.

Subchapter S Corporation-PIT Credit. The tax reduction program renews a proposal to allow resident shareholders of subchapter S corporations a credit against PIT liability for their share of corporation taxes paid to the city. The proposed credit would provide tax savings to resident shareholders of many small businesses that pay city corporate income taxes.

Subchapter S-corps and Their Tax Treatment. Subchapter S corporations are a special type of small business eligible for certain tax benefits at the federal and state levels. In order to organize as an "S corp," a firm must meet several qualifications, the most important of which are that it have no more than 75 shareholders and that its shares not be publicly traded. Under federal law, the earnings of an S corp are exempt from the U.S. corporate income tax, though the earnings distributed to individual shareholders as dividends are subject to the federal personal income tax.⁴ Under state law, S-corps can elect "New York S" corporation status and receive various tax benefits. The most basic benefit is that although S-corps are subject to the state's corporate franchise tax, they pay a much lower rate—0.825 percent of net income rather than the regular 8.0 percent rate for the current year.

Under city law, however, S-corps are treated like all other

corporations and subject to either the city's general corporation tax (GCT) or banking corporation tax (BCT) with no preferential treatment. The city also taxes income received by resident shareholders of S-corps through the PIT.

The Proposed Credit and Its Cost. The current proposal would not alter the corporate taxation of S-corps on the city level, but it would benefit city residents who are shareholders in S-corps subject to the GCT or BCT. Specifically, starting in the current year these taxpayers would be permitted a credit against PIT liability for the portion of GCT and BCT payments attributable to the taxpayer's stake in the S corp. The proposal is patterned after the existing UBT-PIT credit and would be structured similarly, with the percent of business tax liability that could be claimed as a PIT credit decreasing as the taxpayer's personal income rises. The specific percentages and income thresholds being proposed are equal to those structuring the UBT-PIT credit under current law: from 65 percent of corporate tax liability for residents with \$42,000 or less in New York State taxable income, phasing down as income increases to 15 percent of corporate liability to those with taxable incomes above \$142,000.

In tax year 2003, the most recent year with available data, 123,000 S-corps paid an average of \$5,400 in business taxes to account for 42 percent of all corporate tax liability. The proposed credit would be based only the portion of aggregate S corp liability attributable to resident shareholders. The Bloomberg Administration estimates that the proposed credit would reduce PIT revenue by \$70 million in 2008 and \$78 million by 2011—a somewhat greater impact (by \$15 million-\$20 million) than the current UBT-PIT credit.

To be enacted into city tax law, the New York State Legislature would need to pass enabling legislation. This is not the first time an S corp-PIT credit has been proposed and considered. When the budget for 2002 was adopted, the City Council and Mayor agreed to establish the credit, but the proposal subsequently failed to get legislative approval in Albany.

Policy Goals of the Credit. The proposal to give city residents a PIT credit for their share of S corp-related GCT and BCT payments serves goals related to both personal and business income taxation. The proposal would reduce double taxation of business income for city residents, who alone among owners of local S-corps are subject to the city's PIT in addition to corporate income taxes. The new proposed credit would also make the treatment of resident shareholders in local S-corps more similar to the treatment of city residents who are business partners and proprietors paying the UBT. Also, the credit, like the already

existing one for UBT payers, targets benefits specifically to city residents while retaining the city's ability to tax business income generated in the city by S corp shareholders who do not reside here.

Finally, the proposed PIT credit would benefit owners of small, New York City-based businesses, because S-corps—like most unincorporated businesses—are relatively small entities. To the extent that the credit encourages existing S-corps to remain or expand in the city, the credit would increase local employment.

Child Care Credit. The tax reduction program includes a proposal to establish a city credit for child care expenses against PIT liability. The proposed credit would be based on already existing federal and New York State child and dependent care credits, but only low-income filers with children under the age of 4 would be eligible for the new city credit.

A Piggybacked Credit. Several times in recent years, both the Council and the Mayor have presented child care credit proposals, each calling for a credit that would have equaled a certain percentage of either the existing federal child care credit or the comparable New York State credit. (The state credit is itself defined as a certain percentage of the federal credit.)

The federal credit currently equals 35 percent of eligible child and other dependent care expenses for households with adjusted gross incomes of up to \$15,000. For incomes greater than \$15,000, the rate is reduced by 1 percentage point for each \$2,000 of additional income up to \$43,000, and remains constant at 20 percent for all incomes above that level. Eligible expenses are capped at \$3,000 for one dependent and \$6,000 for two or more dependents, so that the maximum amount of federal credit per dependent allowed under current law would be \$1,050 (35 percent of \$6,000). In addition to children under 13 years of age, expenses for the care of certain adult dependents, such as a disabled spouse, are eligible.

The state credit equals 110 percent of the federal credit for filers with incomes no greater than \$25,000. Above \$25,000, the percent phases down to 100 percent of the federal for filers with incomes above \$40,000. The state credit remains equal to the federal credit for families with incomes from \$40,000 to \$50,000. From \$50,000 to \$65,000, the percent again phases down, more steeply than before, to 20 percent of the federal credit for all filers with incomes over \$65,000. The state and federal credit are each refundable, meaning that taxpayers

whose credits exceed their pre-tax liabilities receive the amount of excess credit as tax refunds.

The current proposal is to define a city child care credit as a certain percent of the state credit, but only for families with children up to 3 years old. Families with incomes of \$25,000 or less would be eligible for a city credit equal to 75 percent of the state credit. From \$25,000 to \$30,000, the credit percentage phases out and there would be no credit for filers with incomes over \$30,000. Like the state and federal credits, the city child care credit would be refundable. Like most changes to the city's PIT, the state Legislature would need to approve this credit before it could be enacted into city law.

Estimated Fiscal Costs and Benefits. The maximum city credit under this proposal would be received by a family with an income up to \$15,000 whose eligible child care expenses reached the maximum. It would equal \$1,155 per dependent (\$3,000 x 35 percent x 110 percent x 100 percent). The Bloomberg Administration estimates that 49,000 city families would have received the credit were it established for calendar year 2006.

If the proposal were enacted for the current calendar year, the Bloomberg Administration projects the revenue loss in fiscal year 2008 would be \$42 million, an estimate consistent with available data on New Yorkers receiving the existing state and federal credits. After 2008, the estimates grow slowly to reach \$45 million by 2011. The Mayor's projections also assume that the enrichment of the credit's benefit would induce more eligible families to take the credit. But over time this increase in the number of filers taking the credit would be in part offset as more filers' incomes to exceed the \$30,000 cap. Thus, the projection of only a minimal expansion of the credit's cost is warranted.

IBO estimates that the proposed credit would eliminate PIT liability for about 11,500 taxpayers. Almost all of these are among the 210,000 families with incomes low enough to avoid state and federal income taxes but not, under current law, the city PIT.

Enhanced STaR Credit. While not part of the Mayor's Preliminary Budget, there is another tax proposal that would reduce PIT burdens: an increase in the per-filer STaR credit against PIT liability. This reform is a component of a package of enhanced STaR tax benefits that the Governor has proposed in his state budget.

In addition to property tax benefits for homeowners under

STaR, since 1999 city residents have received a refundable credit against PIT liabilities, as well as a cut in PIT rates. Only the credit would be affected under this proposal. The credit currently equals \$230 for married couples filing jointly and widows, and \$115 for all other filers. The proposal is to increase the credit amounts by 30 percent—to \$300 for joint filers and widows and to \$150 for others.

Though increasing the STaR credit would reduce the city's PIT revenue by roughly \$140 million each year, under the STaR program the state reimburses the city for the forgone revenue. Thus, increasing the STaR PIT credit would not affect the city's finances.

BUSINESS INCOME TAXES

IBO expects business tax revenues to total \$5.1 billion in 2007, \$951 million (23 percent) higher than the amount anticipated when the budget was adopted last summer, and 18 percent above the revenues from the prior year. Revenues are expected to be nearly flat in 2008 (growing just 0.4 percent) and 2009 (growing 1.3 percent) before resuming annual growth in the 5.5 percent range over the remainder of the Financial Plan.

Background. New York City levies three entity-level taxes on business net income, the general corporation tax (GCT), the banking corporation tax (BCT), and the unincorporated business tax. About 55 percent of total city business tax revenues are derived from “flow-through entities” (S-corporations taxed under the GCT; and 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.

In 2006, business income taxes, excluding audit revenues, generated over \$4.3 billion, 13.2 percent of total city tax revenues. The business income taxes differ from the city's other tax sources in that audit revenues account for a significant portion of revenues. With audits included, business taxes yielded over \$5.0 billion in 2006, 14.9 percent of total tax revenues. (Note that all the revenue figures below exclude audits.)

After declining by 23 percent in the two years following the 9/11 attack, business tax revenues rebounded to post unprecedented back-to-back gains of 25 percent in 2004 and 30 percent 2005. This was followed by another 17

percent gain in 2006, and we expect to more than match this in 2007. By the end of the current fiscal year the *increase* in business tax revenues since 2003, over \$2.8 billion, will be nearly equal to the pre-9/11 peak in *total* business tax revenues.

Year-to-date actual net collections are running 32 percent ahead of last year's pace through January. (Note that because July and August business tax transactions are accrued to the previous fiscal year, the business tax fiscal year effectively starts in September.) We expect markedly slower growth over the remainder of the current year—a little over 6 percent—and then, as noted above, very low growth in the coming two years. But the timing of the anticipated slowdown must be viewed with caution: a year ago we also expected it in the spring of 2006, and it did not come; likewise two years ago we thought that it was just around the corner, and it still did not come.

IBO's total business tax forecast is \$94 million higher than OMB's in 2007, \$9 million lower than OMB's in 2008, and an average of about \$280 million per year higher over the out-years of the Financial Plan.

General Corporation Tax. New York City's GCT is unusual in two respects: it is one of the few locally levied taxes on corporate profits, and nearly half of the tax liability is borne by S-corporations (a type of firm required to pass essentially all net earnings directly through to stockholders). 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.) Finance, real estate, and professional and business services account for about half of GCT liabilities; manufacturing and trade generate another quarter.

From 2004 through 2006 GCT revenues increased \$1.1 billion (92 percent), the gains far outweighing the cumulative declines (\$541 million) of the previous three years. The current fiscal year has also started out strong, with revenue up \$304 million (30 percent) through January. But IBO projects growth to slow to 7.4 percent over the remainder of the year, resulting in a \$405 million (17 percent) increase in revenue for 2007 as a whole. Our forecast of \$2.8 billion for the current year is \$11 million higher than OMB's January forecast. IBO projects \$75 million more than OMB in gross collections, but this is largely offset by \$64 million more in IBO's forecast of refunds.

In the following two years a sharp slowdown in GCT collections growth combined with jumps in refunds is expected to yield

slight declines in net revenues: a decline of \$12 million (0.4 percent) in 2008 followed by a decline of \$24 million (0.9 percent) in 2009. These baseline forecasts do not include the impacts of proposed corporate tax relief (small firm filing simplification and partial phaseout of the income-plus-compensation base for calculating corporate liabilities), which OMB estimates will cost a combined \$26 million in 2008 and \$64 million in 2009. (The proposed city personal income tax credit against the GCT liabilities of resident S-corporation filers, would not affect GCT revenue.)

A year ago GCT collections were thought to be vulnerable to the impact of rising interest rates, especially on the city's pivotal securities industry. But as it turned out Wall Street firms weathered the rate increases well, posting strong profits in 2006 even in the face of surging interest expenses. Now what we expect to finally put the brake on GCT revenue growth is simply a slowdown in corporate profits growth, both nationwide and in the city. Five years of double-digits profits growth has brought the share of profits in national income to the highest point since official records have been kept (1929). Most forecasters do not think that profit shares can go much higher.

IBO forecasts a resumption of GCT revenue growth in 2010 and 2011, albeit at a more moderate pace (5.4 percent followed by 6.6 percent). If the currently proposed corporate tax relief is enacted, however, these growth rates would be reduced.

Unincorporated Business Tax. New York City imposes a 4 percent tax on the income of partnerships, proprietorships, and (since 1994) limited liability corporations, which are entities structured and taxed like partnerships, although the members/partners have the same liability protection enjoyed by officers and shareholders of regular corporations. As with the GCT, entity-level taxation of unincorporated businesses by a city is unusual. Because all of the firms' earnings are passed through to the partners or proprietors and subject to individual income taxes, the city's entity-level UBT subjects the same income to double taxation. New York City somewhat attenuates double-taxation by providing a partial credit in its personal income tax for UBT liabilities of city residents. Legal and business services account for about half of the tax.

UBT revenues grew 23 percent in 2005 and 17 percent in 2006, and have increased by another 29 percent through January of the current fiscal year. IBO expects growth to slow to 9.5 percent for the remainder of the current year, resulting in 18.7 percent growth for 2007 as a whole. IBO's \$1.6 billion

forecast for 2007 is \$108 million above OMB's.

IBO expects UBT revenue growth to dip to 4.6 percent in 2008 before picking up slightly to average about 5.4 percent in the out-years of the Financial Plan. Our 2008 forecast of \$1.6 billion is \$162 million higher than OMB's. By 2010 and 2011 our forecast has grown to \$305 million higher than OMB's. This is because OMB projects declining UBT revenues over the remainder of 2007 (down 6.2 percent compared to the February-August totals for the previous year) and then little UBT growth over the course of 2008 and 2009. IBO forecasts a much softer landing for this tax. (Note that neither the IBO nor OMB projections include the impact of the proposed doubling of the UBT partnership deduction, which OMB estimates would cost \$16 million per year starting in 2008.)

Banking Corporation Tax. New York City taxes banking corporations separately from other corporations, but the structure of the BCT base and rate is similar to that of the GCT. Over four-fifths of collections are derived from a 9 percent tax on entire net income allocated to the city, the remainder from alternative net income, asset base, capital, and minimum tax bases. Generally somewhat over one-third of BCT liabilities are generated by foreign banks and a bit under one-third each by domestic commercial banks and thrift institutions. These shares, however, may vary considerably from year to year.

BCT net revenue is highly unstable. This volatility is exacerbated by 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. Relatively low refunds contributed to the strong growth in BCT net revenues over the past three years. BCT net revenues doubled in 2004, and then reached successive new highs in 2005 and 2006.

IBO expects refunds to more than double from 2006 (\$53 million) to 2007 (\$118 million), but a projected big jump in collections from \$709 million to a record \$903 million will yield a nearly 20 percent increase in overall net revenue. IBO's \$786 million net revenue forecast for 2007—another all time high—is \$25 million below OMB's, the difference being due to our higher refunds forecast.

For 2008 IBO projects a slight dip in BCT collections (to \$878 million) and a slight rise in refunds (to \$130 million), resulting in a 4.7 percent decline in net revenues, to \$749 million. This is \$64 million below OMB's forecast. Over the rest of the Financial Plan period (2009-2011) both collections

and refunds are expected to grow, resulting in modest increases in BCT net revenues each year.

GENERAL SALES TAX

IBO's forecast for sales tax revenue in 2007 is \$4.6 billion. This is an increase of 4.5 percent from the 2006 level. In 2008, revenue is expected to remain essentially unchanged from their 2007 level. The slowdown in 2008 reflects IBO's forecast for sluggish growth in disposable income and employment, beginning in the last months of calendar year 2007. The growth in sales tax revenue is expected to regain momentum in later years with annual growth projected to average 4.5 percent in 2009 through 2011. By 2011, IBO expects that sales tax revenue will reach \$5.2 billion. With the exception of 2008, when the two forecasts are nearly equal, IBO's sales tax revenue estimates are slightly higher (about 1.5 percent on average) than those of OMB through 2011.

Background. Sales in the city of most retail goods, utility charges, and a variety of personal and business services are subject to a combined sale and use tax rate of 8.375 percent. The tax is composed of a 4.0 percent city tax, a 4.0 percent state tax, and a 0.375 percent Metropolitan Commuter Transportation District surcharge.

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.

Recent Trends. In 2005 and 2006, after accounting for tax policy changes, sales tax revenue grew at an annual average of about 9 percent. A confluence of factors explains this healthy growth. In recent years, the level of consumer expenditure rose in conjunction with higher profitability in the financial industry and record-breaking Wall Street bonuses. Sales tax revenue was further bolstered by the stellar performance of the tourist industry. As the number of domestic and foreign visitors increased, the city has reaped the economic benefits—evident from near capacity hotel occupancy rates, increasing room rates, and strong Broadway ticket revenue.

Tax Policy Proposal. As a part of the tax reduction program, the Mayor has proposed changes in the sales tax on clothing and footwear. Currently, clothing and footwear purchases that cost \$110 and more are subject to the city, state, and transportation district sales taxes.

The Mayor has proposed the elimination of the city portion of the sales tax on all clothing and footwear. IBO estimates the loss of city sales tax revenue would be \$120 million in 2008, \$128 million in 2009, \$132 million in 2010, and \$135 million in 2011, although these losses would likely be partially offset by some modest growth in new economic activity resulting from the cut.

The Mayor's proposal would increase the city's competitiveness with neighboring states by lowering tax rate differentials and—assuming other New York State jurisdictions do not follow suit—by creating new rate differentials within the state. The city's retail clothing industry is likely to see a direct positive impact as more shoppers find prices in local stores more attractive. This improvement in turn results in higher employment in the broader retail sector that would produce additional economic gains.

The Mayor's proposal would also provide tax relief to consumers, particularly to households in lower- and middle-income brackets that spend a larger share of their income on clothing and footwear items. With clothing items priced under \$110 already exempt from all sales tax, however, the benefit to households would depend on how much of their clothing expenditures are for higher priced and luxury items.

HOTEL OCCUPANCY TAX

IBO expects hotel tax revenue to reach \$333 million in 2007 and \$350 million in 2008. From 2007 to 2011 annual revenue growth is expected to average 4.0 percent. IBO's estimates are above OMB projections, particularly in the later years of the Financial Plan, with the difference reaching more than 7 percent in 2011 when IBO expects the city to collect \$389 million in hotel tax revenues.

Background. Since 1970, New York City has imposed a hotel occupancy tax, which is levied in addition to the combined city, state, and transportation district sales taxes. The hotel tax is currently 5 percent of room charges plus a flat fee of \$2.00 per night for rooms renting for \$40.00 or more, with lower fees for less expensive rooms.

Recent Trends. The recent robust hotel tax revenue growth reflects the recovery in the city's tourism industry from a sharp contraction in the wake of September 11. Both domestic and foreign visitors continue to flock to the city as it remains a relatively cheaper destination when compared to Paris or London, combined with a greatly improved reputation for safety. The number of international and domestic visitors

totaled 44 million in 2006, up 3.3 percent from the prior year and 7.8 million more than the number of visitors the city hosted in 2000.

This increase in the number of visitors is reflected in the growth of airport arrivals and Broadway gross receipts. Annual passenger volume at the local airports in 2006 grew by 7.6 percent over 2005, to a record high of 107.3 million passengers. During the most recent holiday season Broadway theaters sold 10 percent more tickets than in the previous season, with total revenue increasing by 20 percent.

In 2006, the influx of visitors, accompanied by the conversion of several hotels into condominiums, led to record-low hotel vacancy rates. This in turn has allowed hotels to continue raising room rates. In the last quarter, Manhattan hotels were at or near full occupancy and average room rates were up well over 10 percent from the previous year.

OTHER REVENUES AND CATEGORICAL GRANTS

Other Revenues. IBO's estimate of revenue from sources other than taxes for 2007 totals \$6.3 billion. Other revenues include funds from unrestricted intergovernmental aid, STaR reimbursements, other categorical grants, inter-fund capital transfers, and miscellaneous revenues from recurring and nonrecurring sources. Some of these sources, particularly miscellaneous revenues, can fluctuate due to unusual or one-time transactions. Other revenues are expected to increase

slightly next year to \$7.0 billion and then fall to \$6.4 billion in 2009 and remain near that level through 2011.

Categorical Grants. Categorical grants received from the state and federal governments 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 \$10.6 billion and \$5.5 billion, respectively, in 2008. 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

¹When 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. In this report the billable taxable values are net of STaR exemptions.

²For example, for a married couple filing jointly, the lowest bracket ends at \$21,600. The highest bracket begins at \$90,000. For other types of filers, the income thresholds are lower.

³The three-year increase provides only a negligible revenue boost (of \$10) million in the form of final returns payments from a small number of taxpayers who had not yet finalized their calendar year 2005 liabilities by the end of fiscal year 2006.

⁴The federal treatment of S-corps is thus similar to the treatment of partnerships. Earnings are exempt from tax for the business as a whole, yet the income is taxed only after it has been distributed to either the partners or shareholders. While receiving similar tax benefits, partnerships and S-corps differ significantly in terms of structure and liability.

Expenditures

Expenditure Outlook

IBO projects that under the Mayor's Preliminary Budget and Financial Plan, city spending will grow from \$58.1 billion in 2007 to \$67.8 billion in 2011. Much of this \$9.7 billion increase over five years is fueled by the same set of

costly items as in the recent past—debt service, pensions, and health insurance and other fringe benefits for city workers. But there is now also some spending growth in other areas of the budget such as education, the Mayor's

IBO Expenditure Projections						
<i>Dollars in millions</i>						
	2007	2008	2009	2010	2011	Average Change
Health & Social Services						
Social Services:						
Medicaid	\$4,386	\$5,398	\$5,242	\$5,396	\$5,555	n/a
All Other Social Services	2,834	2,801	2,778	2,778	2,778	-0.5%
HHC:						
Medicaid - HHC	583	-	-	-	-	n/a
All Other HHC	180	26	130	132	142	-5.8%
Health	1,678	1,559	1,582	1,585	1,591	-1.3%
Children Services	2,726	2,672	2,681	2,681	2,681	-0.4%
Homeless	700	689	683	683	683	-0.6%
Other Related Services	593	521	509	510	509	-3.7%
<i>Subtotal</i>	13,680	13,666	13,605	13,765	13,939	0.5%
Education						
DOE (excluding labor reserve)	15,690	16,502	17,385	18,525	19,047	5.0%
CUNY	559	534	520	520	520	-1.8%
<i>Subtotal</i>	16,249	17,036	17,905	19,045	19,567	4.8%
Uniformed Services						
Police	3,848	3,925	3,899	3,877	3,874	0.2%
Fire	1,472	1,425	1,409	1,404	1,405	-1.2%
Correction	952	911	904	900	900	-1.4%
Sanitation	1,228	1,250	1,279	1,305	1,361	2.6%
<i>Subtotal</i>	7,500	7,511	7,491	7,486	7,540	0.1%
All Other Agencies						
	6,158	5,573	6,034	6,070	6,102	-0.2%
Other Expenditures						
Fringe Benefits (excluding DOE)	3,477	3,737	3,995	4,268	4,564	7.0%
Debt Service	4,510	2,403	4,397	5,805	6,198	8.3%
Pensions	4,730	5,439	6,015	6,072	6,072	6.4%
Retiree Health Benefits Trust Fund	1,000	500	-	-	-	n/a
Judgments and Claims	591	635	688	738	795	7.7%
General Reserve	100	300	300	300	300	n/a
Labor Reserve:						
Education	30	164	408	408	408	n/a
All Other Agencies	385	824	1,112	1,459	1,821	n/a
Pay-As-You-Go Capital	200	200	200	200	200	n/a
Expenditure Adjustments	(466)	36	132	212	327	n/a
TOTAL Expenditures	\$58,144	\$58,024	\$62,282	\$65,828	\$67,833	3.9%
SOURCE: IBO.						
NOTES: Debt service expenditures, if adjusted for prepayments, would grow at an annual average rate of 7.7 percent. Debt service includes Transitional Finance Authority (TFA) debt service expenditures. The Preliminary Budget shifts city Medicaid funds from HHC to HRA in 2008 and later years to consolidate all city Medicaid funding in a single agency. The shift is being carried out to simplify transactions with New York State under the new state cap on local Medicaid spending. Expenditure adjustments include energy, lease, prior year payable adjustments and non-labor inflation estimates. Estimates exclude intra-city expenses.						

antipoverty initiatives, and the cost of exporting the city's trash to landfills.

Spending by the Department of Education is projected by IBO to grow at an average rate of 5.0 annually, rising from \$15.7 billion in 2007 to just over \$19 billion in 2011. Much of this rise stems from the Bloomberg Administration's anticipation of increased state aid resulting from the settlement of the Campaign for Fiscal Equity lawsuit—\$723 million in 2008 growing to \$2.3 billion in 2011—as well as normal year-to-year growth in the city's own share of school spending.

Among the other new areas of spending are more than 30 programs at a cost of \$65 million in 2008 launched in response to recommendations of the Mayor's Commission on Economic Opportunity (see appendix for complete list). New Mayoral estimates for the cost of exporting trash to out-of-the city landfills and incinerators as well as closing costs

for Fresh Kills are expected to rise from \$312 million in 2008 to \$413 million in 2011, \$115 million more than previously anticipated. In addition, the Bloomberg Administration has decided to incorporate in all the years of the Financial Plan roughly \$60 million in spending that previously was included in the budget on a year-to-year basis during negotiations between the Mayor and the City Council.

Among the expenditures continuing to rise at a fast pace, debt service is projected to rise from \$4.5 billion in 2007 to \$6.2 billion in 2011 (not including Transitional Finance Authority borrowing for school construction) and city pension contributions for the municipal workforce are projected to grow from \$4.7 billion in 2007 to \$6.1 billion in 2010 and then level off. Health care and other fringe benefit costs for city workers (not including those employed at the Department of Education) are growing a bit more rapidly than pensions, rising from \$3.5 billion in 2007 to \$4.6 billion in 2011.

Department of Consumer Affairs (DCA)

PRELIMINARY BUDGET HIGHLIGHTS

- **New Office of Financial Empowerment.** The 2008 Preliminary Budget provides \$2.4 million (\$1.2 million in 2007) for a new Office of Financial Empowerment in the Department of Consumer Affairs. This office is a key part of the Mayor's antipoverty initiative.
- **Spending on Adjudication Rises.** The Preliminary Budget projects \$2.1 million in spending for adjudication and collection, a 51 percent increase since fiscal year 2001 and a 24 percent increase since 2005.

EXPENSE BUDGET

Agency Overview. The Department of Consumer Affairs protects consumers and businesses by mediating and resolving consumer complaints, licensing businesses, enforcing New York City's Consumer Protection Law, educating New Yorkers about their rights and responsibilities, and litigating against rule-breaking businesses.

The Preliminary Budget proposes \$19.2 million for DCA in fiscal year 2008. This is \$734,000 more than the current modified 2007 budget and \$3.7 million more than was spent in 2006. IBO estimates that the department will receive additional state funds for youth tobacco enforcement consistent with previous years.

Effects of Key Budget Proposals

New Office of Financial Empowerment. The 2008 Preliminary Budget provides \$2.4 million for a new Office of Financial Empowerment, part of the \$65 million budgeted for antipoverty programs in 2008 based on the report of the Mayor's Commission for Economic Opportunity (see appendix for full program list). According to DCA, this office will "educate, empower, and protect workers with low incomes so they can make the best use of their financial resources" by focusing on five interconnected priorities: financial

capacity, financial education, watchdog protection, strategic partnerships, and best practices. The office will help combat exploitative business practices that can have a disproportionate impact on the poor; administer programs to help New Yorkers get and save financial resources like the Earned Income Tax Credit; create a citywide clearinghouse to provide financial education; deter deceptive practices such as tax fraud and predatory lending; and broker strategic partnerships with private, public, and non-profit agencies.

Research and Investigation Unit. The new Research and Investigation unit, created in fiscal year 2007, is budgeted at \$470,855 with seven full-time staff in both 2007 and 2008. This group is responsible for conducting research and investigations concerning DCA's core consumer areas, as well as in emerging consumer issues. It also is responsible for initiating legal action arising from those investigations.

General Enforcement Programs Increase Incrementally. Funding for programs to enforce the Weights and Measures Law, Consumer Protection Law and License Laws, and to regulate gasoline pumps is expected to increase slightly compared to the past several years. Combined, these programs are budgeted to receive just under \$4.0 million in fiscal year 2008, up from \$3.7 million in the current 2007 budget and \$3.2 million that was spent in 2006. Weights and Measures Law and Consumer Protection Law inspections were up from 2,912 for the first four months of fiscal year 2006 to 4,449 in 2007. Violations issued also increased from 415 to 717.

Spending on Adjudication and Collection Rises. Spending on the adjudication of DCA cases and subsequent collection of fines has steadily increased over the past several years. In fiscal year 2001 the department spent \$1.4 million on adjudication and collection. This increased to \$1.6 million in 2005 and it currently plans to spend more than \$2.0 million in 2008. This seems to be driven by the increase in cases heard by DCA judges. The number of hearable dispositions has risen from 3,671 in the first four months of fiscal year 2006 to 4,179 in 2007, an increase of 13.8 percent. This number was also up from 10,318 in fiscal year 2005 to 11,292 in 2006, an increase of 9.4 percent.

Department of Consumer Affairs				
Budget by agency programs				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration				
General Administration	\$4,533,382	\$4,681,390	\$5,147,331	\$5,017,753
Office of Financial Empowerment	-	-	1,246,719	2,434,719
Research and Investigation	-	-	470,855	470,855
Legal Division	1,088,368	1,099,296	1,144,375	1,168,279
TOTAL, Administration & Legal	\$5,621,750	\$5,780,686	\$8,009,280	\$9,091,606
Communications	\$1,002,514	\$1,017,790	\$1,198,159	\$1,250,398
Adjudication and Collection				
Adjudication	\$1,194,550	\$1,303,089	\$1,453,607	\$1,486,749
Collection	376,037	347,944	556,397	564,375
TOTAL, Adjudication and Collection	\$1,570,587	\$1,651,033	\$2,010,004	\$2,051,124
Licensing				
General Licensing	\$1,305,811	\$1,147,437	\$1,505,845	\$1,538,096
Health Licensing	1,196,507	1,119,018	1,274,864	1,293,459
TOTAL, Licensing	\$2,502,318	\$2,266,455	\$2,780,709	\$2,831,555
Enforcement				
General Enforcement	\$423,140	\$396,211	\$405,468	\$411,972
Weights and Measures	1,202,850	1,315,938	1,510,520	1,605,733
License Enforcement	1,534,403	1,424,282	1,712,796	1,825,570
Gasoline Inspections	77,455	80,395	117,180	117,180
Youth Tobacco**	1,451,223	1,381,627	1,399,555	1,393,000
TOTAL, Enforcement	\$4,689,071	\$4,598,453	\$5,145,519	\$5,353,455
Financial Plan Savings*	-	\$247,002	-	-
GRAND TOTAL, CONSUMER AFFAIRS	\$15,386,240	\$15,561,419	\$19,143,671	\$20,578,138
Full-Time Staffing	221	223	236	283

SOURCE: IBO.

NOTES: *Although called Financial Plan Savings, these represent additional unallocated city funds.

** Includes IBO reestimate of State Youth Tobacco Enforcement grant funds of \$650,000 in 2007 and \$1.35 million in 2008.

Department of Cultural Affairs (DCA)

PRELIMINARY BUDGET HIGHLIGHTS

- **Increase to Funding for the Cultural Institutions Group (CIG).** An \$18.6 million increase in 2008 funding above the current budgeted level for the Cultural Institutions Group—generally large institutions in city owned buildings. The increase was also added to the remaining years of the Financial Plan. Despite the additional funding, the 2008 budget for these institutions would still be slightly lower than the 2007 level.
- **Increase to Funding for Other Cultural Groups.** The Preliminary Budget adds \$18.9 million to current budget levels for other cultural programs. This increase was also added to the budget baseline for the balance of the Financial Plan.
- **Additional Staff.** A proposed baseline increase of \$518,000 would fund new staff members to implement new grant allocation and recipient accountability systems.

EXPENSE BUDGET

Agency Overview. The Department of Cultural Affairs provides two broad categories of operating support to cultural organizations: subsidies to the Cultural Institutions Group, 34 organizations housed within city-owned property, some of them world-renowned such as the Metropolitan Museum of Art and others smaller such as the Brooklyn Children’s Museum; and Cultural Program grants given to roughly 600 cultural organizations, some of them offering citywide programs and others community-based.

Under the Preliminary Budget, DCA spending in 2008 would be little changed from 2007, falling by 0.5 percent from \$160.5 million in 2007 to \$159.7 million in 2008. It should be noted that this decrease in funding is far less than in last year’s Preliminary Budget, which showed a decrease in funding of 26.6 percent from 2006 to 2007. Consistent with past practice, last year’s Preliminary Budget reduction was largely restored when the budget was adopted later in the spring. The year-to-year stability in this year’s budget is due to the recent move by the Mayor and the Council to baseline, or include in all the years of the Financial Plan, much of the current funding for cultural affairs, eliminating the annual negotiations to

restore funding cut in the Preliminary Budget.

Cultural Institutions Group. The CIGs will face a modest funding decline from \$131.4 million this year to \$125.1 million in 2008, a 4.8 percent decrease. However, this level of operating support has been baselined into the operating budget starting in 2008. Baselining this entire amount will allow CIGs greater fiscal stability as they plan for the coming fiscal year and beyond. The \$125.1 million consists of: the previous CIG base of \$101.1 million, \$14.4 million in funding that the Council restored to the CIG budget during last year’s budget negotiations, \$4.4 million in a “New Needs” fund that will be allocated through DCA in consultation with the Mayor’s office and the City Council, and \$5.2 million for collective bargaining increases under the recent contract settlement with District Council 37.

Cultural Affairs is introducing a greater level of accountability to the Cultural Institutions Group with the creation of CultureStat, a process to measure the performance of the 34 CIG members. Starting in 2009, 10 percent of each institution’s funding will be based on the degree to which they achieve satisfactory CultureStat ratings. The general breakdown of CultureStat criteria, along with sample explanations, is shown below:

- Board Performance (40 percent)
 - o Timely adoption of each fiscal year’s budget
 - o Responsible and accurate financial reporting at all board meetings
 - o Board familiarity with, and approval of, an institution’s financial controls
 - o Complete adherence to board responsibilities as set forth in institution’s by-laws
- Financial Management by Board and Staff (20 percent)
 - o Evidence of responsible cash reserve/ endowment management and growth
 - o Evidence of responsible budgeting and cash flow management
 - o Evidence of development goals being met on an annual basis
 - o Responsible planning of expense and income projections for upcoming capital projects
- Public Service Commitment (15 percent)
 - o Appropriate public access to facilities and programming

Department of Cultural Affairs				
Budget by agency program				
	2005	2006	2007 Current Modified	2008 Preliminary
General Administration and Other	\$2,632,000	\$2,925,000	\$2,973,995	\$3,184,532
Materials for the Arts	\$759,000	\$833,000	\$888,947	\$754,391
Percent for the Arts	\$58,000	\$61,000	\$70,013	\$70,013
Cultural Program				
Development Funds	\$1,827,000	\$2,082,001	\$3,809,121	\$30,000,000
Program Services	238,000	264,001	391,047	399,172
Line Item Funds	16,509,000	19,041,000	20,974,085	151,500
TOTAL, Cultural Program	\$18,574,000	\$21,387,002	\$25,174,253	\$30,550,672
Cultural Insititutions	\$100,217,000	\$111,089,000	\$131,437,819	\$125,189,121
GRAND TOTAL, Department of Cultural Affairs	\$122,240,000	\$136,295,002	\$160,545,027	\$159,748,729
Full-Time Staffing	38	43	36	39

SOURCE: IBO.

- Staffing Requirements (10 percent)
 - At minimum, competent full-time finance, development, security, and maintenance staff
- Facilities Maintenance (10 percent)
 - Capital maintenance: Ensuring proper upkeep of facility, satisfactory to DCA
 - Operational maintenance: Ensuring day-to-day responsibility for safety, cleanliness, and proper functioning of facility, satisfactory to DCA
- DCA Reporting (5 percent)
 - Timely and accurate submissions of all documents requested by DCA, including monthly and annual reports
- Wealth Base Value Added (up to additional 10 percent bonus)
 - Location in underserved neighborhood or community
 - Lack of access to private funding sources
 - Lack of access to high-performing board members
 - Socioeconomic status of audience

Cultural Program Group. This group of roughly 600 organizations will see its budget increase from \$25.1 million in the current year to \$30.5 million in 2008, a 21.5 percent increase. As was the case for the CIGs, operating support for the Program Group has also been baselined in the budget starting in 2008, thereby enhancing fiscal stability for these organizations.

The Cultural Programs Group funding process has been dramatically altered, shifting towards a merit-based system called the Cultural Development Fund. In the past, the cultural programs received their funding from the Department of Cultural Affairs in three ways. The first was the 172 individual “line item” allocations that were part of the cultural affairs’ budget, essentially a “guarantee” of funding from DCA to the groups that received them. The majority of these allocations were placed in the budget by the Board of Estimate between 1982 and 1989. They have been frozen in the city’s budget and were not changed to reflect shifts in organizations’ budgets or in their scope of programming.

In addition to the line item funding, many programs also received money through the City Council in the form of member item grants, a process that tended to reward organizations with effective lobbying operations. The process of allocating member items has often been criticized as being weighted towards political relationships over the artistic or cultural merits of the cultural organization.

The remaining groups competed for funding in the Cultural Development Fund. The Cultural Development Fund, which was introduced in the 2003 budget, is the Department of Cultural Affairs’ merit-based, competitive funding stream for program groups. It allocates funding through the use of a review panel of cultural experts. More than 80 percent of the Cultural Programs Group funding went to approximately 25 percent of the groups that had already secured member items or line items in the city budget.

Both line item funding and member item grants have essentially been eliminated from DCA's budget for 2008. The Cultural Development Fund was expanded nearly eight fold, increasing to \$30.0 million in 2008, from \$3.8 million in 2007. All program groups will now apply for funding through the Cultural Development Fund whether or not they have received city funding in the past, although Council Members will still have the ability to allocate discretionary funding.

The entire \$30.0 million will be distributed based on a competitive peer review process. This process will split the Cultural Programs Group into two, based on whether an organization's operating budgets is above or below \$250,000. Those programs with higher operating budgets will be vetted at the citywide level and awarded multiyear allocations. Those programs with operating budgets less than \$250,000 will be vetted at the borough level and have annual funding allocations. Groups will be evaluated by a combination of discipline-based panels comprised of representatives from the cultural community and representatives of local officials, which suggests that Council Members might still have influence in the rewarding of funding. For 2008 only, those groups which in the past had member or line items will be given the higher of either their competitive award or their past award.

Effects of Budget Proposals

Cultural Institutions Funding. Beginning in 2008, an increase of \$18.6 million above the current budget levels has been baselined for the CIGs, providing these institutions with greater fiscal stability. Of the increase, \$4.4 million is "New Needs" funds that will be allocated through DCA in consultation with the Mayor's office and the City Council. The balance of the increase restores funding that was removed from the baseline in 2003. In the intervening years the Adopted Budget has included one-year restoration of these funds. Baselining the restoration ends the need for annual negotiation about these funds. Starting in 2009, 10 percent of each institution's funding will be based on a quantitative measure of accountability.

Cultural Programs Funding. The Preliminary Budget adds \$18.9 million to current budget levels for 2008 and throughout the balance of the Financial Plan. This change, which largely restores money that was removed from the baseline in 2003, brings funding for the program group to \$30.0 million in 2008, rising from \$25.2 million in 2007. In a sharp break with past practice, beginning in 2008 nearly all

funding for organizations within the program group will be based on a competitive process.

DCA Staff. With the expansion of the panel review process in both CultureStat and the Cultural Development Fund, the amount of administrative work substantially increases. This proposed baselined funding of \$518,000 would increase the overall headcount at the agency by approximately 10 people (not yet reflected in the Financial Plan).

CAPITAL BUDGET

Agency Overview. The Department of Cultural Affairs is responsible for maintaining facilities occupied by the approximately 65 cultural organizations housed in city-owned buildings. These organizations are a combination of CIGs and large cultural programs. In the January 2007 Capital Commitment Plan the Bloomberg Administration provides a total of \$776.7 million in commitments over four years. The four-year total in the commitment plan decreased 10.9 percent since the September plan.

Key Capital Projects

Lincoln Center Redevelopment. The commitment plan provides approximately \$80 million for significant renovation and expansion of several of Lincoln Center facilities as well as new amenities for the public, including improvements to the north plaza's reflecting pool and the addition of cascading water. The project also includes improved access to the facility with: wider sidewalks; reduced traffic lanes; a transparent footbridge; improved signage; and new entrances to the Julliard School, Film Society of Lincoln Center, Alice Tully Hall, Lincoln Center Theater, and the Samuel B. and David Rose Building. Garage entrances will also be relocated.

New York Zoological Society. The plan includes \$24.7 million for such projects as the construction of both a Wildlife Health Center and a transportation facility.

Queens Museum of Art. A \$24.7 million commitment will fund the expansion of the museum, increasing the facility to nearly double its current size.

American Museum of Natural History. The commitment plan funds \$5.1 million for energy initiatives and general improvements and upgrades.

Department of Small Business Services (DSBS)

PRELIMINARY BUDGET HIGHLIGHTS

- **The Center for Economic Opportunity.** The Preliminary Budget adds \$14.4 million in new city funds in 2008 for a variety of workforce programs of the Center for Economic Opportunity, an outgrowth of the Mayor's Commission on Economic Opportunity. These programs will generally help the working poor obtain services not eligible for federal Workforce Investment Act, such as more general workforce readiness programs, child care, and other support services (see appendix for full program list).
- **Mayor's Commission on Construction Opportunity.** Two additions to DSBS's operating budget relate to ensuring employment opportunities in construction for the economically disadvantaged: \$500,000 for a contract with STRIVE for workforce training and \$100,000 of annual spending to implement policies of the commission.
- **Governors Island Preservation and Education Corporation.** The Preliminary Budget adds \$7.0 million in ongoing support beginning in 2008, for the corporation's general operating expenses, a \$2 million increase over 2007 spending.
- **Minority- and Women-Owned Business Enterprise Program (MWBE).** To finance the "Disparity Study," which will measure the success of MWBE efforts to publicize government procurement opportunities, \$202,000 and \$306,000 of DSBS spending has been added to the 2007 and 2008 budgets, respectively.
- **Business and District Development Division.** A new program of the division, Business Express, will provide Internet-based information services to small business. Funding of \$126,000 per year starting in 2008 will create two new positions. Funding was also added for the division's Clean Streets program—\$917,000 in 2008 and \$702,000 in 2009.

EXPENSE BUDGET

Agency Overview. The Mayor's Preliminary Budget proposes \$135.8 million for the Department of Small Business Services in 2008, about \$4 million less than projected spending in the current fiscal year. City funds account for just over half (51.5 percent) of the 2008 budgeted expenditures, and almost all of the remainder is federally funded.

Typically, some federal aid that DSBS will receive is not reflected in the Preliminary Budget; additional federal funds will be added to the budget when they are actually received. IBO projects DSBS expenditures in 2008 will total \$143.8 million once all funds have been received. This estimate does not reflect, however, potential rollovers of unspent federal Workforce Investment Act (WIA) funds. While IBO expects that some WIA funds will be rolled over from 2007 to 2008, the amount to be rolled over cannot be estimated at this time. Much of the variation in the agency's budget in the past few years can be explained by these annual rollovers of WIA funds.

Also contributing to the variation is the significant share of project-based spending which is provided for at most a few years, much of it for work performed by the Economic Development Corporation (EDC), a public development corporation that technically is not a city agency. An example of such a project is EDC's current consulting work regarding the police department's South Brooklyn Marine Park facility (a shooting range). This work is being paid for by a DSBS contract with EDC, and the \$63,000 recently added to DSBS's 2007 budget for the contract is being funded by the police department through intra-city spending.

Effects of Key Budget Proposals

The Center for Economic Opportunity. The Center for Economic Opportunity (CEO) is an outgrowth of the Mayor's Commission on Economic Opportunity, which aims to improve the lives of the working poor. CEO comprises seven different programs related to workforce development, skills training, and general support services that DSBS is developing. The Preliminary Budget adds funding for these programs for 2007 and 2008 only: \$2.5 million and \$14.4 million of city funds, respectively. The Bloomberg Administration intends to evaluate how well the programs are being implemented; therefore, funding for 2009 on is now included in the miscellaneous section of the budget.

The CEO programs are intended to complement the workforce development activities and programs that are funded by the federal government through the Workforce Investment Act. WIA programs are generally geared toward placing people in jobs or job-specific training programs relatively quickly; the Workforce1 Centers funded through WIA are oriented toward immediate placement in specific job opportunities. WIA also imposes many restrictions as to how its funds are spent. In contrast, using city dollars permits

Department of Small Business Services				
Budget by agency program				
	2005	2006	2007 Current Modified	2008 Preliminary
Workforce Development				
WIA, Dislocated Worker Programs	\$17,707,156	\$13,084,134	\$12,276,224	\$14,749,606
WIA, Adult Training	30,873,344	31,874,973	27,396,279	37,618,999
One-Stop Job Centers, Business Centers	10,359,755	17,813,623	18,321,649	15,173,240
Other, WIA	1,539,470	2,128,808	3,568,225	3,775,594
Non-WIA Programs	-	-	2,494,000	14,455,800
TOTAL, Workforce Development	\$60,479,724	\$64,901,539	\$61,562,377	\$71,317,439
Neighborhood Economic Development				
General Neighborhood Development	\$3,266,612	\$6,240,226	\$6,872,169	\$3,780,734
Specific Neighborhoods	2,824,896	5,584,014	4,350,879	2,000,000
Empowerment Zones, Empire Zones	5,741,427	7,011,506	7,688,235	7,689,506
TOTAL, Neighborhood Economic Development	\$11,832,935	\$18,835,746	\$18,911,283	\$13,470,240
Business Assistance				
Minority- and Women-Owned Bus. Asst.	564,995	982,574	3,134,905	1,515,316
Other Procurement Assistance	122,802	136,633	56,532	0
Street Vendors & Micro-Enterprises	896,476	909,601	1,200,793	832,208
Garment Industry Development Council	436,000	336,000	558,000	231,300
Other	1,585,137	1,636,726	4,781,863	4,648,655
TOTAL, Business Assistance	\$3,605,411	\$4,001,533	\$9,732,093	\$7,227,479
Economic Development Corporation				
Specific EDC Projects	\$15,453,666	\$14,026,806	\$9,242,159	\$9,040,000
Other EDC	2,524,244	7,757,103	6,698,400	1,272,712
TOTAL, Economic Development Corporation	\$17,977,910	\$21,783,908	\$15,940,559	\$10,312,712
Miscellaneous, including Administration				
Film Office	\$1,533,354	\$1,565,230	\$1,853,723	\$1,878,382
NYC & Co. and Other Tourism Support	7,218,000	7,105,000	21,444,000	21,444,000
Markets and Security	192,447	201,309	208,855	212,850
Economic Policy	816,445	816,084	815,640	815,640
General Administration	4,620,309	6,084,598	9,043,662	9,138,450
TOTAL, Miscellaneous, including Administration	\$14,380,554	\$15,772,221	\$33,365,880	\$33,489,322
Unallocated Financial Plan Changes	-	-	\$1,808	\$1,808
GRAND TOTAL, SMALL BUSINESS SERVICES	\$108,276,534	\$125,294,947	\$139,514,000	\$135,819,000
Full-Time Staffing	199	201	214	266

SOURCES: IBO; Department of Small Business Services; Mayor's Office of Management and Budget.

greater flexibility in the types of services to be provided, to meet some of the needs identified by the Mayor's commission. For example, DSBS is budgeted to spend \$925,000 in 2007 and \$2.7 million in 2008 on CEO's Workforce Advancement and Support Centers, which will help clients access programs for more general skills development and workforce readiness. The centers also will help people obtain support services, most importantly child care, which the Mayor's commission highlighted as a critical need for the working poor.

CEO will also offer customized training grants to job seekers, adding \$240,000 to the DSBS budget in 2007 and \$3.4 million in 2008. An example of a less costly CEO activity is

the Food Stamp Employment and Training program, which will screen food stamp recipients for eligibility for training programs. The city hopes to leverage its spending on the program—\$189,000 a year in 2007 and 2008—to obtain matching federal dollars.

Most of the services offered by the CEO programs will be performed under contract with DSBS, and the city has begun the procurement process for contracting out the work. Still, the programs will increase DSBS headcount by 16 positions in 2007 and by 23 in 2008.

Mayor's Commission on Construction Opportunity. The Preliminary Budget contains two additions to DSBS's budget for activities to ensure employment opportunities in the construction industry for economically disadvantaged New Yorkers. Both fund programs developed by the Mayor's Commission on Construction Opportunity, established two years ago to work with the construction industry to improve access to permanent jobs for New Yorkers, particularly minorities, women, returning veterans, and new high school graduates.

The Preliminary Budget adds \$500,000 to DSBS spending in 2007 for its contract with STRIVE, an East Harlem-based organization that provides general skills and workforce readiness training. The contract, through EDC, is to prepare minority workers for jobs in the construction industry. This spending is an addition to the \$300,000 already budgeted in 2007 for the contract. The specific program STRIVE is providing is an outcome of the construction commission's recommendations.

The Preliminary Budget also added \$10,000 a year for DSBS's Division of Economic and Financial Opportunity (DEFO) to implement the construction commission's policies regarding minority employment. DEFO also has been given additional funding to monitor compliance with Executive Order 50, which gave DSBS the authority to monitor Equal Employment Opportunity compliance and workforce diversity on both public contracts and certain private development projects receiving public assistance.

Governors Island Preservation and Education Corporation. The Preliminary Budget proposes \$7 million to support the general operation of the Governors Island Preservation and Education Corporation (GIPEC), a New York State- and City-controlled entity responsible for the planning, redevelopment, and operation of the island. This expenditure would increase the city's annual support of GIPEC, which has been \$5 million a year since 2005, when control of Governors Island was transferred from the federal government to the state and city. DSBS had been expecting that the city's support of GIPEC, which is channeled through EDC, would increase over time as GIPEC's needs expand with the redevelopment of the island. In January, GIPEC selected five teams of architecture and landscape architecture firms to participate in a "design competition" for the development of the island's future public open space.

Minority- and Women-Owned Business Enterprise Program (MWBE). The November Plan added city funds to finance

the MWBE program's "Disparity Study" to measure the extent to which minority- and women-owned businesses are hooked into programs that publicize government procurement opportunities. The study, which is required by Local Law 129, will be done by consultants, and the contract for the study will be financed by new spending of \$202,000 in 2007 and \$306,000 in 2008.

Business and District Development Division. DSBS's Business and District Development division (B&DD) was formerly called the Neighborhood Economic Development division. The Preliminary Budget adds funding for a new B&DD program, Business Express—an Internet-based service providing information on permits, licenses, regulations, incentive programs, etc. to small businesses. To fund two new positions for the program, \$126,000 has been added to DSBS spending each year, starting in 2008, plus a smaller amount in the current year. Business Express is an outgrowth of 311 for Business, a telephone-based information service. The budget also adds funding for B&DD's Clean Streets program—\$917,000 in 2008 and \$702,000 in 2009.

CAPITAL BUDGET

Agency Overview. EDC, under contract with DSBS, manages almost all of the city's economic development projects. These projects entail commercial and industrial development, neighborhood rehabilitation, modernization and reconstruction of markets, port and rail development, and waterfront development, including piers reconstruction.

The capital plan accompanying the 2008 Preliminary Budget calls for \$2.1 billion in capital spending on economic development projects from 2007 through 2010. Most of the commitments for the four years—\$1.5 billion, or 68.2 percent—are for 2007. However, as in the past, it is likely that a large portion of the planned spending will not occur in 2007 and will have to be reauthorized at a later date. (A year ago, planned commitments for 2006 were \$718 million, though actual commitments for the year totaled only \$168 million.)

Non-city Funded Projects. City funds account for \$1.8 billion, or 85.6 percent, of planned capital commitments. Non-city funds cover part or all of the cost of only a handful of the hundreds of economic development projects listed in the capital plan. Several projects for Lower Manhattan are to be funded with non-city money, as are others that concern transportation and/or the waterfront. These projects, with the planned commitments for 2007 and 2008, include:

- Financial District Security, \$19.4 million of non-city funds

- East River Waterfront, Lower Manhattan, \$138 million non-city funds
- East River Science Park, \$27 million non-city funds
- Brooklyn Rail Improvements, \$16.7 million non-city funds
- Bush Terminal, \$27.4 million non-city and \$8.3 million city funds
- Jamaica Station and Airport Access Improvements, \$25 million non-city funds
- South Bronx Greenway, \$5.4 million non-city and \$22.3 million city funds
- Staten Island North Shore Esplanade, \$3.8 million non-city and \$0.4 million city funds.

Key Capital Projects

Javits Center Expansion. The expansion of the Javits Convention Center remains the most costly project in the capital plan—\$350 million of commitments planned for 2007. Under a memorandum of understanding agreement, this amount of money is the city's obligation to the \$1.7 billion cost of first phase of the project, which will double the size of the center.

Atlantic Yards. The capital plan now includes \$205 million in city funds for site development and offsite infrastructure of the Atlantic Yards project, \$100 million of which is in the economic development part of the plan. A year ago \$50

million was scheduled for 2006 and 2007 each, but the entire amount is to be committed for 2007 in the current plan.

Governors Island Preservation and Redevelopment. The capital plan commits \$22.7 million in 2007 and \$37.5 million in 2008 to support GIPEC's preservation and redevelopment projects on Governors Island. Initially, capital funds will be used to restore existing infrastructure. Later on, once a comprehensive redevelopment plan for the island is selected, capital spending will support new construction as well. The city's capital plan also includes \$52.5 million of commitments after 2008.

Piers, Bulkheads and Waterfront Development. A large share of the capital plan is devoted to projects that restore or develop the piers, bulkheads, recreation areas, and transportation facilities of the city's waterfront. The plan provides a total of \$75.3 million in 2007 and 2008 for projects specifically designated for piers and bulkheads, plus another \$7 million in "contingency" funding. The plan also calls for spending on various projects to create or enhance esplanades, bikeways, and other recreational facilities on the waterfront, such as the South Bronx Greenway and Staten Island Esplanade (listed above), and the Harlem River Esplanade (\$3.5 million). Several projects involve the Passenger Ship Terminal on Manhattan's West Side, and planned commitments for that site total \$163 million in 2007 and 2008.

Department of Finance (DOF)

PRELIMINARY BUDGET HIGHLIGHTS

- The Preliminary Budget calls for a \$5.0 million increase in DOF's expense budget from 2007 to 2008. Over half of the increase results from additional spending on management consultants for SMART, an agencywide program to manage and improve agency performance.
- Planned capital commitments for several data processing projects to strengthen DOF operations and enhance services total \$74.2 million in the current year, but most of the commitments will be deferred until 2008 or beyond.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes \$215.1 million in Department of Finance spending in 2008, \$5.0 million (2.4 percent) more than the current estimate for 2007. Recent collective bargaining agreements account for \$2.1 million of the increase. The 2008 budget is likely to increase slightly during the upcoming fiscal year when additional intra-city funds for the services of the Sheriff's office are recognized. (In the November Plan, \$621,000 of these funds was added to the current DOF budget.)

In recent years, DOF's budget has been fairly stable, both in total annual expenditures and in the proportions devoted to various programs. Spending on the department's management information system, which had grown significantly through 2004, now accounts for 35 percent of DOF spending.

Additional SMART Expenditures. About half of the \$5.0 million increase in planned DOF expenditures from 2007 to 2008 is due to added spending on SMART, a long-term program to improve agencywide performance. The basic idea behind SMART is that greater transparency of the city's revenue collection system combined with convenience and fair treatment of "customers" will increase public compliance with paying taxes, fines, and other debt, cutting DOF costs. DOF is working with outside consultants on an ongoing basis to implement SMART by engaging employees to provide better service and reduce errors, and by developing results-based performance measures for more effective management. The Preliminary Budget adds \$2.5 million in 2008 and \$1 million in 2009 for consultants. The new SMART spending is expected to pay for itself by increasing revenues through greater public compliance, so the department's 2008 and 2009

revenue budgets have been increased by amounts equal to the added spending.

REVENUE BUDGET

Agency Overview. Most of the taxes DOF collects are formally part of the responsibility of the Mayor's office, and the forecasts of tax receipts are part of that office's revenue budget, not DOF's. But the department also has its own revenue budget, comprising receipts from many other sources. Receipts from DOF tax audits and parking violations fines account for most of DOF's budget revenue—92 percent of a total of \$1.4 billion collected in 2006. Other major revenue sources include moving violation fines, City Register fees, sidewalk assessments, and some Environmental Control Board fines.

In recent years, DOF has realized budgetary savings through revenue initiatives, not through expenditure cuts as most agencies do. These initiatives have included a tax amnesty program, better selection of business tax returns for auditing, reducing errors in the issuing of parking summonses, and increased fees for certain services.

SMART Revenue Program. As noted in the preceding section, the Preliminary Budget increases 2008 and 2009 spending on SMART. Because SMART spending is expected to pay for itself, the Preliminary Budget increases DOF revenues by amounts equal to the new spending—\$2.5 million in 2008 and \$1.0 million in 2009.

CAPITAL BUDGET

Agency Overview. Capital projects affecting DOF operations generally entail purchasing and installing data processing equipment and systems in order to provide information and services to the public more efficiently, and to integrate DOF operations with those of other city agencies. The Capital Budget does not include a separate section for DOF projects, so they are listed with other data processing projects.

These projects are funded entirely by the city, and planned commitments for them total \$74.2 million in 2007 and \$800,000 in 2008. Actual commitments during these years, however, are likely to be much lower, as well as to be made more evenly over the two years. Most of this year's planned commitments had been deferred from 2006, when only \$16.8 million of commitments were actually made (compared to \$45.4 million in planned commitments for the year).

Department of Finance				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Property Tax				
Assessment	\$13,765,368	\$13,146,620	\$15,755,995	\$16,074,908
Other	10,735,905	10,764,801	10,532,249	10,549,625
TOTAL, Property Tax	\$24,501,273	\$23,911,421	\$26,288,244	\$26,624,533
Other Revenue Collection				
Parking Violations Bureau	\$12,080,342	\$10,484,733	\$13,241,109	\$15,372,154
General	23,684,720	26,116,359	27,098,792	27,319,271
Auditing	21,556,006	20,868,959	23,786,302	24,261,776
City Sheriff	15,152,928	16,632,262	15,073,718	14,511,281
TOTAL, Other Revenue Collection	\$72,473,997	\$74,102,313	\$79,199,921	\$81,464,482
MIS and Other Operations	\$74,314,817	\$69,460,271	\$73,534,861	\$77,321,786
Miscellaneous, including Administration				
Tax Appeals Tribunal	\$1,493,896	\$1,414,988	\$1,597,970	\$1,619,929
Taxpayer Assistance, n.e.c.	5,321,980	4,949,335	3,434,212	3,434,212
Treasury	5,251,192	5,527,205	5,306,089	3,988,087
Tax Policy Analysis	1,243,120	1,228,692	1,201,154	1,250,454
Legal	3,990,300	3,930,093	3,876,344	3,969,762
General Administration	13,555,757	14,150,959	14,467,933	14,307,746
TOTAL, Miscellaneous, including Administration	\$30,856,244	\$31,201,272	\$29,883,702	\$28,570,190
Unallocated Financial Plan Changes	\$0	\$1,851,808	\$1,204,272	\$1,164,985
GRAND TOTAL, Department of Finance	\$202,146,330	\$200,527,085	\$210,111,000	\$215,145,976
Full-Time Staffing	2,155	2,103	2,084	2,254

SOURCE: IBO.

Key Capital Projects

ACRIS. This project is converting deed, mortgage, and other City Register documents from paper to digital images, to make them available to the public online. Planned commitments from the current Capital Budget are \$21.5 million in 2007 and \$800,000 in 2008. ACRIS has been underway for several years and is now operating and providing services, with user fees, not the Capital Budget, covering a greater share of ACRIS operating costs. The system has developed to the point where the city is attempting to sell large batches of enhanced images to information firms, which in turn will create large databases for commercial resale.

NYCServ. NYCServ is a wide-scale project to consolidate collection, payments, licensing, and adjudication processes across several city agencies. Planned commitments for it total \$50.2 million in 2007.

SPAZM. The Street Properties and Zoning Map, or SPAZM, is to be used by DOF's property tax division, in coordination with other city agencies, such as the Department of City Planning. The project's planned commitments for 2007 are \$2.0 million.

Department of Parks and Recreation (DPR)

PRELIMINARY BUDGET HIGHLIGHTS

- **Baseline Increases.** The Mayor's Preliminary Budget for 2008 adds \$14.2 million per year to the parks department's "baseline" budget, including funds for Parks Enforcement Patrol (PEP) officers, gardeners, seasonal positions, and street tree pruning that in past years have been funded by the City Council at budget adoption.
- **Additional Maintenance Positions.** In addition to the baseline increases, the Preliminary Budget provides \$4.3 million per year for additional maintenance staff in parks and playgrounds, and adds \$2.9 million per year for anticipated needs for new parks.
- **Flushing Meadows/Corona Park Pool and Ice Rink.** The budget provides \$2.2 million for 50 full-time positions for the newly opened Flushing Meadows/Corona Park pool and ice rink.
- **Increase in City Contribution to Central Park.** The city's matching contribution for funds raised from concession operations in Central Park is increased by \$2.0 million.
- **Additional Needs for Croton Filtration Plant Projects.** The Preliminary Budget baselines 23 current positions assigned to work on Croton filtration capital projects, and 22 maintenance and operations staff, funded by the Department of Environmental Protection.

EXPENSE BUDGET

Agency Overview. The Mayor's 2008 Preliminary Budget for the parks department is \$334.1 million, an increase of \$27.1 million over the budget adopted for 2007. This is the first increase in the department's proposed budget relative to the prior year's Adopted Budget in many years. Nearly half of the budgeted increase results from the addition of \$13.4 million to fund contract settlements with various unions. These funds have yet to be allocated.

The parks department budget has increased substantially over the last few years. IBO projects spending of \$344.6 million for 2008 (accounting for the expected receipt of federal, state, and private grant funds)—an increase of nearly 12 percent over 2006 final spending, and 20 percent over 2005. In addition, the number of full-time positions has increased from fewer than 2,000 as of June 30, 2006, to nearly 3,100 by December,

with another approximately 500 full-time positions budgeted for 2008. Including the full-time equivalent (FTE) of seasonal and part-time employees, planned parks staffing will rise to nearly 7,000 FTE in 2008, compared to 6,500 at the end of fiscal year 2006.

Effects of Key Budget Proposals

Baseline Increases. The Mayor's Preliminary Budget and Financial Plan adds \$14.2 million to the parks department's baseline budget beginning in 2008 for programs that in recent years have been funded by the City Council at budget adoption, including:

- \$3.0 million for 81 Parks Enforcement Patrol officers, bringing the total number of budgeted PEP officers to 217;
- \$1.5 million for an additional 35 assistant gardeners, for a total of about 115 full-time gardeners and assistant gardeners;
- \$7.3 million for seasonal recreation positions at beaches, pools, and playgrounds;
- \$2.5 million for street tree pruning contracts and stump removal.

Additional Maintenance Positions. In addition to the baseline increases, the Preliminary Budget provides \$4.3 million for 62 full-time positions for parks maintenance and cleaning, and 40 new full-time workers to maintain playground equipment. The budget also provides \$2.9 million per year for 34 new positions to meet anticipated needs for planned new parks and facilities. The Financial Plan maintains these increases in the projected baseline parks budget through 2011.

Flushing Meadows/Corona Park Pool and Ice Rink. The budget provides \$2.2 million for 50 full-time positions for the newly opened Flushing Meadows/Corona Park pool and ice rink. Funding is provided from an \$8 million trust account created by the United States Tennis Association (which has since risen to \$12 million). DPR will use accumulated and on-going interest earnings to fund operations of the pool and ice rink.

Increase in City Contribution to Central Park. Based on an agreement with the Central Park Conservancy, which operates and maintains Central Park under a contract with the city, the city matches 50 cents on each dollar raised from concession operations in Central Park above \$6 million. The department anticipates a total matching requirement of \$4.0 million in 2008.

Department of Parks and Recreation				
Budget by agency programs				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration and Capital				
Central Administration	\$30,017,575	\$30,877,808	\$34,092,128	\$33,296,465
Borough Administration	4,045,506	4,208,042	3,321,762	3,347,630
Capital Projects	18,717,001	19,866,425	25,768,838	26,100,790
TOTAL, Administration & Capital	\$52,780,081	\$54,952,275	\$63,182,728	\$62,744,885
Maintenance & Operations				
Central Maintenance & Operations	\$81,095,555	\$88,827,065	\$99,066,013	\$92,243,958
POP Program Funding	34,912,704	44,254,065	44,268,127	46,750,219
Borough Maintenance & Operations	105,566,558	111,582,431	116,667,574	117,518,080
Central Park Zoo	10,150,464	9,274,428	7,373,428	9,878,428
TOTAL, Maintenance & Operations	\$196,812,577	\$209,683,925	\$223,107,015	\$219,640,466
Recreation Services				
Central Recreation Services	\$1,900,781	\$7,446,408	\$6,562,288	\$953,320
Borough Recreation Services	16,694,285	12,760,708	13,678,979	13,416,148
TOTAL, Recreation Services	\$18,595,066	\$20,207,116	\$20,241,267	\$14,369,468
Forestry & Horticulture				
Forestry & Horticulture	\$3,945,766	\$4,987,480	\$6,977,795	\$6,564,308
Asian Longhorned Beetle	3,229,699	4,989,847	5,110,067	4,849,067
TOTAL, Forestry and Horticulture	\$7,175,464	\$9,977,327	\$12,087,862	\$11,413,375
Urban Park Service				
Urban Park Service	\$2,017,795	\$1,584,716	\$1,951,205	\$1,982,211
Parks Enforcement Patrol	9,704,873	11,797,195	12,862,549	10,516,168
TOTAL, Urban Park Service	\$11,722,668	\$13,381,911	\$14,813,754	\$12,498,379
Unallocated Collective Bargaining Increases	-	-	\$9,498,608	\$13,403,153
IBO Reestimate of State, Federal, and Private Grants	-	-	\$2,000,000	\$10,500,000
GRAND TOTAL, PARKS & RECREATION	\$287,085,857	\$308,202,553	\$344,931,234	\$344,569,726
Full-Time Staffing	1,838	1,895	3,472	3,593
Full-Time Equivalents*	4,693	4,599	3,618	3,385
TOTAL, FT and FTE	6,531	6,494	7,090	6,978
SOURCES: IBO; Mayor's Office of Management and Budget.				
NOTE: *Full-time equivalent figures for 2005 and 2006 are as of May 31; full-time staffing is as of June 30.				

Additional Needs for Croton Filtration Plant Projects. To mitigate the impact of constructing a water filtration plant for the city's Croton watershed on the site of the Moshulu golf course in Van Cortlandt Park, the city agreed to provide \$200 million for capital projects in parks in the Bronx. The 2008 Preliminary Budget funds 23 positions assigned to work on Croton filtration capital projects, and 22 forestry staff, funded by the Department of Environmental Protection.

Agency Program Highlights

Rising Full-Time Staffing. Beginning with the 2007 Executive Budget, which reclassified 894 per-diem staff and 52 seasonal employees to full-time status, the number of full-time parks department employees has been steadily increasing. Full-time

staffing rose from less than 2,000 positions in May of 2005 to over 3,000 by September, with projected full-time headcount of almost 3,500 positions by the end of the current fiscal year in June. Total staffing, including seasonal and part-time positions, expressed as full-time equivalents, will rise from about 6,500 in 2006 to about 7,000 by the end of the current year and beyond.

Maintenance and Operations. The increase in budgeted full-time maintenance and operations staffing reflects increased baseline funding of 279 full-time positions in borough maintenance and operations budgets, compared to the 2007 modified budget. The increase assumes lower average salaries (presumably for the number of new employees to be hired) but only minimal decreases in funding for seasonal and part-time positions.

Department of Parks and Recreation Full-time Staffing by Program Area

	2005	2006	2007 Budgeted	2008 Budgeted
Maintenance & Operatic	1,248	1,275	2,021	2,300
Recreation Services	68	78	228	340
Capital Projects	277	308	434	434
Forestry & Horticulture	45	49	91	111
Urban Park Services	4	5	30	30
Parks Enf. Patrol	53	49	167	217
Administration	143	131	159	161
TOTAL	1,838	1,895	3,130	3,593

SOURCE: IBO.

NOTE: 2007 Current Modified budget prior to January Plan modifications.

Recreation Services. The decrease in total funding in recreation services is largely attributable to the fact that only \$23,503 in funding for Out-of-School Time (OST) programs is currently included for 2008; it is funded at \$5.3 million in the 2007 budget. The OST program provides what the parks department considers to be core recreation center staff and programming. The funding was formerly provided by a grant from HRA, but for the last three years this source was not available, and the parks department has sought to find a grantor to continue funding, so far without much success. If no grantor is found this year before the budget is adopted in June, the city will most likely provide funding at the current level.

The 2008 Preliminary Budget funds an additional 112 full-time positions for recreation services, paid for by a reduction in funding for seasonal and part-time positions. Many of these positions were so-called “year-round” seasonal employees on contract who will be shifted to permanent agency lines.

Parks Enforcement Patrol. Funding for PEP in the 2008 Preliminary Budget provides for a total of 217 full-time positions. The City Council added \$3.0 million to the 2007 Adopted Budget for part-time positions. The Mayor's baseline increase of \$3.0 million covers 81 full-time positions. Grant funding for 38 Hudson River Park PEPs in the 2007 budget is not included in 2008, but will probably be restored in the state budget.

Forestry & Horticulture. Funding for forestry and horticulture programs is at about the same level in the 2008 Preliminary Budget as it was in the 2007 Adopted Budget. This reflects baselining in 2008 of \$2.5 million for tree pruning and tree stump removal contracts added by the City Council to the 2007 Adopted Budget. Funding for Asian Longhorned Beetle programs is at approximately the same level as in 2007, about \$4.9 million. The parks department has added 22

positions for forestry projects related to the Croton Filtration plant, funded through the Department of Environmental Protection.

Capital Project Management. Although there is no change in the number of currently budgeted staff for capital projects, 18 staff will be re-allocated from Yankee Stadium-related work to projects related to development of parks and open space in the recently rezoned Greenpoint-Williamsburg section of Brooklyn.

CAPITAL BUDGET

Agency Overview. Capital commitments by the parks department averaged just under \$200 million annually from 2000 through 2005. In 2006, commitments increased to \$300 million. Altogether, DPR committed nearly \$1.5 billion in capital funds from 2000 through 2006. The January Capital Commitment Plan projects \$1.8 billion in capital spending from 2007 through 2010, with an additional \$423.6 million from 2011 through 2017 projected in the preliminary 10-year capital strategy.

Large, Major, and Regional Parks. Nearly 40 percent of total commitments from 2000 through 2006—\$580 million—went to develop and reconstruct large, major, and regional parks, including Hudson River Park, East River Park, Brooklyn Bridge Park, Randall's Island, the Highline, Flushing Meadows/Corona Park, Battery Park, and redevelopment of the Coney Island boardwalk, among others. The 2007-2010 commitment plan provides \$1.0 billion for large, major and regional parks. Major projects include funding for continued development of the Highline (\$104.0 million), Hudson River Park (\$68.3 million), Randall's Island infrastructure (\$103.6 million), and Brooklyn Bridge Park (\$48.7 million); reconstruction of the Wollman skating rink in Prospect Park (\$24.0 million); development of the Ferry Point Waterfront Park in the Bronx (\$51.0 million); development of waterfront parks in the recently rezoned Greenpoint/Williamsburg section of Brooklyn (\$134.6 million); and development of the Fresh Kills site into a regional park (\$135.9 million).

Neighborhood Parks. Another \$386 million in capital spending went for projects in neighborhood parks and playgrounds from 2000 through 2006. The capital plan projects \$298.8 million in commitments through 2010. This total includes \$52.8 million for requirements contracts, which allow the city to purchase equipment and services for citywide needs from a single source.

Department of Parks and Recreation Capital Commitments

Dollars in millions

	Actual Commitments, 2000-2006	Planned Commitments, 2007-2010
Large, Major & Regional Parks	\$579.5	\$1,009.6
Neighborhood Parks & Playgrounc	386.0	298.8
Major Recreational Facilities	227.6	381.0
Land Acq. & Tree Planting	124.4	69.2
Vehicles/Eqpmt/Facilities	118.3	47.2
Beaches & Boardwalks	26.2	12.1
Zoos	11.6	16.9
TOTAL	\$1,473.6	\$1,834.9

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

Major Recreation Facilities and Sports Stadiums. The parks department committed \$228 million in capital funds for major recreational facilities between 2000 and 2006, including \$21.5 million for construction of the new Corona Park swimming pool and hockey rink—with another \$35.4 million

planned to complete the project this year—and \$20 million for the Chelsea Recreation Center. The city is also responsible for maintenance at Shea and Yankee stadiums, and spent \$81 million on capital improvements from 2000 through 2006. The city plans \$381.0 million in commitments during the 2007-2010 plan period, including \$91.9 million for infrastructure projects related to construction of the new Mets stadium, and \$192.9 for infrastructure for the new Yankee Stadium.

Spending for land acquisition and tree planting totaled \$124 million from 2000 through 2006, at least one-third of which was acquisition of parkland in Staten Island. Roughly \$42 million went for tree planting in parks and along streets. The plan envisions spending of roughly \$8 million per year for this purpose, with some additional land acquisition planned for Lemon Creek Park in Staten Island (\$12.5 million) and other sites.

Department of Sanitation (DSNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **Recycling Initiatives under the Solid Waste Management Plan Funded.** The 2008 Preliminary Budget provides additional funding for the new Office of Recycling Outreach and Education (OROE), and funds a pilot program placing recycling bins in public places in 2007.
- **Personnel Actions.** Collective bargaining agreements add \$18.8 million a year to the DSNY budget in 2007 and 2008. The budget also provides funding for an additional 64 supervisor positions.
- **Waste Disposal Contingency.** Due to regulatory delays in the Fresh Kills closure plan, and to continuing negotiations for long-term export contracts, the Financial Plan adds a \$15 million contingency fund to the 2008 budget, growing to \$115 million by 2011.

EXPENSE BUDGET

Agency Overview. The Department of Sanitation preliminary budget for 2008 projects a slight (1.6 percent) increase over 2007 current modified levels, to \$1,249.7 million. This would follow a \$134.8 million (12.3 percent) increase for the current year over 2006.

Effects of Key Budget Proposals

Office of Recycling Outreach and Education. The 2008 Preliminary Budget provides a total of \$1.06 million in 2008 and beyond for the new Office of Recycling Outreach and Education, created as a condition for approval by the City Council of the Solid Waste Management Plan (SWMP), which was given state approval last November. The Office is housed within the Mayor's Council on the Environment, and will assume responsibility for policy and program development, education, expansion, enforcement, and other initiatives to promote recycling.

Public Recycling Pilot Program. The department included \$250,000 in 2007 for a pilot program to place recycling bins in public places such as parks, transportation hubs, and pedestrian-heavy streets. If the program is deemed successful it will be continued in future years.

Collective Bargaining. Settlement of contracts with the

Uniformed Sanitation Officers Association, representing sanitation workers, and other DSNY unions, will add \$18.8 million to annual costs this year and next.

Supervisor Positions. The Preliminary Budget provides \$271,000 in 2007, growing to \$1.4 million in 2008, to fund 64 new uniformed supervisory positions in the agency's collection and cleaning division. The department expects this action to reduce overtime spending; it also expects to realize productivity savings by increasing the number of collection trucks covered by each supervisor from six to seven.

Waste Disposal Contingency. Although waste export contracts are budgeted for modest growth in the 2008 budget (to \$296.0 million, from \$290.3 million this year), long-term waste export contracts are still under negotiation, leaving the eventual cost per ton to ship the city's waste to landfills and incinerators outside the city still unknown. In addition, state regulators have been slow to provide final approval of the city's closure and remediation plans for the Fresh Kills landfill, leading to delays and uncertainty about the ultimate cost of this as well. As a result, the 2008 Preliminary Budget provides a \$15 million contingency in the waste disposal budget, rising to \$50 million in 2009, \$80 million in 2010, and \$115 million in 2011.

Agency Programs

Collection and Cleaning. The department's principal costs are for the collection of refuse and recycling citywide, and for street cleaning operations. Spending for this function in 2007 is set to rise by 9.2 percent over the 2006 level, to \$586.1 million, with a slight decline to \$581.7 million in 2008. The number of uniformed sanitation workers has risen over the last two years, from 7,619 at the end of 2005 to 7,917 as of December 31, 2006, while salary increases have also gone into effect—resulting in an increase of \$60.5 million agencywide since 2005 for wages for uniformed workers (excluding overtime and other pay differentials). Ninety-seven percent of agency uniformed personnel work in cleaning and collection.

Rising Fuel Costs. Increases in the area of “agency administration and support” largely reflect growth in the agency's motor vehicle fuel costs, and in heat, light, and power. Spending for motor vehicle fuel has risen 44 percent since 2005, to \$27.7 million agencywide in 2007.

Recycling. As part of its approval of the Solid Waste

Department of Sanitation (DSNY)				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Cleaning and Collection Operations				
Executive Administration*	\$39,936,424	\$41,571,974	\$181,287,775	\$177,143,422
Collection, Street Cleaning, and Field Support*	440,963,964	475,927,486	386,920,347	386,920,347
Lot Cleaning	11,297,606	12,064,549	13,629,332	13,425,857
Safety & Training, Aux.				
Field Force, Derelict Vehicle Ops.	6,599,546	7,210,402	4,231,989	4,231,989
Total, Cleaning and Collection	\$498,797,541	\$536,774,411	\$586,069,443	\$581,721,615
Recycling				
Metal, Glass and Plastic Processing Fees	12,707,229	12,978,464	14,228,565	15,000,000
Office of Recycling Outreach and Education	-	-	665,713	1,061,600
Total, Recycling	\$25,816,625	\$25,150,598	\$28,068,531	\$27,634,889
Waste Disposal				
Waste Management Facilities & Long Term Export	\$5,665,459	\$6,360,308	\$8,247,878	\$6,882,671
Waste Disposal Operations				
Bureau of Waste Disposal				
Operations & General	14,508,142	14,665,232	19,469,442	19,151,679
Waste Export Contracts	258,460,214	270,231,555	290,287,885	296,013,828
Transfer Stations	4,425,288	4,761,896	7,803,159	7,803,159
Landfill Closure Operations	17,447,034	16,224,212	44,575,000	52,191,801
Waste Disposal & Landfill Closure Contingency	-	-	-	15,000,000
<i>Subtotal, Waste Disposal Operations</i>	<i>\$294,840,677</i>	<i>\$305,882,895</i>	<i>\$362,135,486</i>	<i>\$390,160,467</i>
Total, Waste Disposal Operations	\$300,506,136	\$312,243,204	\$370,383,364	\$397,043,138
Enforcement	\$11,115,272	\$11,596,138	\$17,511,806	\$16,467,823
Agency Administration & Support				
Agency Administration	\$70,421,062	\$80,532,985	\$92,721,330	\$91,639,422
Community Services	1,584,221	1,615,667	1,860,189	1,860,189
Bureau of Building Management	14,252,019	16,222,082	17,162,875	17,382,332
Bureau of Motor Equipment	68,771,726	71,919,753	78,911,492	80,334,858
Total, Agency Admin & Support	\$155,029,028	\$170,290,487	\$190,655,886	\$191,216,801
Snow Removal	\$43,681,151	\$38,838,842	\$36,969,018	\$35,646,381
GRAND TOTAL, DSNY	\$1,034,945,754	\$1,094,893,681	\$1,229,658,048	\$1,249,730,647
Full-time Staffing				
Uniformed	9,531	9,698	9,992	10,084
Civilian	7,619	7,733	7,917	7,775
	1,912	1,965	2,075	2,309

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

NOTE: *Overtime and other pay differentials are budgeted centrally under Executive Administration, and transferred as needed to Cleaning and Collection to cover actual expenses.

Management Plan last year, the City Council created a new Office of Recycling Outreach and Education, housed outside of the sanitation department, to promote recycling efforts in the city. Since the recycling program was partially suspended in 2003, the diversion rate—the share of the total waste stream handled by DSNY that gets recycled—has not completely

returned to its pre-suspension level. With the price of waste export rising, an increase in the recycling diversion rate may help lower the city's total bill for waste management as the differential in the cost per ton for handling recycling versus exported waste narrows. The new office will develop policies and programs to promote recycling, undertake outreach and

Sanitation and Recycling Violations and Fines Paid				
	2003	2004	2005	2006
Violations Issued				
Sanitation	360,957	304,111	278,833	376,378
Recycling	107,013	107,064	125,861	143,902
Total	467,970	411,175	404,694	520,280
Penalty Payments Received <i>Dollars in millions</i>				
Sanitation	\$16.5	\$21.6	\$21.1	\$28.7
Recycling	2.2	2.5	2.7	3.2
Total	\$18.8	\$24.1	\$23.8	\$31.9

SOURCES: IBO; Environmental Control Board.

education initiatives, and advocate for recycling expansion and enforcement of recycling laws. The office is funded at \$666,000 this year, and \$1.06 million annually beginning in 2008.

The city pays a fee to its vendor, Hugo Neu, for its metal, glass, and plastic recyclables. In 2005 the city paid \$51 per ton from July through March, then \$53 per ton through June. The price rose to \$55 per ton in April 2006, and rises to \$57 this year. In contrast, the city receives revenue for recycled paper, although the average price has fallen from \$16 per ton in 2005 to under \$10 per ton in 2006; with the Bloomberg Administration apparently anticipating a similar price this year and in 2008.

Waste Disposal. Waste export contracts, which rose 7 percent in 2007 (from \$270.2 million to \$290.3 million) as the result of renegotiating several contracts, are budgeted for modest growth of less than 2 percent in 2008, to \$296.0 million. The department is still in the process of negotiating long-term waste export contracts, and the final prices and annual escalation factors are not yet settled.

The state Department of Environmental Conservation has delayed final approval of the city's plans for closing the Fresh Kills site, raising concerns about the city's long-term monitoring plan. This year the department has budgeted \$44.6 million for closure construction and monitoring, and \$52.2 million next year.

To address the uncertainties around long-term export costs and the ultimate cost of closing and environmental monitoring at Fresh Kills, the 2008 Preliminary Budget provides a \$15 million contingency in the waste disposal budget, which rises

to \$50 million in 2009, \$80 million in 2010, and \$115 million in 2011.

In addition to export contracts, the cost of operating the city's waste transfer stations will rise by \$1.5 million this year, to \$7.8 million, to reflect the opening of the Staten Island Transfer Station in November, 2006.

Enforcement. The 2007 budget funded 58 new sanitation enforcement agents, to reduce illegal dumping, increase recycling, and strengthen enforcement of compliance with city sanitation laws. Budgeted 2007 spending for enforcement is \$17.5 million (including \$980,000 for vehicle purchases), more than 50 percent above 2006 spending of \$11.6 million. The Preliminary Budget provides \$16.5 million for enforcement.

Issuance of sanitation and recycling violations had already increased substantially in 2006, after declines in 2004 and 2005. Even with the decline in issuance, the doubling of penalties for sanitation violations brought in more revenue.

CAPITAL BUDGET

Agency Overview. Planned capital commitments for the Department of Sanitation over the next four years total \$1.5 billion—more than three times the \$512 million committed over the last four years.

The largest component of the plan—\$600.8 million—is devoted to construction, reconstruction, and site acquisition for sanitation garages, including \$172.3 million for construction of a new garage on East 73rd Street in Manhattan and \$172.0 million for the new Westside garage for districts 1, 2 and 5. Funding is also included for construction of the district 3/3A garage in Brooklyn (\$47.6 million), and for site acquisition (\$112.8 million). Finally, the plan provides \$62.0 million for reconstruction and improvements to existing garages and other facilities.

Recycling Tonnage and Revenues/(Costs)				
	2005	2006	2007	2008
Paper				
Tons	415,083	398,908	n.a.	n.a.
Revenue	\$6,654,533	\$3,929,425	\$3,600,000	\$3,600,000
Metal, Glass, and Plastic				
Tons	246,637	242,568	n.a.	n.a.
Processing Fees	(\$12,707,299)	(\$12,978,464)	(\$14,228,565)	(\$15,000,000)

SOURCES: IBO; Department of Sanitation.
NOTE: 2007 and 2008 are budgeted.

The department replaces its collection trucks and other vehicles on a regular cycle. The commitment plan provides \$485 million for replacement of trucks and other vehicles over the next four years.

With the approval of the Solid Waste Management Plan last November, the department has begun the design and construction of the four marine transfer stations authorized in the SWMP. Construction costs range from \$79 million (East

91st Street) to \$92 million (Hamilton Avenue, Brooklyn), and total \$367 million, including an \$18 million contract for construction management. The commitment plan also provides \$33.6 million for development of the Southwest Brooklyn recycling facility to be built and operated by Hugo Neu.

Other costs include development of the Fresh Kills end-use plan (\$7.1 million), and acquisition of new radio and computer equipment, for \$59.0 million.

Public Libraries

EXPENSE BUDGET

Agency Overview. New York City provides general operating support to each of the city's three public library systems: the New York Public Library, which operates the branch libraries in Manhattan, the Bronx, and Staten Island, and the research libraries; the Queens Public Library; and the Brooklyn Public Library. Each system has extensive autonomy in deciding how to budget those funds. Unless otherwise noted, the balance of this section treats the three systems as a single entity.

The vast majority of library spending is funded by the city. In 2006, city subsidies made up approximately 85 percent of spending by the combined library systems. When the current 2007 budget was adopted, the Mayor and City Council agreed to recognize funding that the Council had traditionally added to the libraries' budget and "baseline," or incorporate, that amount in all the years of the Financial Plan, thus ending the annual ritual of nonrecurring Council restorations.

These city subsidies have fluctuated in recent years. When measured from the 2002 level to the projected 2008 level there has been only modest change, with the city subsidy increasing by 9.1 percent over the period, which has not kept up with inflation. However, there were big year-to-year swings in funding levels during this period. Library subsidies fell nearly 10 percent in 2003, but then rebounded, rising 2.7 percent in 2004 and 5.8 percent in 2005. With the city's improved fiscal condition, funding for 2007 has increased by 7.6 percent over 2006, and is now expected to total \$281.1 million. The

Bloomberg Administration's current projection for 2008 is for spending to fall to \$278.4 million, a decline of 0.9 percent from the 2007 level.

2008 January Plan Prepayment. The city's subsidy payments to the independent library systems are one of the expenses that the city can prepay when it is looking to transfer surpluses from one fiscal year to the next. In recent years, with the city experiencing large surpluses, a portion of the library systems' subsidies have often been prepaid before the start of the fiscal year. In 2007, the library systems had a combined prepayment of \$224.8 million.

CAPITAL BUDGET

The current capital plan has capital commitments for 2007 through 2010 totaling \$250.4 million, a 5.9 percent decrease from the September Capital Commitment Plan.

The majority of the capital funding for all three library systems goes to the renovation of existing facilities, with lesser amounts for site acquisition and construction, including: \$23.2 million for the reconstruction of the New York Public Library's Central Building, \$12 million for branch construction in Kensington, \$8.2 million for construction of a new branch called Macomb's Bridge, \$7.6 million to expand an existing branch in Stapleton, and \$14.8 million for the expansion of the Elmhurst library.

Public Libraries				
Budget by system				
	2005	2006	2007 Current Modified	2008 Preliminary
New York Public Library	\$94,736,590	\$96,463,517	\$106,563,000	\$105,703,000
New York Public Library - Research	\$18,154,280	\$19,033,883	\$20,409,000	\$20,062,000
Brooklyn Public Library	\$70,286,355	\$73,841,011	\$78,200,000	\$77,432,000
Queens Public Library	\$66,833,588	\$71,801,942	\$75,913,000	\$75,226,000
GRAND TOTAL, Public Libraries	\$250,010,813	\$261,140,353	\$281,085,000	\$278,423,000

SOURCE: IBO.
NOTE: All years adjusted for prepayment.

Capital Program, Financing, and Debt Service

THE PRELIMINARY TEN-YEAR CAPITAL STRATEGY

Concurrent with the release of the Mayor's Preliminary Budget, the city also released its Preliminary Ten-Year Capital Strategy for the period 2008 through 2017. The 10-year capital plan is prepared every other year, and is intended to provide a long-term framework for the maintenance and development of the city's extensive infrastructure and capital assets. Following a public hearing held by the City Planning Commission, the final version of the strategy will be released with the Executive Budget.

The preliminary strategy totals \$77.3 billion over 10 years—by far the largest capital program ever proposed, and a 24 percent increase over the previous long-term strategy for 2006-2015. Even accounting for the recent rapid growth in construction costs, if realized, this would represent a further significant expansion in the city's capital program, which has averaged over \$6 billion in capital commitments every year since 2001.

Whether or not this ambitious capital program will actually come to fruition is uncertain, however. The increase is largely driven by a doubling of the School Construction Authority's capital plan—to \$28.2 billion. The draft 10-year plan assumes that the state will provide over half the funding—\$15.0 billion—over the next 10 years. The state and the city agreed in 2006 on a school construction financing plan that was intended to fulfill the requirements of the court decision on the Campaign for Fiscal Equity lawsuit. The agreement provided for \$1.8 billion in aid from bonds issued by the state, and then gave the city the authority to issue, through the Transitional Finance Authority (TFA), a total of \$9.4 billion in special bonds backed by increased state building aid. The city describes plans to use a total of \$4.76 billion in this authority through 2010 to finance the Department of Education's 2005-2009 capital plan. The remaining \$4.6 billion in authorized TFA Building Aid Revenue Bonds would provide, however, less than half of the amount of state aid the 10-year plan assumes after 2010.

Most of the rest of the increase is driven by investment in the city's water and sewer system, which is funded with debt issued by the Municipal Water Finance Authority, repayment of which is backed by water system user charges, rather than

by city general revenues. Debt service on water authority bonds is rising rapidly and is the principal cause of rising water and sewer rates. Rates were increased 9 percent for fiscal year 2007.

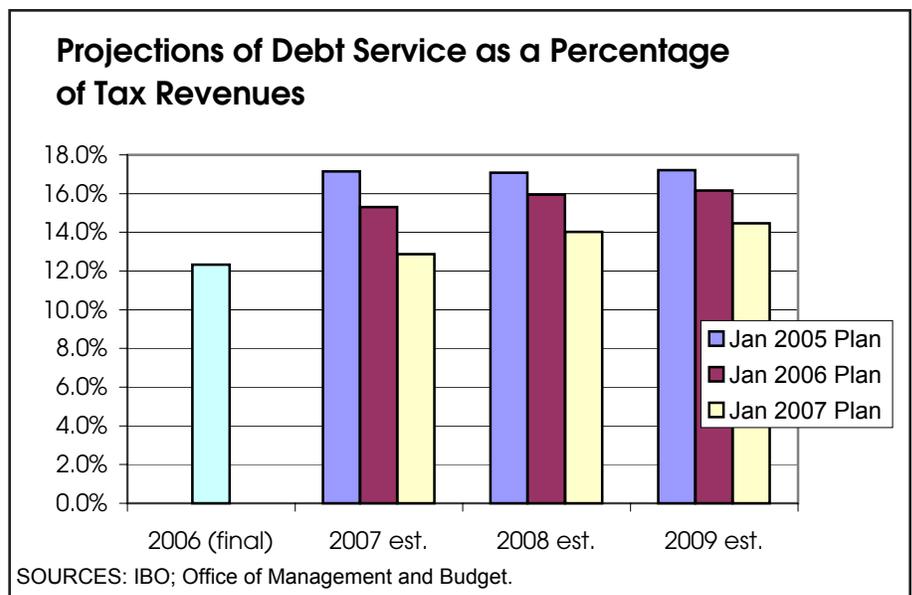
Further details on agency capital programs are provided in the agency preliminary budget analyses.

IMPLICATIONS FOR DEBT AND DEBT SERVICE

Because the growth in the capital program is concentrated in the education and environmental protection programs, as discussed above, that part of the capital program that will directly impact future expense budgets through debt service is actually projected to grow by only \$3.1 billion, to a total of \$40.5 billion in city tax-supported debt, compared to the previous 10-year plan for 2006 through 2015.

Debt service continues to be one of the fastest growing portions of the budget. IBO projects that debt service will increase at an average rate of 7.7 percent annually, when adjusted for prepayments with the budget surplus, and excluding debt service on TFA education bonds, from \$4.5 billion in 2007 to \$6.2 billion in 2011.

Despite the growth, the burden of debt service on the budget has been declining due to a combination of lower than projected debt service spending, and higher tax revenues. Debt service, which we projected to consume 17 cents of every 2008 tax dollar two years ago, and 16 percent one year ago, is now projected to consume 14 cents on the tax dollar. This will rise to slightly under 15 percent by 2011.



2008-2017 Ten-Year Capital Strategy, by Program Area And Investment Category					
<i>Dollars in millions</i>					
Program Area	Agency/Program	State of Good Repair	Programmatic Replacement	Program Expansion	TOTAL
Education					
	Department Of Education	\$18,679	\$109	\$9,397	\$28,185
	CUNY	131	19	83	232
	Education Total	\$18,810	\$127	\$9,479	\$28,417
Environmental Protection					
	Dept. of Environmental Protection	998	14,015	4,499	19,512
	Environmental Protection Total	\$998	\$14,015	\$4,499	\$19,512
Transportation & Transit					
	Department of Transportation	\$8,789	\$171	-	\$8,961
	NYC Transit & S.R. Railroad	-	767	-	767
	Transportation & Transit Total	\$8,789	\$938	\$-	\$9,728
Housing & Econ. Development					
	Housing Preservation & Dvlpmnt.	\$588	-	\$3,611	\$4,199
	NYC Housing Authority	229	-	-	229
	Economic Development Corp.	-	70	1,042	1,113
	Housing & Economic Development Total	\$817	\$70	\$4,653	\$5,540
Public Safety					
	NYPD	-	\$824	-	\$824
	FDNY	455	358	-	813
	Correction	576	165	1,095	1,836
	Courts Program	-	333	783	1,116
	Juvenile Justice	-	1	23	24
	Public Safety Total	\$1,031	\$1,681	\$1,901	\$4,613
Health & Social Services					
	Admin. for Children's Services	\$71	\$92	-	\$163
	Dept. for the Aging	43	-	-	43
	Dept. of Homeless Services	-	20	269	289
	Dept. of Health & Mental Hygiene	184	21	57	263
	Health & Hospitals Corporation	157	538	-	694
	Human Resources Admin.	36	149	-	185
	Health & Social Services Total	\$492	\$820	\$326	\$1,638
Parks, Libraries & Cultural Affairs					
	Dept. of Parks and Recreation	\$1,457	-	\$101	\$1,558
	Library Systems	82	2	13	97
	Dept. of Cultural Affairs	210	-	186	396
	Parks, Libraries, and Cultural Affairs Total	\$1,748	\$2	\$300	\$2,050
General Government					
	Sanitation	\$1,032	\$1,250	\$503	\$2,785
	Citywide Equipmt	-	1,789	-	1,789
	Public Buildings	958	200	-	1,158
	Real Estate	51	-	-	51
	General Gov't. Total	\$2,042	\$3,239	\$503	\$5,784
GRAND TOTAL		\$34,728	\$20,892	\$21,662	\$77,282
SOURCES: IBO; Office of Management and Budget.					
NOTE: Totals by investment category differ slightly from totals presented in the Ten-Year Capital Strategy.					

Actual debt service spending has been lower than previously projected this times last year—by \$320 million in 2007 and by \$350 million in 2008, with continuing savings in the out-years of the plan—because of continuing favorable interest rates. These savings arise from both the lower cost of new debt issuance and from refundings. At the same time, tax revenues are now projected to be higher by almost \$3.6 billion this year

and \$2.2 billion in 2008, compared to our projections from a year ago. The combination of lower than projected debt service and higher than projected revenues means that the ratio of debt service to tax revenues is expected to fall to its lowest level in more than 10 years.

Labor Costs

The January Financial Plan projects that personal services (PS) costs will rise from \$31.8 billion in 2007 to \$37.6 billion in 2011, an average annual rate of growth of 4.2 percent. Excluding deposits into the Retiree Health Benefits Trust Fund from the budget surplus, the projected PS average annual growth rate is 5.1 percent.

Personal services spending consists of two major components: salaries and wages of city employees, and fringe benefits. Salaries and wages, including both full-time and part-time city employees, are projected to grow at an annual rate of 4.9 percent (including funds set aside in anticipation of future collective bargaining settlements). Fringe benefits, excluding discretionary funding of the Retiree Health Benefits Trust Fund, are projected to grow slightly faster, at an annual rate of 5.4 percent.

Labor (Dis)Agreements. Traditionally, the city's labor unions—which represent approximately 95 percent of the city's workforce—have bargained in three-year “rounds,” more or less governed by broad “patterns” that dictated the terms on which the unions would settle with the city. In the last few years, the rounds and patterns have been somewhat disrupted. At one extreme, the United Federation of Teachers (UFT), which represents 115,000 public school teachers, professionals, paraprofessionals, and other pedagogical employees, settled well in advance of the expiration of the current contract, so that the terms are known through October 31, 2009. At the other extreme, the Patrolmens Benevolent Association (PBA), which represents roughly 24,000 police officers, had its last contract settlement imposed through arbitration, with the

contract only covering the two years ending July 31, 2004. The PBA is now headed to arbitration again, this time to reach a settlement on a contract that will again have expired well before the settlement date. Many of the city's other unions fall somewhere in between, with many unions' contracts reaching their termination date during fiscal year 2008.

The most recent settlement was reached between the United Firefighters Association (UFA), which represents the city's approximately 8,900 firefighters (excluding senior ranks), providing two annual increases of 4 percent (8.15 percent compounded). The settlement also raised starting salaries for newly hired firefighters, in exchange for reduced annuity contributions, holiday pay allowance, and night shift premiums for new firefighters during their first five years on the job. The contract runs through July 31, 2008.

If the new pact is ratified by the UFA membership, it could serve as the pattern for the other uniformed contract negotiations, including the Uniformed Fire Officers Association, the Correction Officers Benevolent Association, Correction Captains' Association, Assistant Deputy Wardens Association, and the Uniformed Sanitationmen's Association, and other supervisory unions within the sanitation department, as well as the Detectives Endowment Association and the Lieutenants Benevolent Association. We estimate that settlements similar to the UFA pattern would add a total of \$96 million to the 2008 budgets of those departments, rising to \$199 million in 2009 (including wages, FICA contributions, and pension costs). This would be fully covered by the current labor reserve.

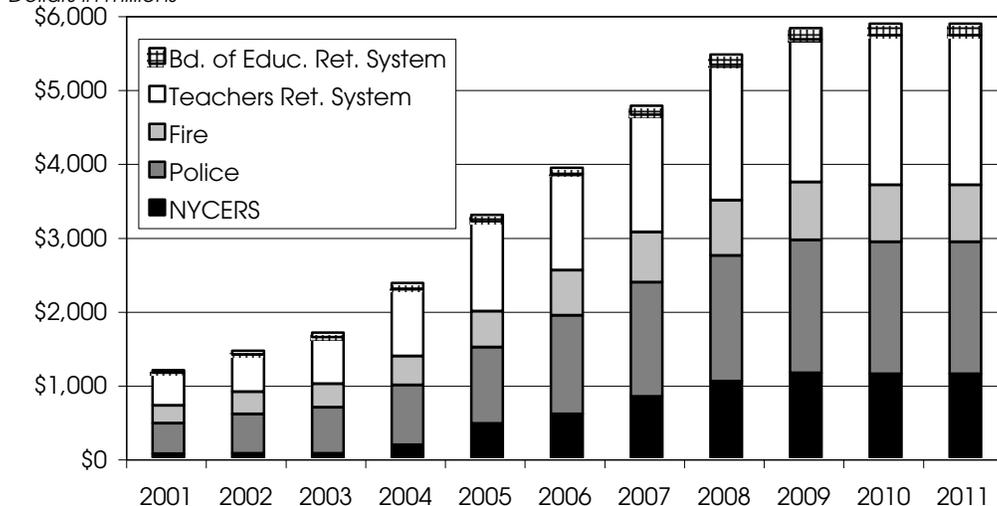
	2007	2008	2009	2010	2011	Avg. Annual Change
Salaries & Wages*	\$19,433	\$19,975	\$20,491	\$21,334	\$21,823	2.9%
Labor Reserve	415	988	1,520	1,868	2,229	52.2%
Total, Salaries & Wages	\$19,848	\$20,963	\$22,011	\$23,202	\$24,052	4.9%
Fringe Benefits**	\$6,109	\$6,436	\$6,758	\$7,023	\$7,321	4.6%
Pensions	4,866	5,575	6,151	6,208	6,208	6.3%
Total, Fringe Benefits	\$10,975	\$12,011	\$12,909	\$13,232	\$13,530	5.4%
Total PS before Trust Fund	\$30,823	\$32,974	\$34,921	\$36,433	\$37,582	5.1%
Retiree Health Benefit Trust	\$1,000	\$500				
TOTAL, Personal Services	\$31,823	\$33,474	\$34,921	\$36,433	\$37,582	4.2%

SOURCES: IBO; Mayor's Office of Management and Budget.
NOTES: *Excluding Labor Reserve. **Excluding pensions.

PBA Arbitration. As noted, the Policemens' Benevolent Association and the city once again reached an impasse in their negotiations, and the contract terms will now be decided by binding arbitration under the auspices of the state Public Employment Relations Board (PERB). Even the selection of the three members of the arbitration panel has been in dispute, with the PBA refusing to select a panel chairperson from the list of arbitrators put forward by the PERB, and the city suing to force the designation of the chairperson from

Growth in City Pension Contributions

Dollars in millions



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

NOTES: Excludes non-city and non-actuarial costs. 2007 through 2011 projected.

the PERB list.

The city's last offer to the PBA would have matched the last two years of other uniformed contracts, with raises of 3.0 percent as of August 1, 2004, and 3.15 percent a year later, as well as increasing the salary for new recruits, from \$28,900 to \$38,900. The new recruit raises would have been offset, however, by eliminating 10 vacation days and six holidays and reducing annuity contributions by \$100 per year until reaching top pay after 5.5 years.

An imposed settlement based on these terms, and assuming that raises for new recruits would be exactly offset by the "givebacks," would cost approximately \$150 million per year, including pension costs. Pending the outcomes of other future contract negotiations, the current labor reserve provides adequate funding for a settlement on these terms.

Pensions. For a variety of reasons, including stock market losses earlier in the decade, wage and benefit enhancements, and changes in the assumptions and methods used to calculate annual contributions to the city's pension funds, pensions costs have risen to extraordinarily high levels. Pension contributions to the city's five actuarially funded pension systems and to non-city and non-actuarially funded systems will be \$4.9 billion this year—equal to 25 percent of wages and salaries—and are projected to rise to \$6.2 billion by 2009—fully 30 percent of wages and salaries—before leveling off.

Segal Company Review of Actuarial Assumptions and Methods. As required by the City Charter, an independent review of the assumptions and methods used by the City Actuary

in calculating the annual contribution amounts needed to fully fund the city's pension systems was conducted by the Segal Company in 2006. Recommended adjustments included raising the projected inflation rate and recognizing increased longevity and changes in expected retirement ages, among other things. The City Comptroller has estimated that, taken together, adopting the recommended changes would increase the city's pension contributions by \$339 million annually beginning in 2009.

Partially offsetting the increase, however, would be a savings of \$232 million, according to the Comptroller, resulting from a change in the actuarial method of funding from the "frozen initial liability" method currently used, to the "entry-age normal" method recommended by Segal. Adopting the entry-age normal method would increase the transparency of the city's pension funding status by isolating the costs attributable to any unfunded liability from the annual, so-called "normal" costs attributable to earnings of city employees in that year.

In anticipation of the Actuary adopting at least some of the recommendations in the Segal Company study, the Bloomberg Administration added \$200 million annually to the Financial Plan projections of pension contributions, beginning in fiscal year 2009.

Lieutenants' Benevolent Association Contract. The police Lieutenants' Benevolent Association (LBA) contract, which expires August 31, 2007, contains a unique savings incentive feature. Effective July 31, 2007, the city will provide a \$300 annual contribution to the Savings Incentive Plan for any LBA member who invests at least 1 percent of his or her annual compensation in a Section 457 tax-deferred savings plan (similar to a 401(k) plan). This provision will cost the city an estimated \$464,200 in 2008 (assuming that all of the LBA's approximately 1,700 members participate).

We estimate that including a similar provision in the contracts of other uniformed service members (excluding the PBA and police sergeants and captains, who are all working with expired contracts), would cost approximately \$5 million in

Health Insurance Costs for Active and Retired City Employees

Dollars in millions

	2007	2008	2009	2010	2011
Active	\$2,075	\$2,230	\$2,450	\$2,516	\$2,596
Retiree	1,081	1,212	1,345	1,492	1,655
TOTAL	\$3,156	\$3,442	\$3,795	\$4,008	\$4,251

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

2008, and \$7 million in future years.

Health Insurance. After pension contributions, health insurance is the largest component of city fringe benefit costs. Approximately 90 percent of city employees select either the Health Insurance Plan of New York (HIP) or Group Health Incorporated (GHI) as their health care provider, with approximately 60 percent of active employees selecting the family plan and 40 percent selecting the individual plan. The city is also unique in providing reimbursement of Medicare Part B premiums as part of its retiree health care package, for which most employees are eligible after 10 years of city service.

In 2008, as in 2006 and 2007, the city will make a contribution from the budget surplus, above what is needed to fund current costs, to the Retiree Health Benefits Trust created

in 2006. The city estimates its unfunded actuarial liability for retiree health benefits at \$53.5 billion. The city's contribution to the trust fund was \$1.0 billion in 2006, with another \$1.0 billion scheduled for the current year, and \$500 million planned for 2008. No additional contributions are included in the Financial Plan after 2008.

Health insurance costs are projected to grow from \$3.2 billion in the current fiscal year to \$4.3 billion in 2011—an average annual rate of 7.7 percent. Retiree health insurance costs, which currently make up about one-third of total costs, are projected to grow at a faster rate—11.2 percent per year, compared to 5.8 percent per year for active employees.

Increases in health insurance costs in the January plan arose from a higher than anticipated rate increase in the city's health insurance premium payments for 2008 (8.69 percent, as opposed to the projected 8.0 percent; adding \$18 million in 2008), the state's recent enactment of the mental health parity statute (\$30 million in 2008), and increases in headcount (\$11 million). The Bloomberg Administration has also expressed concern about the potential for increased health care costs from the impending merger of HIP and GHI and the conversion of the merged company from nonprofit to for-profit status.

Administration for Children's Services (ACS)

PRELIMINARY BUDGET HIGHLIGHTS

- **Family Day Care Expansion.** The Preliminary Budget proposes \$10 million in new annual funding for the expansion of family day care beginning in 2008.
- **Increase in Child Care Expenditures.** The Preliminary Budget proposes \$25 million in 2007, \$30 million in 2008 and \$35 million in 2009 through 2011 for increases in city-funded child care spending. Despite these additional funds, total spending on child care is expected to decline in 2008.
- **Central Insurance Costs.** The Preliminary Budget provides \$13 million for increases in insurance rates for child welfare workers in 2007.
- **Out-of-School Time Enhancement.** The Preliminary Budget proposes \$10 million in 2008 and \$14 million annually for 2009 through 2011 to reserve city-subsidized child care slots for children formerly in ACS-sponsored after-school programs.
- **Child Protection Initiatives.** The Preliminary Budget includes a series of initiatives to improve the city's response to allegations of child abuse and neglect. The budget for these initiatives totals \$29.8 million in 2007, \$35.7 million in 2008 and \$37.4 million in funding annually in 2009 through 2011.
- **Family Court Legal Services.** The Preliminary Budget calls for approximately \$1.5 million in 2007, \$4.7 million in 2008 and \$6.8 million in 2009 and beyond to hire additional attorneys to meet caseload standards set by the American Bar Association.
- **Foster Care and Adoption Rate Increase.** The Preliminary Budget calls for \$25 million in 2007, \$31 million in 2008 and \$27 million in 2009 through 2011 to fund increases in the rates for foster care and adoption services.

EXPENSE BUDGET

Agency Overview. The Mayor's proposed 2008 Preliminary Budget for the Administration for Children's Services is \$2.63 billion. The proposed 2008 operating budget represents a 2.9 percent decline in projected expenditures compared to the current modified budget of \$2.7 billion for 2007; the bulk of the decline is in the agency's child care program. Spending on preventive care will also decline slightly.

IBO projects that federal funding in 2008 will be \$40 million greater than the amount currently included in the Preliminary Budget, raising our estimate for the agency's total 2008 budget to \$2.67 billion. The difference stems from our higher estimate of Head Start funding.

Head Start. The Preliminary Budget projects a decrease for Head Start of 11 percent from the current modified budget for 2007. This reduction is due to federal aid that has not been recognized in the Preliminary Budget but which IBO anticipates will eventually be received. IBO projects an additional \$15 million increase in overall funding for this program area in 2007 bringing the total to \$186.3 million and a \$40.0 million increase above the current budget for 2008, bringing the total to \$192.7 million, a 3.4 percent increase from the projected 2007 Head Start budget.

Child Care. Essentially all city-subsidized child care is now provided at ACS. Although the Preliminary Budget projects a spending decrease of \$66.2 million, or 8.4 percent, for ACS's child care programs in 2008, there is no indication that the number of children in these programs is decreasing as well. In the first four months of 2007 compared to the first four months of 2006, the number of children enrolled in publicly funded child care programs increased by 2.6 percent, approximately 2,000 children. There is no evidence that this trend will reverse.

Child care funding for 2007 has increased since the Adopted Budget, which included spending of \$637 million for child care. Over the course of this year the budget has grown to the current total of \$785.3 million, a 23 percent increase that includes a \$25 million funding initiative in the current Preliminary Budget. Despite an additional \$30 million in child care funding proposed for 2008 in the Preliminary Budget, next year's level of spending is unlikely to reach the \$785.3 million projected for 2007.

The three largest revenue sources for child care are the Child Care Block Grant (CCBG), surplus federal Temporary Assistance to Needy Families (TANF) funds, and city tax-levy dollars. The Bloomberg Administration projects that CCBG funding in the city's child care budget will decline from \$262.6 million to \$210.1 million, a 20 percent decrease from 2007 to 2008. Moreover, in recent years the annual TANF surpluses have begun to shrink, resulting in greater competition for the use of TANF dollars and placing growing fiscal strain on programs funded by TANF as their expenses continue to

Administration for Children's Services				
Budget by administration program				
	2005	2006	2007 Current Modified	2008 Preliminary
General Administration and Other				
TOTAL, General Administration and Other	\$139,616,000	\$131,493,000	\$154,116,000	\$153,757,000
Adoption				
Adoption Case Management	\$5,308,000	\$1,753,000	\$3,757,000	\$3,757,000
Direct Care Management	2,596,000	1,866,000	3,420,000	3,420,000
Adoption Subsidies	342,630,000	358,446,000	376,167,000	377,637,000
Other Programs	638,000	1,223,000	1,170,000	1,094,000
TOTAL, Adoption	\$351,172,000	\$363,288,000	\$384,514,000	\$385,908,000
Child Care				
TOTAL, Child Care	\$488,492,000	\$518,326,000	\$785,302,000	\$719,134,000
Foster Care				
Contract Foster Care	\$550,433,001	\$490,519,000	\$505,941,000	\$516,223,000
Direct Foster Care	44,444,000	27,461,000	48,607,000	41,748,000
Out of State/School Care	149,002,001	151,914,000	158,394,000	158,394,000
Independent Living	1,496,000	1,518,000	793,000	883,000
Contract Management	15,949,000	17,771,000	13,308,000	13,308,000
Administration	23,315,000	25,623,000	18,411,000	18,411,000
Other	10,481,000	12,769,000	8,437,000	8,868,000
TOTAL, Foster Care	\$795,120,003	\$727,575,000	\$753,891,000	\$757,835,000
Head Start				
TOTAL, Head Start	\$197,098,000	\$196,278,000	\$171,259,000	\$152,689,000
Office of Child Support and Enforcement				
TOTAL, Office of Child Support and Enforcement	\$394,000	\$771,000	\$231,000	\$231,000
Preventive Services				
General	\$75,770,000	\$82,436,000	\$92,671,000	\$90,423,000
Family Rehabilitation	15,356,000	15,025,000	11,745,000	11,745,000
Homemaking	23,462,001	25,061,000	32,237,000	32,237,000
Housing Subsidies	3,815,001	4,720,000	5,040,000	5,040,000
Family Preservation	10,859,001	11,159,000	9,398,000	9,398,000
Aftercare	-	15,145,000	18,000,000	18,000,000
Adolescent Services	-	2,053,000	17,858,000	17,608,000
Contract Management	6,573,001	6,712,000	4,780,000	4,780,000
Other Programs	21,746,001	26,075,000	27,440,000	14,521,000
TOTAL, Preventive Services	\$157,581,003	\$188,386,000	\$219,169,000	\$203,752,000
Protective Services				
TOTAL, Protective Services	\$153,841,000	\$198,938,000	\$242,465,000	\$258,662,000
TOTAL, ADMINISTRATION FOR CHILDREN'S SERVICES	\$2,283,314,006	\$2,325,055,000	\$2,710,947,000	\$2,631,968,000
IBO Adjustments				
Federal Grants	-	-	\$15,000,000	\$40,000,000
IBO Projected Total	-	-	-\$2,725,947,000	\$2,671,968,000
Full-Time Staffing	6,523	6,854	7,833	7,818

SOURCE: IBO.

increase. This decline in state funding will have a dramatic impact on the level of child care the city can offer. While the city has appealed to the state for more funds for child care, it is likely that city tax dollars will have to be used to make up at least some of the funding shortfall.

Child Protection. The agency's Division of Child Protection investigates child abuse, maltreatment, and neglect

reports and, if necessary, removes the children from their homes and places them into foster care until such time as it is deemed safe for them to return. To prevent further abuse, the protective services division also provides rehabilitative services to children, parents, and other family members involved. The total 2008 proposed budget for child welfare protection programs is \$258.7 million, a 6.7 percent increase from the 2007 current modified budget and a 30 percent increase from

2006. ACS has enhanced its protective services capabilities since the death of 7-year-old Nixzmary Brown in January of 2006.

Since her death the number of child protection cases has increased. Abuse and neglect reports grew by approximately 24 percent from 2006 to 2007. In response, ACS has increased spending in the child protection area. In the current Preliminary Budget there is greater emphasis on hiring more child protection staff in response to rising reports of abuse and maltreatment and enhancing the level of support workers receive.

Effects of Key Budget Proposals

Child Care Proposals

- *Family Day Care Expansion.* In the Adopted Budget for 2007 the City Council appropriated \$10 million for an expansion of family day care, a form of licensed child care that takes place within the homes of service providers. These providers care for up to six children ranging from 6 weeks to 13 years old. Although this action represented continuation of a City Council initiative in the 2005 Adopted Budget, there was no provision for sustaining the program after 2007. The Preliminary Budget now incorporates those funds through 2011. The funds support approximately 1,800 licensed family child care slots.
- *Increase in Child Care Expenditures.* The budget plan increases city-funded child care spending by \$25 million in 2007, \$30 million in 2008, and \$35 million in 2009 through 2011. This initiative is a cost reestimate of providing child care services. Despite this increase from the current budget, the Preliminary Budget changes would still result in an 8.4 percent decrease in overall child care funding. As a result, the number of child care slots will not increase.
- *Central Insurance Costs.* This spending increase of \$13 million in 2007 is due to a projected increase in the cost of health insurance for staff at institutions providing child care under contract with the city.
- *Out-of-School Time.* ACS no longer provides center-based child care for school children. This program was replaced with the OST program run by the Department for Youth and Community Development (DYCD). OST provides programs for after-school, weekends, and over some vacation periods. OST is an option for families with school-age children seeking child care through ACS as well as for school-

age children in ACS foster care programs. ACS is spending \$10 million in 2008 and \$14 million annually from 2009 through 2011. The money will pay for an intra-city agreement with DYCD to reserve 3,500 slots in 2008 increasing to 5,000 in 2009 and beyond, for children formerly in ACS sponsored after-school programs.

Child Protection Proposals

- *Child Protection Staff.* ACS will spend \$16.9 million in 2007, \$16.5 million in 2008, and \$30.7 million in 2009 and beyond for increases in child protection staffing. This increase in staffing is to match the rise in caseload. The additional funding is to keep the ratio of new cases at 5 per caseworker and the overall ratio of 12 child protection cases per caseworker. Funding will support hiring 378 additional child protective services caseworkers, 76 "level 1" supervisors, 76 "level 2" supervisors, 56 clerical support workers, and six managers.
- *Protective Services Day Program.* This change increases funding for an existing program that provides one-time grants to families in need. The Preliminary Budget includes \$13.5 million in city funds for 2008, with smaller amounts of state funds allocated for later years. Items to be purchased generally include bedding, furniture, and occasionally, clothes. There has recently been a surge in the number of families using these grants. This is due, in part, to the substantial increase in the number of child abuse and maltreatment cases in the child protection program area.
- *Child Protection Field Office Support.* The budget plan includes \$5.7 million annually from 2007 through 2011 to enhance the services that frontline caseworkers need in order to work more effectively. Services include translation, communication, and transportation.

Family Court Legal Services. ACS will hire 65 attorneys, for a total of 235, to ensure that the agency hastens the judicial proceedings in child protection cases and to make attorneys more available to consult with ACS child protective workers, supervisors, and managers. With the additional hires, the ratio of attorneys to cases will be 1:60, a standard set by the American Bar Association. The annual cost of these new hires is \$6.7 million.

Foster Care and Adoption Rate Increase. Adoption and foster

care subsidies are given to providers of these services to cover the cost of child rearing. The Preliminary Budget calls for \$25 million in 2007, \$31 million in 2008, and \$27 million in 2009 through 2011 to cover increases in the state per diem rates for foster care and adoption subsidies.

CAPITAL BUDGET

Agency Overview. ACS is responsible for over 200 facilities including: the ACS Children's Center, child care centers, congregate foster homes, program field offices, and administrative offices. Major capital improvement plans for the

agency include renovating and expanding child care centers, upgrading and expanding telecommunication and computer technology to improve service delivery and management, and upgrading field and administrative offices.

The current four-year Capital Commitment Plan for ACS calls for \$142.1 million in total commitments for 2007 through 2010. Planned commitments total \$87.7 million, \$34.2 million, \$10.1 million and \$10.1 million for 2007 through 2010, respectively. The commitment plan has decreased 11 percent since last June's Adopted Budget.

City University of New York (CUNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **CUNY Prep.** The 2008 Preliminary Budget includes three initiatives created under the Commission for Economic Opportunity (CEO). The first is an addition of \$1.7 million in city funds in 2007 and \$3.5 million in 2008 to continue and expand the CUNY Prep program to help high school dropouts obtain their high school diplomas and prepare for college. (See appendix for full program list.)
- **CUNY Pathways.** A second CEO initiative adds \$1 million in city funds in 2007 and \$6.5 million in 2008 for CUNY Pathways to Success, a program to help community college students prepare for a career.
- **Civic Justice Corps.** A third CEO initiative adds \$4.8 million in city funds in 2008 for the Civic Justice Corps, a new program to provide short-term public works jobs to ex-offenders in certain targeted neighborhoods.
- **Professional Staff Congress (PSC) Collective Bargaining Increase.** The Preliminary Budget includes \$16.6 million in city funds in 2007 and \$19.8 million in 2008 to fund a collective bargaining increase for members of the Professional Staff Congress.

EXPENSE BUDGET

Agency Overview. CUNY is the nation's largest urban public university system enrolling over 220,000 full- and, part-time students in undergraduate and graduate degree programs, and over 230,000 adult, continuing, and professional education students. The CUNY system includes 11 senior colleges, six community colleges, and a variety of graduate and professional schools and programs. CUNY receives nearly three-fifths of its operating budget from the city and state, with tuition and fees accounting for the remainder. The tuition and fees category includes both government tuition grants and out-of-pocket tuition payments by CUNY students. Compared to most universities and colleges, public and private, CUNY has historically received relatively little philanthropic support, although recent efforts have been made to increase this funding source.

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 and law schools. Both the city and state contribute funds to the community colleges. The federal, state, and city governments subsidize tuition for low- to moderate- income students through grants, loans, and tax credits. IBO focuses here on the part of CUNY spending recorded in the city's accounts.

The Preliminary Budget proposes \$577.5 million for CUNY in 2008, \$58 million less than in 2007. After we adjust for state funds initially recorded in city budget accounts but passed through to senior colleges, the Preliminary Budget projects a decrease of 10 percent from 2007 to 2008. Future Financial Plans are likely to make significant additions to the 2008 budget, however. The November 2006 modification and the Preliminary Budget added \$34 million in intra-city funds to the 2007 CUNY budget to reflect agreements between CUNY and various city agencies. This process will likely be repeated next year for 2008. In addition, many programs favored by City Council members typically 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 for the programs to be sustained. Last year's Adopted Budget added about \$40 million in city funds for CUNY in 2007 that were not included in the Financial Plan for 2008 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 \$1,200 per year to cover a portion of their tuition. In 2006 the program provided a total of \$11.2 million to CUNY students at both the junior and senior colleges. The 2007 Executive Budget did not include any funds for this program, but as part of the budget adoption process the Council fully funded the program, but only for 2007. The 2008 Preliminary Budget includes no funds for the Vallone scholars program, but funding is likely to be restored by the time the budget is adopted.

Additional evidence of how much the 2008 CUNY operating budget is likely to grow beyond the Preliminary Budget proposals can be gleaned from the evolution of the 2007

City University of New York				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Community Colleges	\$337,272,469	\$343,207,381	\$344,706,415	\$244,168,195
Central Administration	191,382,942	219,153,213	218,351,443	272,859,872
Hunter Schools	11,915,279	13,086,982	12,426,942	12,543,657
Adult Continuing Education	5,985,844	6,762,759	5,276,000	5,276,595
Technology	8,327,338	7,622,349	6,600,000	6,600,000
Language and Special Programs	1,593,749	1,643,694	1,232,952	1,015,744
Programs Funded With Non-Government Aid	2,894,053	2,346,193	1,068,736	0
INVEST Program	433,057	289,041	20,000	0
Other	15,780,674	11,165,158	46,165,000	35,000,000
GRAND TOTAL, CUNY	\$575,585,405	\$605,276,770	\$635,847,488	\$577,464,063
IBO Adjustments				
State Pass-thru to Senior Colleges	-	-	(\$35,000,000)	(\$35,000,000)
IBO Projected	-	-	\$600,847,488	\$542,464,063
Full-Time Staffing	4,363	4,324	4,339	4,458
SOURCES: IBO; Mayor's Office of Management and Budget.				
NOTES: Actual full-time staffing for 2005 and 2006 is as of June. For 2007 actual staffing is as of December 2006. The full-time staffing for 2008 is the budgeted figure for June 2008.				

budget. A year ago, the proposed 2007 Preliminary Budget for CUNY was \$535.7 million. Over the course of the last year this has grown to \$635.8 million, an increase of \$100 million. These later additions to the CUNY budget can have a major impact on specific program areas. For example, over the last year the 2007 budget for community colleges has grown from \$244 million to \$344.7 million, an increase of \$100 million, or more than 40 percent. At the same time some of the funds originally budgeted in central administration will typically be shifted to other areas as the year progresses.

Effects of Key Budget Proposals

CUNY Prep. An increase in city funding of \$1.7 million in 2007 and \$3.5 million in 2008 will double the number of slots for full-time students from 350 to 700. The CUNY Preparatory Transitional High School was created in 2003 to serve students from 16 to 18 years old who have not completed traditional high school. Students can earn credits towards a regular or equivalency high school diploma. The academic curriculum is combined with extensive support services to help encourage student success. CUNY Prep is a collaborative effort of CUNY, the Department of Youth and Community Development, and the Department of Education.

CUNY Pathways to Success. The program will help community college students prepare for a career through close integration of education and work environments, and by providing extensive support services. The additional \$1 million in 2007

and \$6.5 million for 2008 includes funding for 121 new nonpedagogical staff.

Civic Justice Corps. The Preliminary Budget provides \$4.8 million in 2008 for the Civic Justice Corps. This new program will provide short-term public works jobs to former inmates coming back to several low-income neighborhoods; 230 former inmates are expected to participate.

PSC Collective Bargaining Increase. This action will provide \$16.6 million in 2007 and \$19.8 million in 2008 to help fund collective bargaining increases for members of the Professional Staff Congress. The union's membership is primarily composed of CUNY faculty. As of December 2006 the actual number of full-time employees at those areas of CUNY included in the city budget was 4,339, of whom 2,747 were classified as holding pedagogical positions.

CAPITAL BUDGET

Agency Overview. The four-year Capital Commitment Plan calls for \$317 million in total commitments for 2007 through 2010, an average of over \$79 million a year. Planned commitments total \$230 million in 2007 and drop to \$50 million in 2008. Actual commitments for any given year can vary significantly from the plan, however. For instance, a year ago the plan projected \$258 million in commitments for 2006; actual commitments totaled only \$40 million. Actual commitments over the last four years have averaged \$25

million per year.

The city's capital plan makes up roughly 21 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, and law 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 2007, about 6 percent of city capital commitments for CUNY are designated for senior colleges; in later years of the plan the share is less than 1 percent.

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 the other senior colleges, requiring the state to pay 100 percent of its capital costs, but the state has yet to act on this request.

Key Capital Projects

Fiterman Hall. CUNY's capital needs include the replacement of Fiterman Hall, which housed Borough of Manhattan

Community College classrooms and the university's research foundation. Located at 30 West Broadway, the skyscraper was severely damaged in the World Trade Center attacks on 9/11. The city now estimates that it will cost about \$242 million to replace the building and its equipment. Over three-quarters of the needed funds have now been identified. Insurance payments will provide \$67 million, city funds \$80 million, state funds \$20 million, Lower Manhattan Development Corporation funds \$15 million, and the 911 Fund \$5 million.

The project is currently in the design stage, with an estimated project completion date of April 2009. 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.

Academic Building 1. This project, at Medgar Evers College, will construct a new building at Crown Street and Bedford Avenue. The new building will house the School of Science, Health and Technology as well as classrooms, laboratories, and faculty offices used by all disciplines.

The project is currently in the design stage, with an estimated completion date of May 2010. The total estimated cost is \$181 million, of which \$149 million has been funded, split about equally between the city and state.

Department for the Aging (DFTA)

PRELIMINARY BUDGET HIGHLIGHTS

- **Expanded In-home Services for the Elderly Program (EISEP).** The Preliminary Budget shows an increase of \$6 million in state funds in 2007 for in-home services for low-income elderly who are not eligible for Medicaid.
- **Foster Grandparent Program.** Federal funding for the Foster Grandparent Program would increase by a total of \$739,000 for 2008-2011.
- **AAA Transportation Program.** A new state grant of \$359,000 in 2007 would help provide transportation services for those elderly who are unable to use the subways or buses.
- **Crime Victims Grant.** State grants to assist victims of elder abuse would provide \$304,000 in 2007 and \$103,000 in 2008, down from \$388,000 in 2006.

EXPENSE BUDGET

Agency Overview. The preliminary budget for the Department for the Aging for 2008 is \$230.2 million, \$44.1 million less than the budget for the current year. Federal and state funding are expected to make up 45.1 percent and 11.1 percent, respectively, of the agency's 2008 budget. City funds will make up 43.6 percent. IBO's projections of federal funding for the agency in 2008 are slightly greater than the Bloomberg Administration's by \$2.2 million, raising IBO's forecast of the agency's 2008 budget to \$232.4 million.

Four key program areas would be affected by the decline in the agency's budget from 2007 to 2008—meals; case management; health information, safety and other services; and general administration and other expenses. In 2008 the agency's budget for meals would be reduced by \$32.0 million; for case management by \$5.3 million; for health information, safety, and other services by \$3.6 million; and for administration and other expenses by \$17.7 million.

Although these reductions are currently shown in the Preliminary Budget, it is likely that some, if not all, will be avoided before the 2008 fiscal year begins. Consistent with the past practice, DFTA's current budget for 2008 does not reflect most of the spending changes that were negotiated between the Mayor and the City Council when the 2007 budget was adopted. City funding for program restorations and/or service enhancements was only added for one year. For example, at the adoption of the 2007 budget, approximately \$24 million

in city funds was added to DFTA's 2007 budget and in the Adopted Budget for 2006, \$19.1 million was added to the agency's 2006 budget. Similar restorations this spring would eliminate much if not all of the difference between the DFTA budget proposed for 2008 and the current budget for 2007.

One program area with an increased budget from 2007 to 2008 is social services and transportation. Funding has increased by \$17.7 million, bringing the total budget for 2008 to \$40.6 million. DFTA-funded senior centers provide a wide range of social services, which include scheduled and organized activities for seniors. In addition, vans operated by senior centers provide individual and group transportation to frail elderly who are unable to utilize subways or buses.

Effects of Key Budget Proposals

Expanded In-home Services for the Elderly Program. The Preliminary Budget shows an increase of \$6 million in state funds in 2007 bringing the total funds received to \$19.1 million (including grants carried over from prior years). This program provides home care, case management, and respite services for low-income seniors who are not eligible for Medicaid. Last year, the Department for the Aging received \$14.2 million (60.4 percent) more than in 2005. In 2005 DFTA received \$8.5 million in state funds.

Foster Grandparent Program. Federal funding for the foster grandparent program would increase by a total of \$739,000 over the 2008 through 2011 period. This is a volunteer program for seniors age 60 and older who receive a nontaxable stipend. The program supports a citywide network of community sites enabling older adults to provide one-on-one care and support to children with special needs. Foster grandparents are placed in various settings like elementary schools, hospitals, or pediatric units. In addition, seniors provide mentoring for children in foster care and for children of incarcerated parents. In 2006, DFTA received \$1.6 million in federal funding and \$34,534 in state funding for the program.

AAA Transportation Program. The Preliminary Budget includes \$359,000 from a new state grant for 2007. This grant will be used in conjunction with other transportation funds that the Department for the Aging receives to provide services to the frail elderly who are unable to use buses or subways.

Crime Victims Grant. The Preliminary Budget includes \$304,000 in 2007 and \$103,000 in 2008 from the state for

Department for the Aging				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Meals	\$72,262,122	\$80,658,965	\$111,855,279	\$79,903,424
Social Services and Transportation	\$41,637,942	\$53,753,937	\$22,945,453	\$40,618,031
Home Care	\$23,439,074	\$25,162,074	\$26,417,458	\$26,303,570
Case Management	\$13,388,338	\$16,312,207	\$17,145,811	\$11,852,688
Central Insurance & Equipment Purchase	\$19,949,560	\$16,137,224	\$17,907,466	\$17,855,794
Employment Opportunities & Services				
Senior Community Service Employment Program (SCSEP)	\$4,551,882	\$3,781,322	\$5,008,805	\$5,008,805
Foster Grandparent Program	1,534,563	1,634,438	1,669,338	1,669,338
TOTAL, Employment Opportunities & Services	\$6,086,445	\$5,415,760	\$6,678,143	\$6,678,143
Family Caregiver Program	\$4,825,701	\$5,007,630	\$4,187,717	\$4,187,717
Health Info, Safety & Other Services	\$1,110,094	\$3,049,840	\$4,330,568	\$769,876
General Information & Referral Services	\$3,503,973	\$3,730,554	\$2,079,275	\$356,825
Home Energy & Weatherization Assistance	\$1,518,886	\$2,711,335	\$2,096,720	\$670,812
Administration and Other Expenses	\$43,541,650	\$56,301,262	\$58,743,503	\$41,047,087
GRAND TOTAL, Department for the Aging	\$231,263,785	\$268,240,788	\$274,387,393	\$230,243,967
IBO Adjustments				
Federal and state repricing			\$422,000	\$2,172,000
IBO Projected			\$274,809,393	\$232,415,967
Full-Time Staffing	376	378	349	284

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

elder abuse services. The Department for the Aging directly, and through a network of community-based agencies, sponsors elder abuse prevention activities and provides counseling and supportive services to victims of elder abuse in New York City. Last year DFTA received \$388,000 from the state for the crime victims program.

Effects of Key Federal and State Actions.

The President's 2007-2008 budget proposals may adversely affect four DFTA revenue streams. The federal budget calls for a reduction of 29.4 percent for the Social Services Block Grant. According to the President's budget the program lacks performance measures or other means to demonstrate that activities supported by Social Service Block Grant funds are producing results. In city fiscal year 2006, DFTA received \$25.3 million in Social Services Block Grant funds. The federal budget proposed to eliminate the U.S. Department of

Agriculture Commodity Supplemental Food Program from which DFTA received \$8.3 million in 2006. The federal budget also proposes to cut the Low Income Home Energy Assistance Program by \$420 million, a decrease of 19 percent. At the same time, the President's budget would reduce funding for the Weatherization Assistance Program by 42 percent and shift these savings to fund research and development efforts. States and localities would be allowed to transfer and use up to 25 percent of home energy assistance funds for weatherization purposes. In 2006, DFTA received \$310,924 in federal home energy assistance funds and \$2.5 million in federal weatherization funds. (Note, IBO made slight adjustments to the Mayor's revenue forecasts for DFTA's home energy assistance grant.)

The Governor's Executive Budget for 2007-2008 proposes to maintain funding for the Expanded In-home Services for the Elderly Program. This would bring the state budget for the

program to approximately \$50 million in 2007-2008 and serve approximately 50,000 clients throughout the state. Last year, the state's EISEP program was doubled from its 2005 level of approximately \$25 million and DFTA's share was \$14.2 million. In addition, the Governor's Executive Budget includes funding to support the second year of a three-year cost-of-living adjustment of \$8.5 million for three programs—EISEP, the Community Services for the Elderly Program, and the Supplemental Nutrition Assistance Program.

CAPITAL BUDGET

Agency Overview. The city's January 2007 Capital Commitment Plan provides \$58.2 million for fiscal years 2007 through 2010 for approximately 102 DFTA capital projects, including the renovation of several senior centers, the purchase of vans and computers for senior centers, and improvements to DFTA information management systems. This represents a decrease of \$15.3 million for DFTA's capital program, compared to the level of funding provided for 2007-2010 in the September 2006 Capital Commitment Plan.

The city's most recent four-year Capital Commitment Plan provides \$37.9 million in 2007, \$16.1 million in 2008, \$2.1 million in 2009, and \$2 million in 2010 for DFTA's capital program. DFTA will be responsible for carrying out most of its capital program—71 projects out of a total of 102. The rest of the projects will be managed by the Department of Design and Construction (20 projects), the Department of Small Business Services (five projects), the Department of Citywide Administrative Services (three projects), and the Department of Housing Preservation and Development (three projects).

While the commitment plan provides \$37.9 million for 2007 as of January 2007, DFTA is only expected to commit \$24.6 million, or 65 percent, of the planned amount. This estimate is based on a commitment target set by the Mayor's budget office that is effectively a ceiling on how much an agency can spend. In 2006, DFTA was authorized to commit \$39.0 million and the agency's commitment target for 2006 was \$24.6 million or 63.2 percent. In fact, DFTA actually committed \$2.9 million, or 7.4 percent, of the total amount authorized for 2006. City agencies can fail to meet 100 percent of their commitment targets for a number of reasons, including changes to project scope, unrealistic project schedules, and insufficient capacity to manage their capital program.

Although the actual commitment percentage for

2006 was particularly low, DFTA's capital commitments have regularly fallen short of the target established by the Mayor's Office of Management and Budget (see table below). During fiscal years 2003 through 2006, the agency's commitment target was \$60 million (63 percent) of a total \$94 million in authorized capital spending. Instead, DFTA ended up committing \$16.5 million over that four-year period—27.5 percent of its capital commitment target and 17.6 percent of the total amount approved for the agency's capital program. So far in 2007, DFTA has committed \$2.4 million of its target commitment level of \$24.7 million.

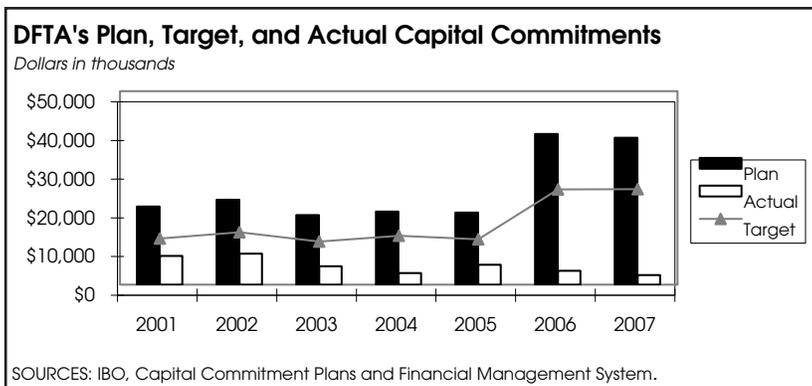
Nearly half of the \$16.5 million that DFTA committed over fiscal years 2003-2006 went towards four projects:¹ renovation of the Open Door Senior Center (\$3.7 million); renovation of office space for Department for the Aging's staff at 2 Lafayette Street (\$1.2 million) in Manhattan; interior reconstruction of the Sunnyside Community Center in Queens (\$1.7 million); and development of a new version of the agency's entitlement screening computer application (\$1.2 million).

Key Capital Projects

- Rehabilitation of various senior centers, \$14.4 million
- Replacement of computers for senior centers citywide, \$7.1 million
- Community Protestant Church Construction, \$5.5 million
- Co-Op City Baptist Church, \$4.1 million
- Educational Alliance—Project ORE, \$2.3 million
- Reengineering DFTA grants management system, \$2.3 million
- North East Bronx Bathroom Renovation, \$2 million
- Bronx Gun Hill Senior Center, \$1.9 million

END NOTES

¹These capital dollar amounts represent what was committed over the four-year period examined, not the total cost of the project.



Department of Education (DOE)

PRELIMINARY BUDGET HIGHLIGHTS

- **New State Funding.** In recognition of the settlement of the Campaign for Fiscal Equity (CFE) lawsuit, the Preliminary Budget anticipates \$723 million in new state aid for education in 2008. The Mayor has previously said that funds from the suit would be used to reduce class size, expand pre-kindergarten, and for several efforts to improve high schools.
- **New Education Initiatives.** The education department has identified \$40 million in administrative savings they plan to redirect to classrooms in 2008. DOE is also planning to begin the phase in of a new funding formula for schools as well as new accountability measures. A total of \$1.2 billion has been budgeted for unspecified initiatives in 2010 and 2011.
- **Multiple Pathways.** DOE's Office of Multiple Pathways was established in 2005 to increase graduation rates and college readiness for students who are over 18 but still missing high school credits and as a result are most at risk of dropping out. The initiative combines public and private resources. The Preliminary Budget provides \$11.4 million in city new funding annually towards this effort, an increase of about 70 percent, beginning in 2008.
- **Youth Education on Rikers Island.** A Commission on Economic Opportunity initiative, the Preliminary Budget provides a one-year, \$1.8 million commitment to fund the expansion of educational programs for 16-24 year olds jailed at Rikers Island.
- **Career Ladder Program.** Provides funding for licensed practical nurse training at Coler-Goldwater hospital. The Preliminary Budget provides \$747,000 in 2008 for classroom instruction costs for about 40 students. Roughly 85 percent of the expenditure is for staffing.
- **Labor Reserve.** Under the terms of recent labor settlements with the United Federation of Teachers as well as other unions representing DOE staff and in anticipation of future settlements, the department's labor reserve to fund these contracts is being increased by \$134 million in 2008 and \$244 million in 2009 and beyond.
- **Computer Upgrades.** This initiative budgets \$1.3 million annually in 2008-2011 for software and maintenance expenditures to help with the integration of DOE's budget data into the city's Financial Management System.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget includes \$16.7 billion for the Department of Education in 2008, \$991 million more than in 2007. Spending will grow rapidly (averaging 5.0 percent annually), reaching over \$19 billion by 2011. Much of the growth is associated with new funding by the state to address the needs identified in the Campaign for Fiscal Equity lawsuit. The city is also planning to add \$356 million in 2010 and \$856 million in 2011 for unspecified initiatives.

IBO's estimate of city spending for education is somewhat higher than the Mayor's due to an assumption that not all of the state funding the city expected to use to help cover the recent teacher's contract will be available. As a result, IBO added \$55 million in city-funded spending for 2008, which grows to over \$100 million in 2009 and beyond.

Major Programs. Using the rather small number of spending categories shown in the city's budget system for DOE, it is possible to group DOE spending into three broad program areas: services to schools, which consists of classroom instruction, instructional support, instructional administration, and non-instructional support at schools; systemwide services, which includes central administration and fringe benefits; and payments for nonpublic schools. DOE spends the bulk of its funds on services to schools, followed by systemwide services.

Based on the Preliminary Budget for 2008, services to schools will account for 76.8 percent of total DOE spending, which is down slightly from the share in 2006 when it was 78.6 percent. For 2007, the current budget allocates 77.5 percent. Within the services to schools category, classroom instruction is the largest, and represents a growing share of spending in the category, accounting for 61.3 percent according to the 2008 Preliminary Budget. Non-instructional support services, which include transportation, school food, and facilities, are the next largest share of services to schools, amounting to nearly 20 percent in 2008. The share of services to schools spending going to instructional support services is 17.6 percent, which is lower than the 2006 share (25.5 percent). This seemingly large change is in part an artifact of how DOE budgets for categorical programs. Even this late in the fiscal year, some positions that will eventually be funded with categorical resources are shown as supported by city tax dollars. As a consequence they are counted in the classroom instruction

Department of Education				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Services to Schools				
Classroom Instruction				
General Education Instruction	\$4,474,595,792	\$4,837,291,831	\$5,617,351,699	\$6,119,771,995
Special Education Instruction	530,119,777	858,899,985	966,800,734	1,066,559,857
Citywide Special Education Instruction	558,418,505	624,341,568	663,822,489	670,469,105
Instructional Support				
Special Education Instructional Support	252,542,211	311,907,309	287,977,211	290,397,514
Categorical Programs	2,753,097,590	2,687,206,489	1,990,426,247	1,982,572,712
Instructional Admin				
Regional & CW Inst. & Operational	214,642,920	230,217,548	228,585,953	216,448,474
Noninstructional Support				
School Facilities	515,178,213	538,709,246	559,705,108	556,828,492
School Food Services	317,892,117	339,867,000	365,731,695	368,212,359
School Safety	146,703,534	157,787,629	169,535,193	169,320,694
Pupil Transportation	689,999,882	848,670,464	928,677,443	987,359,443
Energy & Leases	278,413,014	320,544,282	371,491,111	379,869,029
TOTAL, Services to Schools	\$10,731,603,555	\$11,755,443,351	\$12,150,104,883	\$12,807,809,674
Nonpublic Schools				
Nonpublic School Payments*				
Special Education				
Pre-Kindergarten Contracts		\$533,248,227	\$545,641,689	\$593,475,823
Charter School, Contract School, Foster Care Payments		404,793,351	485,646,260	577,166,419
Nonpublic School & FIT Payments		51,708,418	54,137,124	53,937,124
TOTAL, Nonpublic Schools	\$894,803,748	\$989,749,996	\$1,085,425,073	\$1,224,579,366
Systemwide Costs				
Labor				
Fringe Benefits	\$1,665,977,503	\$1,823,301,170	\$2,028,589,423	\$2,093,521,369
Collective Bargaining	234,859,851	23,951,849	29,958,099	164,450,446
Central Administration				
Central Administration	343,939,094	366,871,453	390,368,365	385,067,494
TOTAL, Systemwide Costs	\$2,244,776,448	\$2,214,124,472	\$2,448,915,887	\$2,643,039,309
GRAND TOTAL, DEPARTMENT OF EDUCATION	\$13,871,183,751	\$14,959,317,819	\$15,684,445,843	\$16,675,428,349
IBO Adjustments				
City Funds	\$0	\$0	\$17,164,675	\$55,202,000
State Aid	0	0	(11,974,471)	0
Federal Aid	0	0	(20,234,669)	(55,202,000)
IBO Projected	\$13,871,183,751	\$14,959,317,819	\$15,669,401,378	\$16,675,428,349
SOURCE: IBO.				
NOTE: *A detailed breakdown of payments made in 2005 is not available.				

spending category for now, but will likely be shifted to instructional support later in the year.

Systemwide costs account for 15.8 percent of DOE spending in the 2008 Preliminary Budget, with the bulk of this spending for centrally budgeted fringe benefit costs and reserves for collective bargaining settlements. These two items have grown briskly from 2006 to 2007 (11.4 percent) and are expected to grow by 9.7 percent between 2007 and 2008. For 2008, the Preliminary Budget is adding \$134 million

to the labor reserve to provide funding for recent union contract settlements as well as for future settlements. Central administration, the other major component of systemwide costs, is up 6.4 percent this year, and is budgeted to decline by 1.3 percent in 2008.

Nonpublic school expenses include DOE spending for transportation for private school students, both general education and special education, as well as charter school payments, and tuition for special education students who need

services they could not obtain in public schools. Although they are a relatively small share of total DOE spending (7.3 percent in the 2008 Preliminary Budget), they are growing rapidly, increasing by 9.7 percent in 2007 and 12.8 percent in the 2008 budget. In contrast, spending for services to the public schools has grown by 3.4 percent in 2007 and is expected to increase by 5.4 percent in 2008. Nonpublic school transportation, including special education students, is up 20.0 percent this year over 2006, while public school transportation is up 9.4 percent over 2006.

New Reform Initiatives. The Mayor and the department have recently announced the next phase of their Children First reform program, which includes the continued reduction of central bureaucracy costs, increased spending for school level accountability, and changes in school funding formulas intended to address inequities that the Bloomberg Administration has identified in the current allocation of city resources among schools.

Reducing Administrative Costs. For 2008, the Department of Education has identified \$40 million in new administrative savings that it plans to redirect to schools and classrooms. IBO has estimated that during the two years of Children First, the department achieved more than \$200 million in administrative savings, including the consolidation of most functions of the 32 community school districts into 10 regional offices. The Bloomberg Administration has said that those savings were redirected to schools and classrooms.

Next year, each school will be able to choose from three support models. The first option is to become an empowerment school in which the principal is given greater budgetary and pedagogical autonomy and some additional discretionary money, in exchange for greater accountability and assuming responsibility for much of the staff development work that the school would otherwise get from a regional office. DOE introduced the empowerment school model this year with over 330 schools participating and expects the number to nearly double next year. A second option is to draw support services from one of the department's new learning support organizations, which are to be formed from remnants of the regional office structure that is largely being dismantled. The third option is to contract with an external partnership support organization (PSO), which will be private entities offering services to networks of schools. The department is estimating an allocation of roughly \$170,000 per school for use in choosing the support structure which the principal thinks will give the highest student performance results.

The reduction of the regional operating centers that are currently providing some direct services to schools, as well as further reduction of instructional administration costs, are expected to produce new savings in administrative costs, with the budgetary effects of these changes expected to grow over time.

Increasing School Accountability. Reform efforts will also expand school level accountability to spur improvements in school quality. These measures include development of a new computer system known as the achievement reporting and innovation system (ARIS) that will consolidate school progress reports, quality reviews, and other assessments. The ARIS system is intended to allow access to data showing how well students are doing in each subject by grade, school, and classroom. The system is designed to consolidate, analyze and report information to provide answers regarding trends and impacts of certain school conditions, such as curriculum or teacher development, on student performance.

School progress reports will grade schools based upon performance, as a measure of the number of students at or above proficiency; progress as a value-added measure of how individual students improve on their standardized test results; and school environment as measured by attendance, safety, and parent/student/teacher satisfaction. The reports will assign each school a letter grade on a scale of A through F. Financial incentives based on the school progress report grades are also expected to be unveiled as motivational tools. Exact details regarding funding sources and allowable uses of the incentives are not available.

Quality reviews, which were started during 2007, entail school evaluation by the firm of Cambridge Education, which observes classroom teaching and how data is used to improve instruction in a given school. As a result of the review, a short report is generated on a scale of "well developed," "proficient," or "undeveloped." Another measure includes diagnostic tools for periodic testing and assessment of students four or five times a year that will be used to help teachers and principals more quickly adjust instructional programs.

Although empowerment schools were the initial group targeted for increased accountability in return for autonomy and additional financial resources, in the upcoming 2008 school year, all schools will be subject to the demands of the accountability initiative as described above.

Changing the Distribution of City Funding Across Schools. The education department will also phase in a new school funding methodology that is designed to provide a simpler and

fairer distribution of city tax-levy dollars for New York City students. The “fair student funding model” is not anticipated to affect state and federal categorical dollars. City tax dollars dedicated to classroom instruction (estimated to be over \$7.8 billion in fiscal year 2008) are to be redistributed among schools, with the changes phased in gradually over a number of years.

Under the new system, city funding would follow the student, with each school receiving a base level of funding per student, depending on grade level and supplemented by additional funding to reflect special needs. Principals would determine how best to spend these funds, making trade-offs in order to remain within their budgets.

One major change under the new funding approach is that schools would be forced to weigh more carefully the cost of adding more experienced—and therefore more expensive—teachers to their roster. Currently, schools are largely held harmless if a teacher’s salary exceeds the citywide average. This has the effect of making it easier for schools to accept transfer requests from senior teachers when openings occur, one reason behind the uneven distribution of more experienced teachers across the city. Under the new system, the principal would still be able to add a more experienced teacher, but will have to budget according to the actual teacher’s salary. As a result, schools that choose to have many more experienced teachers would either have fewer teachers (and therefore larger classes) or would have to identify other ways to keep spending down.

Other Changes. A number of other policy changes will also affect the budget and will likely be reflected in subsequent Financial Plans. Mayor Bloomberg and Chancellor Klein plan to open 40 new schools in September 2007 plus two new charter schools and two school expansions. Together, these schools will enroll 4,200 students next year and 15,100 students when they reach their full student complement. The schools include three elementary schools, 10 middle schools, six secondary schools serving grades 6-12, and one school serving grades K-8.

Effects of Key Budget Proposals

New State Funding. In recognition of the settlement of the Campaign for Fiscal Equity lawsuit, the Preliminary Budget anticipates \$723 million in new state aid for education, although some of this increase is the result of normal baseline growth in state funding. CFE-related aid is expected to grow to \$2.3 billion by 2011. The Mayor has previously said that funds from the suit would be used to reduce class size, expand

pre-kindergarten, and for several efforts to improve high schools.

New Education Initiatives. DOE expects to identify \$40 million in administrative savings in 2008 that will be redirected to schools and classrooms. As explained in greater detail above, the education department will also begin the phase in of a new school funding formula intended to be simpler and fairer than the current method of allocating funds to schools. The role of the regional operating centers is being reduced and new school accountability measures implemented. Beginning in 2010, the Financial Plan sets aside \$356 million for unannounced policy initiatives to improve student achievement. This amount increases to \$856 million in 2011 for on-going implementation of initiatives as well as additional, unspecified projects.

Multiple Pathways. Created in 2005, the Office of Multiple Pathways operates under the umbrella of the Division of Youth Development. With a goal of increasing graduation rates and college readiness for students who are over 18 but still missing high school credits, the office focuses on students who are truant, dropping out, or need an alternative educational option. The Preliminary Budget adds \$11.4 million, an increase of about 70 percent, for programs including Young Adult Borough Centers, Transfer Schools, General Education Diplomas, and Learning to Work.

Youth Education on Rikers Island. The Preliminary Budget provides \$1.8 million in 2008 to expand educational literacy and work readiness programs for youth under custody with the Department of Correction on Rikers Island. This initiative is one of the programs sponsored under the Mayor’s Commission on Economic Opportunity. This program will be run cooperatively between the Department of Correction and DOE’s alternative schools office. The budget provides funding for only 2008 because it, like other Commission on Economic Opportunity initiatives, will be evaluated for effectiveness before being refunded.

Career Ladder Program. The initiative is a joint effort between the Health and Hospitals Corporation and the Department of Education to offer licensed practical nurse training at Coler-Goldwater hospital. The Preliminary Budget includes \$747,000 in 2008 for classroom instruction costs for about 40 students, with DOE providing training assessment, literacy instruction, and test prep. Roughly 85 percent of the funding is for staffing, which will include three adult-education teachers, a case manager, a secretary, a paraprofessional, and a supervisory position.

Labor Reserve. Under the terms of recent labor settlements with the United Federation of Teachers as well as other unions representing DOE staff, and in anticipation of future settlements, the department's labor reserve to fund these contracts is being increased by \$134 million in 2008 and \$244 million in 2009 and beyond.

Computer Upgrades. This initiative budgets \$1.3 million annually in 2008-2011 for software and maintenance expenditures. Mainframe upgrades are required to support the additional workload generated by the integration of DOE's internal financial accounting system with the citywide Financial Management System.

State Budget

CFE Decision. Last year, the Court of Appeals issued the final ruling in the lengthy battle over the amount of funding needed for New York City schools to provide a sound basic education. The court determined that over four years, the total increase in annual spending needed for the city to provide such an education was \$1.93 billion. Although the amount of money was much less than in lower court decisions, the Court of Appeals affirmed the lower court's ruling linking funding and the ability to provide a good education. The Mayor and Chancellor have already chosen some CFE funding priorities including smaller class size, expanded pre-kindergarten, the ongoing high schools initiative that focuses on charters and small schools, along with better teacher training and pay. Whether these priorities will change in light of the lower-than-expected level of new CFE resources is unclear.

The Governor's budget for state fiscal year 2007-2008 includes \$19.2 billion for elementary and secondary education, an increase of \$2.3 billion over the 2006-2007 level of \$16.9 billion. Both houses of the state Legislature have also enacted legislative budget bills that differ in the amount of school aid for the city and the amount of flexibility that would be available to the city in using that aid.

The Governor has indicated that New York City can expect to receive \$7.1 billion next year, equal to 37 percent of total state aid if his proposals are adopted. This is \$639 million more than 2006-2007 level of \$6.5 billion exclusive of Sound Basic Education reserve funds.¹ After four years, the increase in state aid under the Governor's proposals would add amount to an annual increase of about \$2 billion above current levels. In his budget presentation, the Governor has argued that when combined with growth in the city-funded portion of the DOE budget, this additional state aid provides sufficient

new funding for DOE schools over the next four years to meet the increased spending requirements imposed by the Court of Appeals. In the Preliminary Budget, the city anticipates an increase in overall state education aid of \$723 million for 2008 over 2007, crediting it all to CFE, although the city's prior Financial Plan from November 2006 had already assumed an increase in state aid of about \$100 million.

Foundation Aid. A new foundation aid program would replace roughly 30 formulas currently in existence, with greater weight placed on factors such as student need and regional cost differences. Although there would be some redistribution of school aid under the Governor's proposal, because the total amount of aid to be distributed through this new formula would be \$948 million greater than the amount distributed in the current year under existing formulas, all districts would see an increase of at least 3 percent compared to their current funding. Any district receiving a foundation aid increase greater than 10 percent (or \$15 million) would have to sign a "Contract for Excellence," which would increase district accountability for student performance and spending. New York City would receive roughly 48 percent of the increased support provided by this aid. Estimated foundation aid for New York schools in 2008 is \$5.5 billion.

Universal Pre-kindergarten. The Governor's budget includes an increase of \$99 million to bring total statewide funding for universal pre-kindergarten to \$395 million for the next fiscal year. The funding ramps up to \$645 million by 2010-2011 at which time all high need and low-performing districts are expected to provide full-day programs. New York City's share of universal pre-kindergarten would be \$252 million, which is also equal to 64 percent of the statewide total for the program. All grants are expected to factor in varying district wealth and educational needs.

Coupled with the changes in the school aid formulas is an expansion of the state's School Tax Relief (STaR) program that reduces local school property taxes using state general fund resources to make the school districts whole for the forgone revenue. The Governor would target the expanded relief to households with income below \$235,000 with the largest increase in STaR benefits to go to households with income below \$60,000 (\$80,000 in the city and surrounding suburbs). The current state property tax rebate will be discontinued to generate \$675 million in savings to be applied to the new initiative. Because the city has an unusually high share of renters who are not eligible for STaR, the program will also give New York City residents an additional \$150 million in income tax relief. While the school aid formula changes would

shift some aid away from suburban districts towards urban and upstate districts, the STaR benefits flow most heavily to the suburban districts around New York City—the Governor's figures indicate that even with the income tax benefit, the city's share of statewide STaR benefits is roughly 25 percent.

Federal Budget

The Bush Administration's budget request for federal fiscal year 2008 proposes to spend \$9.2 billion on elementary and secondary education in New York State and includes reauthorization of the No Child Left Behind Act (NCLB). NCLB is intended to promote high standards, accountability, and to ensure proficiency in reading and math skills for all students by 2014. The budget would increase Title I funding in the form of regular Title I and Title I School Improvement Grants along with Reading First and Early Reading First funding. This aid would provide \$17 million for increased grants to high-poverty school districts in the state and \$16 million for school lunch and breakfast programs. Title I funding currently represents almost 50 percent of all federal funds received for New York City schools. These funds support a range of services for disadvantaged children including free and reduced price meals.

NCLB requires schools receiving Title I funds to demonstrate adequate yearly progress towards specified goals for student achievement. Any school that fails to do so is given a designation based on the number of years it has not met the federal standard. As of January 2007, the New York State Education Department had identified 422 city schools that were in various stages of failure to meet the federal standards. There were 62 schools in need of improvement (SINI) year one (two years of failure); 58 were SINI year two (three years of failure); 44 were in need of corrective action (four years of failure); 46 were planning for restructuring (five years of failure); and 126 were restructuring. There were 86 other schools designated as requiring improvement in academic progress.

Under NCLB, the education department must offer students in these schools transfers to schools that are making adequate yearly progress. In addition, DOE must set aside up to 20 percent of its Title I funding to provide supplemental educational services and transportation, if needed. So far, the use of NCLB transfers has been much lower than the number of students eligible because of their schools performance.

Federal school lunch funds amount to \$220 million, currently 13 percent of all federal education funds received by the city. The city anticipates spending for new needs in this category

to increase by another \$14 million in the 2008 fiscal year. The Office of School Food and Nutrition Services is responsible for a full range of meal programs including breakfast, lunch, after-school, and summer programs. School food services, representing over \$368 million of expenditures, are 15 percent of all non-instructional support services.²

The federal budget also proposed to spend \$365 million for the American Competitiveness Initiative to increase rigor in U.S. schools by strengthening math and science instruction. One of the stated primary goals of the President's education budget is to prepare U.S. students for global competition. In addition to NCLB requirements that all teachers be highly qualified, a commitment has been made to close achievement gaps that hinder global competitiveness. The proposed federal budget would also increase Title II funds for professional development. Last year this source contributed over \$129 million to the education department's federal revenue. In 2008 this revenue source is expected to increase to over \$134 million.

CAPITAL BUDGET

Agency Overview. The city's January 2007 Capital Commitment Plan, which covers fiscal years 2007-2010, would provide \$11.8 billion for the Department of Education's (DOE) capital plan. This represents \$1.3 billion more than the prior plan published in September 2006. The city anticipates additional state funding beyond the \$6.56 billion already pledged by the state for the department's Five-Year (2005-2009) Capital Plan. According to the city's Preliminary Ten-Year Capital Strategy for Fiscal Years 2008-2017, which was also released in January, the city expects the state to provide over \$1.2 billion each year beginning in 2010 and continuing through 2017. When the state's contribution to the current plan was negotiated last year, it was in the context of helping the city catch up with its capital needs rather than a new ongoing commitment from the state. Thus, the assumption in the new 10-year capital strategy that the extraordinary state capital assistance will continue may prove difficult to meet.

Besides the Capital Commitment Plan, the city is required under state education law to produce a separate five-year education capital plan, which we discuss in more detail below. The current five-year plan covers 2005 through 2009 and allocates \$13.5 billion in spending. Approximately half of the planned commitments for the five-year plan are city-funded, primarily financed through long-term borrowing through the municipal bond market. The other half of the plan includes \$6.56 billion in state funds as part of the resolution of the Campaign for Fiscal Equity (CFE) litigation and about \$100

million in federal funds.³

When the department's five-year plan was adopted in June 2004 the city anticipated receiving equal installments of \$1.3 billion from the state for each year beginning with 2005 and continuing through 2009. State CFE funds did not arrive when anticipated, forcing the city to make up for the shortfall (see table). In fiscal year 2005, 100 percent of the total commitments made for DOE's capital plan were city funded and in 2006, city funds made up approximately 70 percent of the total committed for education.

State Assistance for DOE Capital Plan

As part of the CFE litigation, the courts found not only that city schools faced inadequate operating support, but that there were also major deficiencies in school capacity and building conditions which needed to be addressed. When the state enacted its 2006-2007 budget last year, it included legislative changes that will result in \$6.56 billion of capital assistance for New York City schools to help meet the school facility levels set by the courts.

There were two types of assistance provided: \$1.8 billion in EXCEL (Expanding our Children's Education and Learning) aid to the city, and \$9.4 billion in increased bonding authority for the New York City Transitional Finance Authority (TFA) which will be supported in part by a pledge of state building

aid payments. Because the state building aid formula actually reimburse the city for slightly more than 50 percent of the debt service costs of eligible projects, the expanded TFA capacity actually results in \$4.76 billion in new resources for the city.

The EXCEL program provides a total of \$2.6 billion of capital assistance statewide, with the city receiving more than two-thirds of the total. The new EXCEL aid is in addition to annual building aid that is distributed to districts throughout the state. The Dormitory Authority of the State of New York (DASNY) is in charge of selling the state-backed bonds that will provide the EXCEL aid to the districts. In November 2006, DASNY issued bonds to provide \$790 million of the \$1.8 billion total earmarked for the city.⁴ The remainder of the city's EXCEL funding will be provided in city fiscal years 2008 and 2009. The state budget proposal for 2007-2008 includes a total of \$112 million statewide (\$94 million for the city) to cover the debt service payments related to the EXCEL aid.

The new TFA school construction bonds will generate \$4.76 billion in funding that does not rely on city resources. The state will provide the revenue stream to repay the new bonds known as "Building Aid Revenue Bonds" or BARBs. This results from expanding the TFA bonding authority for education purposes and making TFA debt service eligible for building aid reimbursement. With these changes, the city will be able to reap additional building aid above what would

have been possible based on the existing portion of the city's general obligation borrowing planned for schools construction. In November 2006 the city sold \$650 million in BARBs to help finance the department's current five-year capital plan and in March 2007 the city is expected to sell an additional \$650 million.⁵

This complex arrangement is not without cost, or risk, for the city. In the past, building aid, even though it is calculated based on the debt service costs of approved projects, was received by the Department of Education as part of its general operating aid allocation from Albany. The city's debt service costs for education projects were paid from the

Changes to City Four-Year Capital Commitment Plans for Department of Education							
<i>Dollars in millions</i>							
	2005	2006	2007	2008	2009	2010	Total
	Actual	Actual	Plan	Plan	Plan	Plan	2007-2010
							Plan
January 2007 Plan							
City Funds	\$2,188	\$1,411	\$1,024	\$1,026	\$1,210	\$1,212	\$4,472
State Funds	0	579	2,074	2,004	2,004	1,212	7,294
Total	\$2,188	\$1,990	\$3,098	\$3,030	\$3,214	\$2,424	\$11,766
September 2006 Plan							
City Funds	\$2,188	\$1,430	\$1,024	\$1,014	\$1,210	\$1,097	\$4,345
State Funds	0	579	2,074	2,004	2,004	0	6,082
Total	\$2,188	\$2,009	\$3,098	\$3,018	\$3,214	\$1,097	\$10,427
Change							
City Funds	\$0	(\$19)	\$0	\$12	\$0	\$115	\$127
State Funds	0	0	0	0	0	1,212	1,212
TOTAL	\$0	(\$19)	\$0	\$12	\$0	\$1,327	\$1,339
SOURCES: IBO; Capital Commitment Plans.							
NOTES: Actual commitments for 2005 and 2006 are included because the department has a separate capital planning process that spans five years. The department's current five-year capital plan covers fiscal years 2005-2009.							

citywide debt service accounts rather than by DOE. Under the new arrangement, building aid is now being sent first to the TFA to service the BARBs, rather than directly to DOE. Even though there is new building aid being generated as a result of the enhanced TFA bonding authority, the need to divert a growing portion of total building aid to service the BARBs leaves less available for the DOE operating budget than previously assumed. This creates a gap in the DOE operating budget, which has to be filled with city tax-levy dollars. According to the Mayor' Preliminary Budget the shortfall that needed to be covered with city funds stands at \$56.2 million in the current fiscal year and \$39.8 million in 2008. The shortfall peaks in 2009 at \$69.7 million and then shrinks in 2010 and again in 2011. (Note that these amounts are smaller than had been estimated in the November 2006 Financial Plan.)

The risk to the city stems from reliance on a future generation of state leaders to continue appropriating sufficient building aid each year to meet the annual debt service costs on the BARBs. In some future year, if it were determined that the TFA did not have sufficient resources to meets its current obligations, then other school aid would be assigned to the authority to cover the debt service. The state and city have entered into agreements in which the state commits to make no substantial change to the building aid system while approved

projects are being reimbursed. These commitments will need to be honored for at least the next 25 to 30 years.

An indication of how agreements can evolve over time in Albany is demonstrated by changes from just a year ago in how EXCEL aid is counted.

A longstanding tradition in Albany has been the careful calibration of school aid shares, with New York City's share usually

equaling approximately 38 percent. (Governor's Spitzer's budget presentation nods to this tradition by presenting a calculation of shares combining the amounts under his new school aid funding formula with the proposed enhancements of STaR property tax relief.) As noted above, EXCEL was part of a package to address the special capital shortcomings identified during the CFE litigation. When it was enacted last year it was considered outside the regular school aid calculations and therefore the debt service for EXCEL was not one of the funding streams that calculations of aid shares was based on. In this year's state budget it is included with the regular school aid and thus enters into the calculation of the share of aid for local school districts. Because over 80 percent of the EXCEL debt service estimated for the 2007-2008 state budget (\$94 million out of \$112 million) will be for city projects, this has the effect of pumping up the city's share, thereby obscuring shortfalls in other forms of school aid.

State Building Budget. The 2007-2008 Executive Budget provides \$1.68 billion statewide in building aid and building reorganization incentive aid, an increase of \$23.2 million compared to the prior year. (This does not include the EXCEL building aid mentioned above.) New York City's allocation is \$531.7 million, \$12.1 million less than in 2006-2007.

Department of Education 2005-2009 Capital Plan Summary Table of Approved and Proposed Changes to the Plan						
<i>Dollars in millions</i>						
	Adopted Plan	First Amendment	Second Amendment	Proposed Third Amendment	Change from Adopted to Proposed	
Category	June 2004	March 2005	May 2006	February 2007	\$ Diff	% Chg
Five-Year Plan						
Capacity Program	\$4,225.0	\$4,189.6	\$4,697.7	\$4,907.6	\$682.6	16.2%
Capital Improvement Program	8,311.8	8,263.3	7,761.9	7,540.7	(771.1)	-9.3%
Miscellaneous (insurance and building surveys)	364.2	474.6	472.0	483.2	119.0	32.7%
Completion Costs for Prior Plan (2000-2004)	225.0	239.3	235.8	255.9	30.9	13.7%
Subtotal	\$13,126.0	\$13,166.8	\$13,167.4	\$13,187.4	\$61.4	0.5%
Add-ons						
Resolution A	\$0.0	\$122.2	\$210.2	\$301.2	\$301.2	n/a
Mayor and City Council	0.0	47.0	63.8	57.7	57.7	n/a
Subtotal	\$0.0	\$169.2	\$274.0	\$358.9	\$358.9	n/a
TOTAL	\$13,126.0	\$13,336.0	\$13,441.4	\$13,546.3	\$420.3	3.2%
SOURCES: IBO; Department of Education.						

Changes in the DOE Five-Year Capital Plan

For most agencies, the city Capital Commitment Plans and 10-year capital strategy are the only sources of information for understanding an agency's capital program, its changing needs and priorities. In contrast, the Department of Education has a separate five-year capital planning process that is mandated by state education law. Planning for city public school construction and repairs is guided by the department's five-year capital plan, which is developed and implemented by the School Construction Authority.

The 2005-2009 capital plan, the department's current five-year plan, called for a total investment of \$13.1 billion when it was adopted in June 2004. Between June 2004 and February 2007, the budget for the department's capital plan increased by \$61.4 million. This excludes funding for additional projects sponsored by the Mayor, Borough Presidents, and Council members, which are outside the scope of the department's five-year plan. Funding for such projects, which are allocated by city elected officials for school capital projects in their respective districts or for boroughwide or citywide initiatives, increased to \$358.9 million over the same period. The combined changes increase the total budget for the department's capital plan over fiscal years 2005-2009 to \$13.5 billion (see table).

The 2005-2009 Capital Plan was formally amended in 2005 and 2006 and a third amendment process is currently underway. This is in keeping with a memorandum of understanding signed by the Chancellor, the Mayor, and the Speaker of the City Council that requires the department to formally amend its five-year plan each year so that changes to the plan can be examined and approved by the City Council. The discussion that follows focuses on the state of the plan as of February 2007 in comparison to the original plan adopted in June 2004. For more information on the plan amendment process and the impact of the first two amendments on DOE's capital plan see last year's IBO report, *Analysis of the Mayor's Preliminary Budget for 2007*.

The Proposed 2007 Amendment. The Panel for Education Policy, which is DOE's name for the successor to the Board of Education, voted on the third amendment to the 2005-2009 Capital Plan on February 26, 2007. The department's current proposal was approved by a majority of the policy panel. Under state law, formal amendments to the department's adopted five-year capital plan must be approved by the panel, the City Council, and the Mayor.

In the proposed 2007 amendment, the department allocates \$4.9 billion (37.2 percent of the total five-year plan excluding projects sponsored by elected officials) for the capacity program, which includes the construction of new schools and additions to existing schools, improvements at leased school sites, transportable classroom units and site acquisition costs. While most of these efforts are intended to increase the number of classroom seats, this plan category also includes \$378.8 million in city funds to replace existing buildings in projects that are not expected to provide additional seats. With these funds a total of 106 capacity projects creating 63,935 new seats could be built over fiscal years 2005–2012.

Since the adoption of the five-year plan in 2004, funding for the capacity program has increased by \$682.6 million or 16.2 percent. Much of this growth is accounted for by the inclusion of \$378.8 million in funding to replace existing buildings that are not expected to effect system capacity. Also, \$302.9 million was added for the construction of additions to existing schools.

Fewer New Seats. A change in the number of planned new seats also accompanied the funding changes. Based on the draft 2007 amendment released in February 2007, the department is constructing about 1,670 fewer seats as a result of shifting population and student enrollment trends. For instance, the biggest cut is proposed for School District 10 in the Bronx. As of last year, elementary and middle school buildings in this district had a combined utilization rate of 103 percent. According to recent projections prepared for the department, enrollment in this district is expected to decline 10 percent by 2014.⁶

Reductions in Building Improvements. The department's plan also provides \$7.5 billion (57.2 percent) for the capital improvement program, which includes rehabilitation of building components (e.g. roofs and windows), safety systems (e.g. emergency lighting), educational enhancements (e.g. science labs), and unspecified emergency projects. Since the adoption of the five-year plan, funding for this category has been reduced by \$771.1 million or 9.3 percent. The impact of this net reduction is borne primarily by the school improvement and restructuring allocation (SIRA) subcategory, which has been reduced by \$1.1 billion or 55.3 percent compared to the original plan. A more in-depth discussion of the SIRA subcategory follows in the next paragraphs.

The department currently provides \$909.9 million for the SIRA plan category; this is about 55 percent less than the \$2.0 billion set aside when the five-year plan was adopted in June 2004. According to the department, this reduction was necessary to mitigate the impact of rising construction costs

on the entire capital plan. The SIRA funding is earmarked for struggling schools, including those designated as schools in need of improvement (SINI), schools requiring academic progress (SRAP), schools under registration review (SURR),

and low-performing high schools being restructured into smaller learning communities.

The SIRA category has been somewhat controversial since it was introduced with the current five-year plan. During the original review of the plan in 2004, the City Council issued a report that concluded that the SIRA funds would be "...unaccountable, subject to diversion and mismanagement." The concern was that the draft of the plan did not identify which schools would be eligible for a SIRA for each year of the plan and that it did not specify what type of capital work would be undertaken at each school with those funds. Instead, the schools that would be included in the program, along with the work to be undertaken at these schools, would be identified one year at a time.

Department of Education 2005-2009 Capital Plan: Change in Capacity Program by Borough and School District

Borough/ School District	Planned Seats Adopted Plan June 2004	Planned Seats Proposed Third Amendment February 2007	Change
Building Type: Grades Pre-K-3 or Pre-K-8			
Manhattan			
2*	1,890	3,780	1,890
6	1,700	1,103	(597)
Bronx			
8	0	440	440
9	1,700	1,890	190
10	4,030	2,520	(1,510)
11	3,780	2,960	(820)
Brooklyn			
13	0	0	0
14	0	0	0
15	630	1,071	441
16	0	0	0
17	0	0	0
18	630	506	(124)
19	630	1,030	400
20	5,118	5,448	330
21	1,260	0	(1,260)
22	2,520	1,260	(1,260)
23	0	0	0
32	0	441	441
Queens			
24	4,660	5,220	560
25	440	630	190
26	880	441	(439)
27	2,596	2,331	(265)
28	2,520	2,520	0
29	630	630	0
30	1,700	1,260	(440)
Staten Island			
31	1,890	1,700	(190)
Subtotal	39,204	37,181	(2,023)
Building Type: Grades 6-12			
Bronx	9,900	9,912	12
Brooklyn	4,952	5,266	314
Queens	9,900	9,912	12
Staten Island	1,650	1,664	14
Subtotal	26,402	26,754	352
TOTAL	65,606	63,935	(1,671)

SOURCES:IBO; Department of Education.

NOTE: *Amendment includes additional capacity due to Hudson Yards development project.

The proposed 2007 amendment includes a list of the individual types of SIRA projects that are scheduled to be undertaken at specific schools over the first four years of the five-year capital plan. With the remaining SIRA resources, the department intends to continue the work begun to restructure large high school campuses, upgrade or provide new science labs for intermediate/high school students and create classroom space for universal pre-kindergarten.

Other key capital improvement categories to be cut since the adoption of the five-year plan are light fixtures by \$505.2 million, auditoriums by \$195.3 million, paved areas (concrete) by \$134.6 million, electrical systems by \$92.3 million and playgrounds by \$81.4 million. Some of these reductions are offset by increased funding for windows (\$322.4 million), exterior masonry (\$295.5 million), unspecified emergencies (\$229.2 million), parapets (\$197.2 million), building code compliance (\$141.7 million) and roofs (\$105.4 million).

In addition to the capacity expansion and capital improvement categories, the department provides \$483.2 million or 3.7 percent for miscellaneous costs (construction insurance and annual building condition surveys). This plan category has grown by \$119 million or 32.7 percent and over three-quarters of the increase was for insurance for SCA contractors and subcontractors working on school capital projects. The department also provides \$255.9 million or 1.9 percent to complete projects begun under the prior five-year plan (2000-2004). Since the adoption of the five-year plan, this plan category has grown by \$30.9 million or 13.7 percent.

END NOTES

¹Sound Basic Education Reserves were established in the 2004-2005 state budget as an initial step towards dealing with the CFE resolution by providing funding outside the normal school aid appropriation process for high-needs districts. The funding comes from revenue from Lottery Video Terminals installed at horse racing tracks and other sites around the state.

²This figure excludes \$2.8 million in central administration spending related to school food services.

³The federal funds are provided by the Federal Aviation Administration (FAA) and the Port Authority of New York and New Jersey to soundproof schools

that are affected by aircraft noise around port authority airports. The School Soundproofing Program is administered by the port authority, which contributes 20 percent of the program funding and the FAA provides the balance of the funding.

⁴Office of the Mayor, Press Release, November 16, 2006, "Mayor Bloomberg and Bear, Stearns & Co. Complete Sale and Transfer of \$650 million in School Bonds for New York City."

⁵Stark, Jonna. "New York City TFA to Sell \$650M of Bonds for School Capital Program." *The Bond Buyer*, February 21, 2007, p.6.

⁶Enrollment, Capacity and Utilization Report for School Year 2005-2006, released in fall 2006. Enrollment Projections 2005 to 2014, prepared by E. Grier and G. Grier for School Construction Authority, October 2005.

Department of Health and Mental Hygiene (DOHMH)

PRELIMINARY BUDGET HIGHLIGHTS

- **Correctional Health Services.** The 2008 Preliminary Budget calls for \$7.4 million in additional city funds in 2008 to fund an expansion of various prison health services, to cover the rising cost of pharmaceuticals for inmates, and to fund an intra-city agreement with the Health and Hospitals Corporation (HHC).
- **Intra-city Funding with Department of Education.** Under Article VI of the state's public health law, DOHMH's budget includes funding for Department of Education (DOE)-provided services that address the major health issues of children. These funds are then paid out to DOE as intra-city revenue. The 2008 Preliminary Budget calls for \$900,000 in annual city funding, as well as \$500,000 in annual state funding, for the expansion of those services provided by DOE.
- **School Health.** The Preliminary Budget calls for \$600,000 in new city funds in 2008 to fund a reproductive health outreach program for high school-age adolescents at approximately 50 schools.
- **Commission on Economic Opportunity Programs.** The Preliminary Budget proposes \$900,000 in city funds in 2008 to establish reproductive health centers at selected high schools (see appendix for full program list). The Preliminary Budget also calls for \$200,000 in new city funds in 2008 to establish a food policy program that will target obesity and chronic diseases associated with a lack of healthy food options.
- **Nurse-Family Partnership.** Beginning in 2009, DOHMH will expand the Nurse-Family Partnership (NFP) to cover an additional 3,400 families over five years. The Bloomberg Administration also intends to start claiming state and federal Medicaid funds totaling \$15.2 million in 2009, \$18.7 million in 2010, and \$24.7 million in 2011 for this program. This would both fund the expansion and save the city \$4.7 million annually beginning in 2009.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes DOHMH funding of \$1.561 billion for 2008, a \$122.1 million decrease from current spending projections for 2007. Because additional funds tend to be added when the budget for the upcoming year is adopted and over the course of the year, it is likely that the final budget amount will be higher. City-funded expenditures in 2008 are projected to equal \$607.4 million, or 38.9 percent of the agency's total budget. Overall expenditures are projected to grow very slowly between 2009 and 2011, rising from \$1.586 billion in 2009 to \$1.594 billion in 2011—an increase of less than 1 percent.

Effects of Key Budget Proposals

Correctional Health Services. The 2008 Preliminary Budget includes a \$7.4 million increase in city funding and a \$1.3 million increase in state funding for three correctional health services initiatives. The first initiative provides \$3.3 million in new city funds in 2008 and \$3.2 million annually beginning in 2009, as well as \$410,000 in state funds in 2008 and \$390,000 each year thereafter. This funding will be used to expand prison health services in response to the Department of Correction's (DOC) restructuring of housing units for mentally ill, disruptive, and high acuity care (chronically ill but not inpatient) inmates. It will also fund a pilot group therapy/substance abuse program in 20 mental observation units on Rikers Island.

The second initiative provides \$3.6 million in city funds in 2008, as well as \$500,000 in state funds, for the purchase of pharmaceuticals for inmates in city-run correctional facilities. Prior to this initiative, the budget for correctional health pharmaceuticals was unchanged since 2004, despite rapidly rising costs.

The third initiative will fund an ongoing intra-city agreement with HHC to provide staff at DOC's Vernon C. Bain Center, an 800-bed barge used since in 1992 to accommodate an overflow of inmates. The agreement covers approximately 52 HHC employees and specifies a fixed dollar amount for fringe benefits. Since 2006, however, actual fringe benefits costs have exceeded the budgeted amount. As part of the agreement, DOHMH reimburses HHC for actual fringe costs incurred. To cover these additional costs under the agreement,

Department of Health and Mental Hygiene*Budget by agency programs*

	2005	2006	2007 Current Modified	2008 Preliminary
Administration & Capital	\$69,731,354	\$75,133,506	\$83,243,145	\$76,222,015
Disease Prevention And Treatment				
HIV/AIDS	\$180,764,730	\$190,029,200	\$209,279,835	\$173,020,747
STD (General)	13,745,894	14,062,622	13,874,605	14,040,104
TB	32,107,476	53,697,400	31,975,484	31,848,423
Epidemiology	21,366,675	22,857,578	31,211,642	32,594,653
Immunization	8,885,396	10,959,043	17,419,053	13,123,364
Bioterrorism	20,139,040	19,382,140	38,255,202	15,058,638
WTC	925,033	1,221,133	2,994,260	7,068,500
Misc.	244,941	437,316	18,766,888	1,059,938
TOTAL, Disease Prevention and Treatment	\$278,179,185	\$312,646,431	\$363,776,969	\$287,814,367
Environmental Health Services				
Lead Poisoning	\$6,555,216	\$6,921,830	\$10,314,745	\$10,302,695
Asthma	4,190,923	3,548,941	2,464,151	0
Pest Control	10,738,471	10,686,807	11,066,508	9,549,124
Animal Control	8,097,367	9,135,357	8,869,344	8,870,516
Food Safety and Community Sanitation	68,171	70,035	14,416,024	16,658,846
Environmental Science and Engineering	2,417,535	2,292,588	3,816,873	2,349,853
Poison Control	22,258	1,081,663	1,387,796	1,467,796
General Environmental Health	31,081,706	35,530,148	4,735,603	3,188,208
TOTAL, Environmental Health Services	\$63,171,646	\$69,267,370	\$57,071,044	\$52,387,038
Personal/Community Health Services				
School Health	\$50,762,020	\$54,267,034	\$70,741,172	\$72,260,352
Day Care Services	7,521,775	8,904,963	7,937,171	8,530,804
Tobacco Prevention Programs	4,119,085	4,791,314	30,206,849	12,610,481
General Maternal and Child Health	3,806,672	3,186,475	10,611,968	16,844,010
District Public Health Offices	0	0	4,407,922	4,407,922
Misc.	57,113,661	70,846,710	37,169,632	15,265,772
TOTAL, Personal/Community Health Services	\$123,323,213	\$141,996,495	\$161,074,714	\$129,919,341
Other Programs				
Prison Health Services	\$135,847,998	\$140,731,253	\$136,112,704	\$145,011,267
Office of the Chief Medical Examiner	39,394,784	39,601,887	52,960,947	55,721,303
Oral Health Care Services	7,147,037	7,729,651	5,787,736	5,762,936
Managed Care	11,859,592	12,865,353	23,784,394	22,505,315
Mental Health	206,560,725	195,882,565	216,168,849	197,444,846
Early Intervention	464,182,101	471,011,881	531,340,013	546,681,201
Chemical Dependency	44,067,977	42,657,325	52,381,793	42,146,500
TOTAL, Other Programs	\$909,060,215	\$910,479,915	\$1,018,536,436	\$1,015,273,368
GRAND TOTAL, HEALTH AND MENTAL HYGIENE	\$1,443,465,614	\$1,509,523,716	\$1,683,702,308	\$1,561,616,129
Full-Time Staffing	3,788	3,951	4,010	4,718

SOURCE: IBO.

DOHMH will provide \$420,000 in city funds, as well as \$50,000 in state funds, to HHC in 2008.

The 2008 Preliminary Budget calls for \$136 million in total DOHMH spending on correctional health services in 2007, a decrease of 3.2 percent from 2006. The decrease in funding between 2006 and 2007 is explained by the recent budget realignment. Under the realignment, several programs originally included under correctional health services received their own budget codes and were moved to other areas in the budget that better reflect the programs' objectives. With the funding of three new correctional health service initiatives, however, total DOHMH spending on correctional health services will increase to \$145 million in 2008.

Intra-City Funding with Department of Education. Because DOHMH can claim Article VI funds from the state's public health matching fund program, the agency's budget includes funding for services provided by DOE that address the major health issues of children, such as immunization compliance, asthma, obesity, vision abnormalities, and the consequences of risk-taking behaviors. These funds are then paid out to DOE as intra-city revenue.

Under this agreement, the 2008 Preliminary Budget calls for an increase of \$900,000 in annual city funding, as well as an increase of \$500,000 in annual state funding beginning in 2007. DOE will use these funds to strengthen the public health-related services it provides to students by providing program support and designated staff, including regional nursing directors, regional health directors, and occupational and physical therapists.

School Health. The 2008 Preliminary Budget proposes new city funding of \$590,000 in 2008 and \$580,000 each year thereafter, plus \$320,000 in state funds in 2008 and \$330,000 each year thereafter, to staff a team of specialists to provide reproductive health outreach to high school students at approximately 50 high-risk schools—schools in areas with high poverty rates and high rates of teenage sexual activity and sexually transmitted diseases, or STDs. The outreach will focus on encouraging students to be voluntarily tested and treated for STDs.

Including funding for these school health initiatives and the DOE intra-city funding increase, total DOHMH spending on school health services will total \$70.7 million in 2007, a 30.1 percent increase over 2006, and \$72.3 million in 2008. This significant jump in reported school health expenditures is due in part to a realignment of budget information by the

Mayor's budget office and DOHMH. Some programs that had previously been categorized under miscellaneous personal and community health services can now be properly assigned to other program areas. One of these programs—funding for school nurses—is now assigned to the school health category.

Commission on Economic Opportunity Programs. The 2008 Preliminary Budget provides \$50,000 in 2007 and \$900,000 in 2008 in city funding, as well as \$30,000 in 2007 and \$500,000 in 2008 in state funding, to establish five health and reproductive health centers at selected high schools. The 2008 Preliminary Budget also calls for \$200,000 in city funding and \$100,000 in state funding in 2007 and 2008 to establish a food policy program. This program will address obesity and chronic diseases associated with lack of healthy food options, and will also serve to expand programs such as the Healthy Bodegas Initiative.

Nurse-Family Partnership. Beginning in 2009, DOHMH will expand the Nurse-Family Partnership (NFP) to cover an additional 3,400 families over five years. The Bloomberg Administration also intends to start claiming state and federal Medicaid funds totaling \$15.2 million in 2009, \$18.7 million in 2010, and \$24.7 million in 2011 for this program. This would both fund the expansion and save the city \$4.7 million annually beginning in 2009.

The NFP is a national home visitation program that seeks to improve the health, well-being, and self-sufficiency of low-income, first-time mothers and their children through home visits every two weeks for the first two years of the child's life to educate mothers and ensure their children are provided with a safe and healthy home. Currently, the program funds are budgeted to provide care for 1,320 families. With the expansion, NFP will be offered to all Medicaid-eligible mothers in high poverty areas, bringing the total number of families covered to approximately 4,720.

Total DOHMH spending on general maternal and child health services will total \$13.4 million in 2007, a 30.1 percent increase over 2006, and \$18.7 million in 2008. Part of the increase in expenditures from 2006 to 2007 is explained by new funding that was added in the 2007 Executive Budget for the Newborn Home Visiting program and the NFP initiative. The rest of the increase is explained by the realignment of budget information by the Mayor's budget office and DOHMH. As a result of the realignment, several programs that were once part of miscellaneous personal health and community services are now included under general maternal and child health. It is likely that expenditures on general

maternal health and child services will continue to grow, as the planned 2009 expansion of NFP equals 56 percent of 2008 total spending on these services.

State Budget Actions

The Governor's 2007-2008 Executive Budget proposes several initiatives to fund an expansion and revitalization of mental health services for adults and children. The Governor's budget also recommends funding for a variety of general public health programs, including the early intervention program and HIV/AIDS community services.

CAPITAL BUDGET

Agency Overview. The Department of Health and Mental Hygiene's capital plan includes funds for the purchase of equipment and for the construction, rehabilitation, and modernization of departmental buildings. The capital plan accompanying the 2008 Preliminary Budget calls for \$306 million in capital spending on DOHMH projects from 2007 to 2010. The comparable four-year (2006 through 2009) plan total from a year ago was \$388 million. This decrease is explained by the completion or partial completion of several large capital projects.

Key Capital Projects

Projects at Privately Owed Health Centers. The current capital plan calls for \$69 million to be committed in 2007 and 2008 for capital projects that provide a public health benefit at sites not owned by the city, nearly all of which is allocated in 2007. Among these projects funded by the current capital plan are the replacement of outdated equipment at the Hospital for Joint Diseases, the purchase of new medical equipment at the Kingsbrook Jewish Medical Center, and construction of senior housing and medical space at the Morris Heights Health Center.

Equipment for Central Office Information Technology. The capital plan includes \$38 million in funding between 2007 and 2010 to upgrade central office computer and network equipment. Computer and network equipment are on a five-year cycle and are upgraded as needed upon completion of the cycle.

Emergency Exterior Rehabilitation at Riverside. The capital plan calls for \$23.5 million in funding between 2008 and 2010. These funds will be used for the design and construction of the exterior rehabilitation of Riverside District Health Center.

Department of Homeless Services (DHS)

PRELIMINARY BUDGET HIGHLIGHTS

- Family Shelter.** Funding of \$17.5 million has been added for shelter contracts to meet increased family shelter needs during fiscal year 2007. There is no increase for fiscal year 2008.
- Pre-Placement Capacity.** The 2007 Current Modified budget adds \$1.6 million for pre-placement capacity (overnight stays for after-hours shelter applicants before their application is submitted and reviewed). New procedures at the department's new intake facility were expected to eliminate the need for overnight pre-placements. There is no increase for fiscal year 2008.
- IT Consultants.** The 2008 Preliminary Budget adds \$1.9 million for information technology consultants to provide tracking and core work needs for the department.

capacity during the course of fiscal year 2008.

Pre-Placement Capacity. The Prevention Assistance and Temporary Housing (PATH) office in the Bronx, which is the new family intake center, no longer processes shelter applications after hours. Shelter applicants who arrive after the office closes for the day are asked if they have a place to stay pending completion of their application the following day. This policy was expected to completely eliminate overnight placements by 2007 and save \$11 million. Overnight placements have declined significantly, but since the department may not turn people away, clients that come in after hours with nowhere to go must be provided with shelter. The current budget plan partially reverses the previous cut, adding \$1.6 million for fiscal year 2007. DHS will reexamine funding needs in 2008 depending on the number of overnight pre-placements.

IT Consultants. The 2007 budget is increased by \$1.9 million to fund information technology consultants. The consultants will support the department's tracking and core technology needs. There is also an addition of \$1.9 million in 2008 and \$780,000 in 2009.

EXPENSE BUDGET

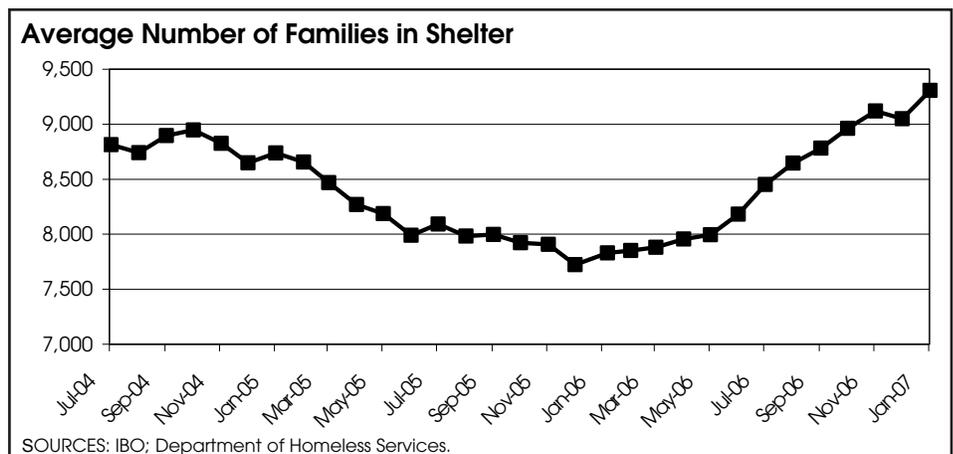
Agency Overview. The Preliminary Budget proposes \$684.6 million for the Department of Homeless Services in 2008, \$47.0 million less than 2007. Although the department receives more than 20 percent of its funding from federal grants and more than 25 percent from the state, it does not fully reflect these funds in the Preliminary Budget. IBO has reestimated federal and state aid, projecting a total DHS budget of \$720.6 million for 2008.

Effects of Key Budget Proposals

Family Shelter. In last year's Preliminary Budget for 2007, DHS planned to reduce family shelter capacity to reflect a declining family shelter population. The numbers of families seeking shelter has increased this year, however, resulting in higher shelter populations and increased reliance on the use of so-called "scatter site" apartments and hotels. To meet the increased use in 2007, DHS has increased this year's budget by \$17.5 million. The increase is not carried forward into the Preliminary Budget for 2008. The department will assess any need for additional family shelter

Census Trends

Since December of 2005, the monthly average number of families in shelters has increased from a low of 7,700 to a high of over 9,200 in January 2007. This significant increase reverses the decreases seen from October 2004 through December 2005. In contrast, the number of single adults in shelters has continued to decline, falling from a recent peak of nearly 8,800 in January 2005 to approximately 7,400 in November 2006.



Department of Homeless Services*Budget by agency programs*

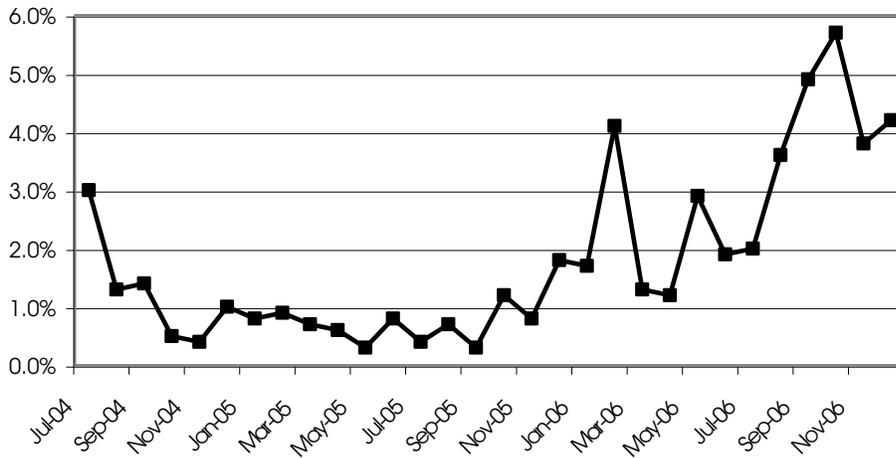
	2005	2006	2007 Current Modified	2008 Preliminary
Emergency Shelter				
Families	\$369,093,111	\$352,964,976	\$346,591,979	\$305,107,850
DHS-Operated	51,912,028	55,646,928	52,732,759	53,756,848
Privately-Operated	312,005,280	292,450,583	288,608,898	246,100,680
Family Administration	5,175,804	4,867,465	5,250,322	5,250,322
Adults	\$222,709,708	\$226,962,538	\$243,021,913	\$242,524,197
DHS-Operated	54,276,923	49,912,828	51,472,792	51,597,185
Privately-Operated	163,241,165	172,522,827	186,409,145	185,847,882
Adult Administration	5,191,620	4,526,882	5,139,976	5,079,130
TOTAL, Emergency Shelter	\$591,802,819	\$579,927,514	\$589,613,892	\$547,632,047
Permanent Housing				
Housing Stability Plus	-	\$6,988,000	\$7,781,230	\$7,781,230
EARP	7,781,963	75	-	-
SRO Support Services	16,730,256	18,294,499	18,635,841	18,635,841
Moving Assistance	5,197,833	5,151,143	5,021,884	5,021,884
Lend-a-Hand	4,247,457	4,322,392	4,166,832	4,166,832
Furnish-a-Future	950,376	828,751	855,052	855,052
Rental Assistance	2,392,518	2,445,010	1,956,560	1,056,560
Adult	2,048,815	2,002,353	1,882,984	982,984
Family	287,322	442,657	-	-
Operations	56,381	-	73,576	73,576
Other	749,799	685,791	79,392	3,679
TOTAL, Permanent Housing	\$32,852,369	\$33,564,519	\$33,474,907	\$32,499,194
Outreach	\$24,639,733	\$24,359,357	\$28,616,101	\$26,568,001
Prevention				
Anti-Eviction Legal Services	\$5,930,833	\$5,665,925	\$6,000,000	\$6,000,000
HomeBase & Aftercare	10,145,809	10,757,394	14,470,000	13,970,000
Prevention Support Services	676,604	-	-	-
TOTAL, Prevention	\$16,753,247	\$16,423,319	\$20,470,000	\$19,970,000
Operations & Administration				
Administration	\$39,866,228	\$41,677,842	\$43,200,505	\$41,034,501
Facility Maintenance	16,725,244	18,765,771	15,451,832	15,769,096
McCain Fines	-	10,657,688	211,429	-
TOTAL, Operations & Administration	\$56,591,473	\$71,101,300	\$58,863,766	\$56,803,597
Projected Federal Aid Increase				\$36,000,000
Financial Plan Savings*	-	-	\$544,635	\$1,124,238
TOTAL, Department of Homeless Services	\$722,639,640	\$725,376,009	\$731,583,301	\$720,597,077
Full-Time Staffing	2,242	2,204	2,085	2,284

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

The rise in families in shelters is due to both an increase in the number of families seeking temporary shelter, as well as a decline in families leaving shelter. At least part of the increase in families seeking shelter is due to a recent increase in the number of families who had been placed in permanent

housing who return to shelter within one year. Other than a generally tight housing market and rising rents, there is no clear consensus on the causes of the rise in families in need of temporary shelter.

Percent of Families Returning to Shelters Within One Year



SOURCES: IBO; Department of Homeless Services.

The decrease in families leaving shelter is in part due to decreases in placements through the Housing Stability Plus (HSP) program, the city's rental assistance program that helps homeless individuals move from temporary shelter to permanent housing, which replaced the use of federal Section 8 vouchers as the principal tool for moving families from shelter to permanent housing. The city's goal is to house up to 6,500 homeless families each year. In fiscal year 2006 there were 4,641 families placed with HSP. These numbers are decreasing in the current fiscal year, with 1,881 total placements through December, the latest date for which data is available. Last fiscal year, placements through the same period were 2,468. This represents a decrease of 24 percent.

HSP differs from Section 8 in some important respects. First, HSP benefits decrease by 20 percent every year, regardless of family income. But because only public assistance recipients are eligible to receive HSP benefits, gaining employment means that a family loses their HSP benefit entirely.

A second difference between HSP and Section 8 is that unlike Section 8, receipt of HSP rental assistance is conditional on a family's public assistance status. Previous experience with the Jiggetts program, which supplemented the public assistance shelter allowance, found that Jiggetts recipients tended to be sanctioned and removed from the public

assistance rolls less often than recipients not receiving Jiggetts. The expectation therefore was that HSP recipients would also be sanctioned less often. This has not turned out to be the case, however, with HSP recipients being sanctioned and removed from public assistance at about the same rate as nonrecipients, in which case payment of HSP rent supplements to their landlord stops.

For both of these reasons, landlords appear to have been less willing to set aside apartments for the HSP program than they were for Section

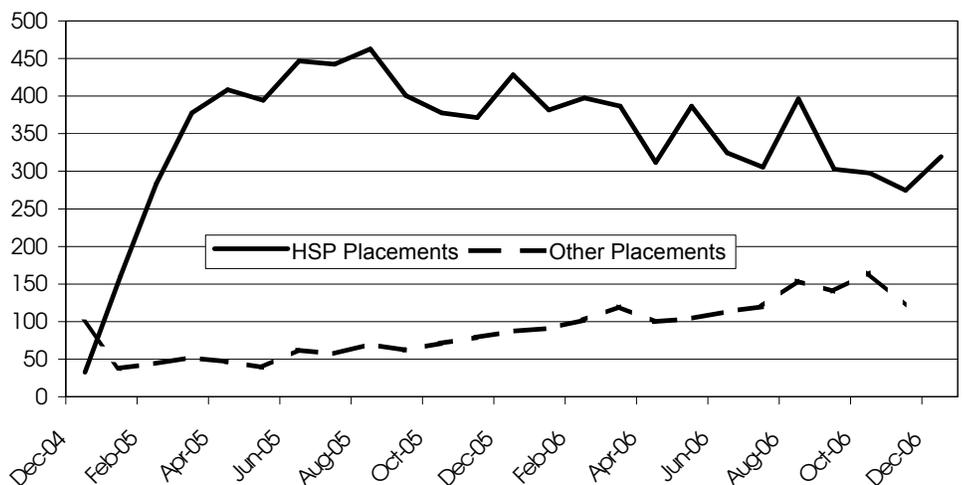
8 recipients. DHS is looking into ways to address some of these problems and increase the use of HSP for placement of families in permanent housing. State approval will be required for changes that affect the terms of public assistance grants.

While HSP placements have declined, other placements in permanent housing—both assisted and not—have increased. Part of the reason for the increase is a Human Resources Administration program that provides one-time funding in the form of a security deposit and three month's rent to help people who are working to leave shelter.

CAPITAL BUDGET

Planned capital commitments for the Department of Homeless Services total \$155.1 million for 2007 through 2010. Actual commitments for fiscal years 2003 through 2006

HSP and Other Placements



SOURCES: IBO; Department of Homeless Services.

Department of Homeless Services Capital Commitments*Dollars in thousands*

	Total Commitments 2003-2006	Planned Commitments 2007-2010
Shelter		
Shelter for Families	\$21,272	\$87,924
Shelter for Single Adults	32,517	44,278
General Shelter	-	4,550
Shelter Total	\$53,789	\$136,752
Other (Equipment / Furniture / Vehicles)	\$13,143	\$18,340
GRAND TOTAL	\$66,933	\$155,092

SOURCES: IBO; Office of Management and Budget.

were \$66.9 million. The biggest share of the department's capital commitments, \$136.8 million, or 88.2 percent, is allocated for reconstruction and maintenance of shelters.

the City Council.

The remaining 11.8 percent of capital commitments is allocated for the purchase of equipment, furniture, and vehicles.

Capital funding for shelters for families is \$87.9 million, which is 56.7 percent of total commitments for 2007 through 2010. Of this funding, \$51.2 million is for construction of the PATH family intake center. Capital funding for shelters for single adults is \$44.3 million, which is 28.5 percent of total commitments. An additional \$4.6 million, or 2.9 percent, is budgeted for other shelter repairs and projects funded by

Department of Youth and Community Development (DYCD)

PRELIMINARY BUDGET HIGHLIGHTS

- **Out-of-School-Time.** The 2008 Preliminary Budget increases funding for the Out-of-School-Time (OST) program by \$32.3 million in 2008 and \$44.3 million in 2009 through 2011. The additional funding will create new year-round slots for elementary school children.
- **CEO Youth Internships and Service Learning.** The Preliminary Budget adds \$15.1 million in funding for two initiatives spawned by the Mayor's Commission on Economic Opportunity (CEO). Funding is added for a \$9.4 million CEO initiative that will create youth internships leading to employment for 1,400 disconnected youth. The second is a \$5.7 million CEO initiative that will create service learning programs for 4,500 high school students (see appendix for full program list).
- **Personal Services Budget Adjustment.** The Preliminary Budget adds \$3.1 million in city funds to compensate for the loss of federal Workforce Investment Act and literacy funds in the agency's budget for staffing.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget for the Department of Youth and Community Development for 2008 is \$292 million, \$37 million less than the budget for the current year. Federal and state funding are expected to make up 24.1 percent and 4.4 percent, respectively, of the agency's 2008 budget. City funds will make up 65.4 percent and the rest (6.1 percent) is intra-city funds (largely from the Administration for Children's Services to enhance the Out-of-School Time program by creating new slots). IBO's projections of federal and state funding for the agency in 2008 are greater than the Bloomberg Administration's by \$15 million, raising IBO's forecast of the agency's 2008 budget to \$307 million, still below the level of this year's budget. Typically, funds are added to DYCD's budget later in the budget process, so some, or all, of the decline may be erased.

Looking at DYCD's expense budget at the program level, we can see that the decline from 2007 to 2008 is concentrated

in three program areas: City Council initiatives, youth employment services, and community development. Most of the decline is attributable to City Council initiatives, which would be reduced by \$51.2 million from their 2007 level. The current shortfall in the Financial Plan arises because most of the funding for Council initiatives is added to DYCD's budget each spring only for the upcoming year, rather than "baselined," or incorporated, into all the remaining years of the city's Financial Plan. For example, at the adoption of the city's budget in June 2006, over \$60 million in city funds for Council initiatives was added to DYCD's budget for 2007; no funds were added for these initiatives for 2008 and beyond. If this year's budget follows a similar pattern, funding for Council initiatives will be restored to DYCD's budget for 2008—but not for subsequent years—during negotiations between the Bloomberg Administration and the Council this spring.

A second factor accounting for the decline in DYCD's budget from 2007 to 2008 is a \$10.2 million reduction in funding for youth employment services. Funding for the Summer Youth Employment Program (SYEP) is often negotiated right up until the program is scheduled to begin in July. In summer 2006 DYCD's expense budget included \$46 million for SYEP services and city funds comprised 57.3 percent of the program's budget. The rest of SYEP's budget for last summer was made up by state Temporary Assistance for Needy Families (TANF) funds (31.4 percent) and federal Workforce Investment Act funds (11.2 percent). With this funding DYCD was able to provide 41,608 youth jobs during the summer of 2006. (The Governor's budget, released after the Preliminary Budget, includes state funding for SYEP; see below for details.)

The community development program area shows a decline in funding of \$11 million from 2007 to 2008. The decline is due in part to \$9.2 million for immigrant services that appears in 2007 but not for 2008. As with the Summer Youth Employment Program, the immigrant services initiative receives funding from the City Council. Based on the historical pattern, it is likely that the funds will be restored to DYCD's budget in the spring.

Effects of Key Budget Proposals

Out-of-School Time. The Preliminary Budget adds \$32.3 million in fiscal year 2008 and \$44.3 million in each of the

Department of Youth and Community Development				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
After School Services				
Out-Of-School Time	\$7,538,254	\$47,332,722	\$77,692,525	\$116,419,830
Beacon Program	39,406,798	41,609,250	46,006,358	42,006,358
The After School Corporation (TASC) Youth Development and Delinquency Prevention Program	10,500,000	-	-	-
	21,271,521	3,481,975	-	-
TOTAL, After School Services	\$78,716,573	\$92,423,947	\$123,698,883	\$158,426,188
Youth Employment Services				
In-School Youth (ISY) Program	\$18,104,129	\$17,468,762	\$12,712,457	\$12,185,619
Out-of-School Youth (OSY) Program	12,833,720	10,305,954	7,859,763	7,564,127
ISY and OSY Program Administration	6,174,699	6,253,161	4,452,220	4,432,077
Summer Youth Employment Program	32,967,934	49,349,808	49,825,127	40,434,493
TOTAL, Youth Employment Services	\$70,080,482	\$83,377,685	\$74,849,567	\$64,616,316
Community Development				
Community Services Block Grant (CSBG) Program	\$28,099,678	\$26,433,406	\$25,724,743	\$24,075,450
Adult Education	8,413,492	8,133,852	8,623,646	8,611,028
Immigrant Services	1,133,838	1,340,838	10,571,508	1,321,508
TOTAL, Community Development	\$37,647,008	\$35,908,097	\$44,919,897	\$34,007,986
City Council Initiatives	\$37,381,891	\$63,527,385	\$53,453,230	\$2,196,261
Runaway and Homeless Youth	\$3,737,188	\$4,892,232	\$6,629,702	\$3,736,115
Youthline	\$308,963	\$300,170	\$499,108	\$499,108
Other Programs and Expenses	\$1,186,924	\$3,018,424	\$3,652,313	\$3,048,569
Administration	17,108,201	19,590,908	20,833,609	25,099,420
TOTAL, Administration, Other Programs & Expenses	\$18,295,125	\$22,609,332	\$24,485,922	\$28,147,989
GRAND TOTAL, DYCD	\$246,167,229	\$303,038,847	\$328,536,309	\$291,629,963
IBO Adjustments				
Federal and state repricing	-	-	\$15,098,000	\$15,228,000
IBO Projected	-	-	\$343,634,309	\$306,857,963
Full-Time Staffing	300	341	338	419

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

NOTE: Beginning in Fiscal Year 2006, funding for the Youth Development and Delinquency Prevention Program and the After-School Corporation's after school services was consolidated under Out-of-School Time.

out-years for expansion and enhancement of the Out-of-School-Time program within DYCD. The department's OST program provides activities for school-age youth during after-school hours and on weekends and during school vacations. All OST programs are offered at no cost and provide a mix of academics, recreational activities, and cultural experiences for elementary, middle school and high school students. The increased funding for OST in DYCD's budget combines an allocation of new resources to the program (\$22.3 million for 2008 and \$30.3 million beginning in 2009) with money transferred from the Administration for Children Services (ACS) to DYCD (\$10 million in 2008 and \$14 million in

2009 through 2011).

The additional funding will help create new year-round slots for elementary school-age children beginning in 2008. It is expected that 3,500 new slots will be created in 2008, which will grow to 5,000 in 2009. A portion of the new funding will be used to convert 5,000 summer slots to year-round programs. DYCD will be releasing a request for proposals for the new slots. An amendment will be made to the current request for proposals for the summer slots that will be converted to year-round slots.

CEO Youth Internships and Service Learning. The Preliminary Budget includes funding for two CEO initiatives: youth internships and service learning. The first initiative provides \$9.4 million to help community-based organizations create paid internships for 1,400 disconnected youth—young people between the ages 16-24 who are out of school but not fully engaged in the workforce. The second initiative, service learning, includes \$5.7 million and is geared towards high school students. This program will create service learning programs for 4,500 youth in OST and Beacon school settings. The goal is to use community service activities to help promote staying in school and help reduce teenage pregnancy. As with all of the CEO initiatives in the Preliminary Budget, full allocations to agency budgets were only made for 2008 (there is some start up money for 2007), so that the effectiveness of each initiative can be evaluated before committing to continued funding.

Personal Services Budget Adjustment. The Preliminary Budget adds \$3.1 million in city funds to DYCD's budget for personal services (PS). DYCD faced a shortfall in the PS budget, largely as a result of the loss of federal WIA and literacy funds, as well as the continuing effect of a 2004 budget cut that reduced the PS budget, but not headcount. The PS adjustment now fully funds the PS budget based on actual payroll costs, and adds funding for the PS portions of the Home Energy Assistance Program (HEAP) and state Partnership grants. In addition, DYCD's PS budget includes the funds added to operate the two new CEO programs and the expanded OST program, as well as funds for collective bargaining increases.

In the spring of 2006, DYCD received notice from the State Education Department that they would not continue to receive funding for adult literacy initiatives. Instead the State Education Department required a competitive bidding process for the funds. Historically, DYCD received approximately \$5 million annually, which had been channeled to community-based service providers. DYCD, in conjunction with community-based service providers applied for the State Education Department's new process for distributing federal Workforce Investment Act funding but was not awarded the money. In place of DYCD, the State Education Department instead awarded the money directly to community organizations based on their individual proposals. Some of the providers that had been funded through DYCD under the old arrangement did not receive grants through this statewide competitive process.

Federal and State Actions

The President's 2008 proposed budget could have an impact on three DYCD revenue streams. First, the federal budget proposes a decrease of 19 percent for the HEAP grant. In 2006 DYCD received \$247,982 to perform outreach and make low-income households aware of the assistance for home heating fuel, equipment, and repairs. Second, the proposed federal budget includes a reduction of 12.4 percent for Workforce Investment Act, adult and youth programs. In 2006 DYCD received \$39.9 million for WIA youth employment programs and served approximately 10,828 in-school youth and 1,170 out-of-school youth. Third, the federal budget proposes to eliminate the Community Services Block Grant (CSBG). The Bush Administration has been proposing to terminate this program since 2006 because they feel that the program does not have appropriate performance measures and has a program purpose that is too broad and duplicative of other antipoverty programs. In 2006 DYCD received \$31.7 million in CSBG funds to support 442 community-based programs that provided services to over 55,000 individuals residing in low-income communities.

Unlike last year, the Governor's Executive Budget for 2007-2008 designates appropriations for the Summer Youth Employment Program rather than leaving it as one possible spending choice under the Flexible Fund for Family Services (FFFS) as had been proposed in former Governor Pataki's last budget. This year's proposed state budget includes \$35 million for summer youth employment statewide, which includes a requirement that at least \$32 million be used only for that purpose. The remaining \$3 million could be transferred to the FFFS for other purposes. This will help providers in receiving full funding for the SYEP well before the start of the program and provide funding to cover the increase in the minimum wage. In 2006 DYCD received a total of \$17.5 million in state TANF dollars for SYEP.

The proposed state budget includes two changes that will likely have at least an indirect affect on DYCD. First, the budget assumes \$72.7 million less (a 23.4 percent reduction) in new federal funds for WIA services, compared to the enacted state budget for 2006-2007. Second, the proposed state budget also increases TANF funding for Advantage After-School programs by \$700,000 for a total of \$28 million. This funding will support the expansion of educational and recreational after-school activities for elementary, middle and high school students. (These program funds do not pass through DYCD's budget but instead are provided directly to community-based providers.)

Health and Hospitals Corporation (HHC)

PRELIMINARY BUDGET HIGHLIGHTS

- **Medicaid Consolidation.** The Preliminary Budget shows a \$782 million decrease in city funds in 2008 due to the transfer of Medicaid payments from HHC's budget to the Human Resources Administration's (HRA) budget. Although this change alters where Medicaid spending is shown in the city's budget, the actual flow and amount of Medicaid reimbursements to HHC will not be affected.
- **Medical Malpractice Staff Transfer.** The 2008 Preliminary Budget calls for \$3.9 million in additional city funds in 2008 and each year thereafter to transfer legal staff who work specifically on HHC medical malpractice cases from the Law Department to HHC.
- **Commission on Economic Opportunity Programs.** The Preliminary Budget proposes \$1.1 million in new city funds in 2008 for the creation of a training and apprenticeship program for registered and licensed nurses to be hired by HHC once they receive their credentials (see appendix for full program list).

EXPENSE BUDGET

Agency Overview. The New York City Health and Hospitals Corporation projects expenditures in 2008 of \$5.6 billion while revenues are projected to total \$4.8 billion, leaving a deficit of \$793 million. HHC expects to address \$449 million of the deficit through \$259 million in state and federal actions, \$170 million in revenue, managed care savings, operational initiatives, and \$20 million in medical malpractice containment. If these measures are successfully implemented, HHC projects a remaining deficit of \$345 million.¹

At this time last year, HHC projected a gap of \$510 million for 2007 but planned corrective actions that would result in a closing surplus estimated at \$14 million. This year's Preliminary Budget now projects a surplus of \$767 million for 2007. This bigger surplus is largely the result of an additional Medicaid transaction with the city that was incorporated in HHC's Financial Plan later in the budget process last year. HHC leveraged the transaction to yield \$1.4 billion in federal and city funds over 2007 and 2008, \$1.2 billion of which HHC will receive in 2007. (See below for details.)

Receipts. Over 90 percent of HHC's revenues come from third-party payments, which include entitlement programs

(Medicaid and Medicare), managed care organizations (including MetroPlus, HHC's Medicaid managed care program), and private insurance companies. HHC revenues from third-party payments have increased steadily since 2002. In 2007 third-party revenues are projected to be 34 percent higher than in 2006, increasing from \$4.2 billion in 2006 to nearly \$5.6 billion in 2007. In 2008, however, third-party revenues are expected to decline to \$4.5 billion, a 19 percent decrease from 2007 and an 8 percent increase from 2006. Historically, Medicaid fee-for-service reimbursements have accounted for the majority of HHC's third-party receipts, but by 2008, they will have declined by 11.7 percent from 2002, falling from \$1.9 billion in 2002 to an expected \$1.7 billion in 2008.

The significant growth in HHC's receipts from 2006 to 2007 is attributable to last year's additional Medicaid transaction. Through this transaction, the city is providing funds to help leverage federal dollars from the Disproportionate Hospital Share program and Medicaid Upper Payment Limit (UPL) program. In 2007, the city is providing HHC with an additional \$611 million, which will be matched by the federal government, giving HHC a total of \$1.2 billion. This transfer will be spread out through 2008, when HHC will also receive \$82 million in city funds through the UPL program, which will be matched by the federal government for a total of \$164 million in 2008. Because of this transaction, which increases HHC's revenues, the city was able to restructure its fiscal relationship with HHC to include changes that are expected to produce savings for the city of about \$600 million from 2006 to 2008. The decline in HHC's revenues from 2007 to 2008 is due to the fact that this transaction is non-recurring, and therefore HHC is not currently planning on a similar transaction in 2008.

Although Medicaid fee-for-service reimbursements have declined over the 2002 to 2008 period, revenues for HHC's Medicaid managed care program, MetroPlus, increased over the same period, growing from \$124 million in 2002 to a projected \$689 million in 2008. This increase in managed care revenue is largely due to the state's 2002 initiative to encourage enrollment of New York's Medicaid beneficiaries in managed care plans, and the growth of the Family Health Plus program.

In addition to third-party payments, HHC receives several grants from both government and foundations. In 2008, these grants are expected to total \$219 million, a decrease of

Health and Hospitals Corporation				
	2007	2008	2009	2010
	Modified	Proposed	Proposed	Proposed
Receipts				
Third Party Receipts	\$5,585.5	\$4,515.3	\$4,440.7	\$4,568.3
Medicaid Fee for Service	1,650.3	1,683.4	1,717.0	1,786.4
Medicare	644.2	660.3	676.8	693.7
Other Third Parties	791.9	830.4	870.4	912.4
Pools and Additional Revenues	1,897.6	652.2	487.5	486.8
MetroPlus Premiums	601.5	689.0	689.0	689.0
All Other Receipts	\$462.1	\$312.1	\$444.3	\$446.7
Funds Appropriated by the City	77.8	37.8	187.7	186.0
Grants	330.4	219.0	199.9	201.4
Other Revenue	53.9	55.3	56.7	59.3
TOTAL, Receipts	\$6,047.6	\$4,827.4	\$4,885.0	\$5,015.0
Disbursements				
Personnel Costs	\$2,160.3	\$2,203.5	\$2,203.5	\$2,203.5
Fringe Benefits	820.0	894.1	955.1	983.9
Malpractice Costs	189.9	189.9	189.9	189.9
Affiliations	676.4	710.2	731.5	753.5
Depreciations	210.0	220.0	230.0	240.0
Other Than Personal Services	1,326.3	1,352.8	1,379.9	1,407.5
TOTAL, Disbursements	\$5,382.9	\$5,570.5	\$5,689.9	\$5,778.3
Non-Operating Revenue/(Expense)				
Interest Income	\$25.0	\$25.0	\$25.0	\$12.5
Interest Expense	(80.0)	(75.0)	(70.0)	(65.0)
TOTAL, Non-Operating Expenses	(\$55.0)	(\$50.0)	(\$45.0)	(\$52.5)
Profit/(Loss) Before Other Changes in Net Assets	\$609.7	(\$793.1)	(\$849.9)	(\$815.8)
Corrective Actions				
State/Federal Actions	\$14.9	\$258.5	\$285.0	\$335.0
Revenue Initiatives	35.0	75.0	75.0	75.0
Medical Malpractice Containment	30.0	20.0	20.0	20.0
Managed Care Initiatives	22.0	20.0	22.0	24.0
Operational Initiatives	55.0	75.0	90.0	110.0
TOTAL, Corrective Actions	\$156.9	\$448.5	\$492.0	\$564.0
PROFIT/(LOSS) AFTER CORRECTIVE ACTIONS	\$766.6	(\$344.6)	(\$357.9)	(\$251.8)

SOURCE: IBO.

\$111 million from 2007, although IBO expects that the total grant amount will increase over the course of the year. Until this year, HHC's budget also included the city's obligation for Medicaid services delivered at HHC facilities, but this is now reported in HRA's budget. This change will have no impact on the process for reimbursing HHC, or on the amount of HHC's Medicaid payments. (For further detail, refer to the section on Medicaid in the HRA section of this report.) As a result of this change, only \$50,000 for the city's contribution for HHC's Medicaid services remains in the corporation's budget for 2008. The Preliminary Budget also provides \$37.8 million for funding for the various services HHC provides

through contracts with other city agencies, which, after adjusting for the city's prepayment for some of these services, brings the total to \$129 million in 2008.

Expenses. HHC's expenditures have been increasing rapidly since 2002. In 2002, HHC's expenditures totaled \$3.9 billion, while 2008 spending is projected to reach \$5.6 billion, an increase of nearly 43 percent. Much of the growth in expenditures can be explained by two factors: increasing personnel and fringe benefit costs. In 2002, personnel and fringe benefit costs totaled over \$2.2 billion; in 2008, they are expected to cost HHC \$3.1 billion. Personnel costs from

2008 to 2011 are projected to remain at \$2.2 billion each year, reflecting HHC's efforts to contain personal spending costs.

Structural Fiscal Imbalances and the Future Outlook for HHC.

The structural mismatch between HHC's expenditures and its revenues primarily results from the large number of uninsured patients it serves. Although HHC has reduced the number of uninsured patients it serves by 23 percent since 2002 by actively seeking to enroll all eligible patients in Medicaid, HHC still provides a great deal of uncompensated care. In 2005, the latest year for which data is available, HHC provided care for roughly 435,000 uninsured patients at a cost of approximately \$1.2 billion. The state's Bad Debt and Charity Care funds provided \$685 million to HHC in 2005, but this covered only 57 percent of these costs—a shortfall of \$515 million.

Between 2007 and 2010, HHC projects expenditures to increase by 7.3 percent, while total receipts are expected to decrease by 17.1 percent. Assuming all of HHC's anticipated corrective actions are accomplished, HHC's outlook is deteriorating; and historically HHC has received much lower state and federal aid funds than projected. The corporation is expected to run an operating surplus of \$767 million in 2007. However, for 2008, assuming HHC receives additional revenues of \$258 million from federal and state actions, the corporation still faces a projected shortfall of \$345 million. The deficit is projected at \$252 million in 2010.

Also contributing to HHC's fiscal uncertainty are proposals in the President's 2007-2008 Executive Budget, the Governor's 2007-2008 Executive Budget, and the recommendations from the Commission on Health Care Facilities in the 21st Century. How these changes may affect HHC's bottom line is explained in more detail in the "Federal and State Budget Issues" section.

HHC's projected deficits and general fiscal uncertainty indicate that if current trends continue and additional recurring state and federal resources are not available, HHC will be unable to cover its expenses in the coming years, forcing the corporation to cut back expenses or to turn to the city for more long-term assistance.

Effects of Key Budget Proposals

Medicaid Consolidation. The 2008 Preliminary Budget calls for the accounting of Medicaid payments to be transferred from HHC's budget to HRA's budget. Prior to this initiative, the city's contribution for Medicaid services provided at HHC facilities was reflected in the HHC budget. Under state

legislation enacted in 2005, local Medicaid contributions in New York State will increase by no more than 3 percent annually. Localities contributions will continue to be based on twenty-five percent of all acute care costs and ten percent of all long-term care costs, but the total contribution amount will not be in excess of the cap. The consolidation of Medicaid payments in HRA will simplify transactions with the state under the new state-imposed cap.

With the Medicaid consolidation, HHC's budget will reflect a \$202.7 million decrease in city funds in 2007 and a \$782.5 million decrease in 2008. But the actual flow and amount of Medicaid reimbursements to HHC will not change.

Medical Malpractice Staff Transfer. The 2008 Preliminary Budget proposes new city funding of \$2.0 million in 2007 and \$3.9 million each year thereafter to transfer legal staff who work specifically on HHC medical malpractice cases from the Law Department to HHC.

In 2002, HHC entered an agreement with the city under which the city assumed responsibility for debt service on bonds issued by the city on HHC's behalf, in exchange for HHC's assumption of its medical malpractice expenses. Because HHC now covers nearly all of the city's costs for medical malpractice, HHC believes this staff transfer will result in a more efficient management of medical malpractice cases and will save the agency money in the long run.

Commission on Economic Opportunity Programs. As part of the overall commission initiative, the 2008 Preliminary Budget calls for \$800,000 in additional city funds in 2007 and \$1.1 million in 2008 for the creation of a training and apprenticeship program for registered and licensed practical nurses to be hired by HHC once they receive their credentials. The program will be administered by HHC in partnership with CUNY at Kings County Hospital. There is currently a similar program in place which recruits nurses primarily within HHC, but this program will attempt to recruit nurses outside of HHC as well.

Federal and State Budget Issues

The President's 2007-2008 budget includes several Medicaid cost-containment measures. HHC projects that, if enacted, the President's budget would cost the agency \$350 million, or 7 percent of its total operating budget, annually. The most significant of the proposed cuts is a plan to cap federal Medicaid payments to public providers, who are currently reimbursed at a higher rate than private providers.

The Governor's 2007-2008 Executive Budget also calls for several changes that will affect HHC. A key initiative in the Governor's budget is the proposal to expand eligibility for the Child Health Plus program, which would increase health insurance coverage among children and could have a positive effect on HHC's budget. The Governor's budget also proposes to substantially restrict Medicaid growth through initiatives such as a reduction in subsidies to nursing homes and a decrease in Medicaid reimbursement rates, both of which would have a negative effect on HHC's budget. For further details on the state's Medicaid proposals, see the section on Medicaid in the HRA section of this report.

If enacted, both the Governor's and President's budget proposals would significantly affect HHC's financial state. The potential decreases in HHC revenues are not included in the Preliminary Budget figures shown above.

In addition to the Governor's 2007-2008 Executive Budget, the recommendations of the Commission on Health Care Facilities in the 21st Century could also have consequences for HHC's budget. In 2005, the New York State Legislature and then-Governor Pataki established this commission to "right size" hospitals and nursing homes statewide. The recommendations of the commission, delivered in November 2006, called for the closure of five New York City hospitals, none of which are operated by HHC. The effect of closing these hospitals on HHC's budget is unclear. On the one hand, if HHC sees an increase of uninsured patients as a result of these closures, it will exacerbate HHC's fiscal difficulties. If, on the other hand, these closures result in more insured patients going to HHC hospitals, it may improve HHC's financial outlook. In a recent report, the City Comptroller recommended that the impact of the commission's recommendations on HHC's budget be carefully assessed. At present, a temporary restraining order has prevented any closures from taking effect.

CAPITAL BUDGET

Agency Overview. HHC establishes its own 10-year capital program, separate from the city's capital planning process. The plan has focused on expanding to meet increased demand at certain facilities, modernizing aging hospital facilities, and upgrading clinics, emergency rooms, and specialty units.

To finance its capital plan, HHC issues debt and receives assistance from the city. The capital plan accompanying the Mayor's 2008 Preliminary Budget calls for \$702 million in city capital spending for HHC from 2007 through 2010. This is a decrease of nearly 30 percent over the previous comparable four-year (2006 through 2009) plan issued in January 2006. Much of this decrease is explained by the partial completion of various construction projects.

Key Capital Projects

Harlem Hospital Center and Gouverneur Hospital. The current city 2007-2010 capital plan calls for \$271 million in funding for the continued upgrading of the Harlem Hospital campus. The plan also allocates \$153 million in capital funds to the modernization at the Gouverneur Hospital.

Ambulance Purchases. The city capital plan provides \$54 million for the purchase of new ambulances between 2007 and 2010.

END NOTE

¹In this section, the terms surplus and deficit refers to operating surpluses and revenues, which do not account for cash balances. Due to prior actions, many of which were non-recurring, HHC's cash balance is projected to remain positive for 2008 at \$1.1 billion, but it is projected to fall to \$21 million by 2011.

Human Resources Administration (HRA)

PRELIMINARY BUDGET HIGHLIGHTS

- **Adult Protective Services Caseworkers.** The 2008 Preliminary Budget includes an addition of \$1.6 million, divided evenly between city and state funds, to increase the caseworker staff for the Adult Protective Services program. The new funds will enable the hiring of 37 additional caseworkers and supervisors to accommodate an increasing caseload.
- **Medicaid Consolidation.** The budget shifts more than \$1 billion in city Medicaid funds from the Health and Hospitals Corporation (HHC) to HRA in 2008, in order to consolidate all city Medicaid funding in a single agency. The shift is being carried out to simplify transactions with New York State under the new state cap on local Medicaid spending.
- **Commission for Economic Opportunity (CEO) Initiatives.** The budget plan adds \$5.1 million in city funds and \$7.1 million in total funds in 2008 for new employment programs for public assistance recipients and non-custodial parents, as well as staff and consultants to evaluate the various CEO initiatives (see appendix for full program list).
- **Public Assistance Reestimate.** The Preliminary Budget includes a reduction of \$42 million in city funds and \$155 million in total funds in 2008 from what had previously been budgeted, based on new projections of public assistance caseloads and expenditures.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget for the Human Resources Administration proposes overall agency spending of \$7.2 billion in 2007, an increase of 4.3 percent from the prior year, and spending of \$8.2 billion in 2008, an increase of 13.7 percent over 2007. The divergence in the growth rates is in large part the result of the shift of about \$1.1 billion in city Medicaid funds from HHC to HRA in 2008. Without this shift, the overall agency growth rate from 2007 to 2008 would have been only 1.8 percent. IBO's projection for total HRA spending is \$16 million lower than the Bloomberg Administration's for 2008. These budget projections include IBO adjustments to the Preliminary Budget for federal categorical grants and public assistance.

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. This process has continued with the recent movement of HRA's child care program for the children of public assistance work participants to the children's services agency. These two newer agencies currently have a combined annual operating budget of about \$3.4 billion. As a result of these programmatic reorganizations HRA has become an agency centered primarily on the administration of two large means-tested programs, Medicaid and public assistance. Including the costs of administering the program, the Medicaid budget for 2008 is \$5.5 billion or about 67 percent of the total HRA budget. The 2008 budget for public assistance, including the costs of grants, eligibility determination, and administration, is \$1.45 billion or about 18 percent of the total agency budget. Thus, these two large entitlement programs account for about 85 percent of HRA's budget, while much of the remainder is accounted for by supporting programs such as employment and substance abuse services.

Based on recent history it is likely that the 2008 budgets for some program areas will be adjusted upward as state and federal categorical funds become available, or as mid-year adjustments are made for rising caseloads and unit costs. Additional funds for some programs are likely to be added to the budget on a one-year basis by the City Council as part of the 2008 budget adoption process.

Effects of Key Budget Proposals

Adult Protective Services Caseworkers. Adult Protective Services (APS) is a state-mandated program that is available to individuals 18 years of age and older who, due to a mental or physical impairment, are unable to manage their own resources, carry out activities of daily living, or protect themselves from abuse, neglect, exploitation, or other hazardous situations without assistance. Services may include referrals for psychiatric or medical examinations, assistance in obtaining and managing government benefits, cleaning services, and identification of alternate living arrangements. The number of active APS cases has increased steadily over the last few years, from an average of 3,658 in 2002 to 5,778 in 2006. In order to provide services for this expanding caseload, spending at APS has also increased steadily from \$22.2 million in 2002 to \$32.9 million in 2006. Partly as a result of the new funding for additional caseworkers in the Preliminary Budget,

Human Resources Administration				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Medicaid	\$4,242,989,000	\$3,981,278,000	\$4,488,404,000	\$5,501,900,000
Public Assistance				
Family Assistance Grants	874,884,000	769,875,000	692,964,000	665,289,000
Safety Net Assistance Grants	400,994,000	463,824,000	516,839,000	535,092,000
Eligibility Verification and Administration	201,695,000	199,553,000	214,552,098	216,971,000
Public Assistance Non-Grant	25,735,000	29,628,000	36,726,000	36,726,000
TOTAL, Public Assistance	\$1,503,308,000	\$1,462,880,000	\$1,461,081,098	\$1,454,078,000
Employment Support				
Employment Programs	\$269,538,000	\$276,017,000	\$303,587,000	\$285,811,000
Substance Abuse Services	97,692,000	88,127,000	88,908,000	88,908,000
TOTAL, Employment Support	\$367,230,000	\$364,144,000	\$392,495,000	\$374,719,000
Food Support				
Food Stamps	\$51,279,000	\$53,428,000	\$58,027,000	\$56,109,000
Emergency Food Assistance Program	13,936,000	17,083,000	15,615,000	10,436,000
TOTAL, Food Support	\$65,215,000	\$70,511,000	\$73,642,000	\$66,545,000
Child Care	\$241,109,000	\$256,971,000	\$1,500,902	\$44,000
Home Energy Assistance	\$31,924,000	\$33,346,000	\$31,854,000	\$23,660,000
AIDS Services	\$185,890,000	\$193,638,000	\$210,298,000	\$215,423,000
Adult Protective Services	\$28,424,000	\$32,859,000	\$36,334,000	\$38,139,000
Domestic Violence	\$72,063,000	\$75,437,000	\$76,952,000	\$79,795,000
Child Support	\$42,602,000	\$44,667,000	\$52,010,000	\$54,194,000
Central Administration	\$423,310,000	\$420,180,000	\$406,707,000	\$415,666,000
GRAND TOTAL, Human Resources Admin.	\$7,204,064,000	\$6,935,911,000	\$7,231,278,000	\$8,224,163,000
IBO Adjustments				
Federal Categorical Grants	-	-	\$4,000,000	\$12,000,000
Public Assistance	-	-	(5,589,000)	(28,478,000)
TOTAL	-	-	(\$1,589,000)	(\$16,478,000)
IBO Projected	-	-	\$7,229,689,000	\$8,207,685,000
Full-Time Staffing	14,270	14,218	13,942	15,702

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

APS spending is projected to continue to increase to \$36.3 million in 2007 and \$38.1 million in 2008.

Medicaid Consolidation. The Preliminary Budget consolidates all city Medicaid funds in HRA's budget. Prior to this shift, city Medicaid funds had been budgeted in two agencies. Funds for the city portion of Medicaid payments made to HHC for providing medical services to Medicaid-eligible patients were placed in the HHC budget, while city funds for Medicaid payments to all other health care providers were placed in the HRA budget. The shift to a single agency is being made to

simplify the accounting of total city Medicaid payments under the new state cap on local Medicaid expenditures. The budgetary change will not result in any reduction in Medicaid payments to HHC. For a further discussion see the Medicaid and HHC sections of this report.

Commission for Economic Opportunity Initiatives. In September, 2006 the New York City Commission for Economic Opportunity reported to Mayor Bloomberg the results of its study of ways to alleviate poverty in the city. The commission's recommendations focused on three distinct

populations: working poor adults, young adults ages 16 to 24, and young children, ages 5 and younger. While the report included general recommendations about new approaches to aiding these three groups, the Mayor directed all relevant city agencies to develop specific policy initiatives to achieve the commission's goals. More than 30 initiatives are included in the Preliminary Budget. Citywide, new city funding for these initiatives totals \$15 million in 2007 and \$65 million in 2008, spread across the various agencies. By the end of 2008 the Bloomberg Administration expects to evaluate each of these initiatives and decide which of them will be maintained, expanded, or eliminated. For this reason funding for these CEO initiatives in the later years of the Financial Plan will be temporarily held in the miscellaneous budget rather than in the specific agencies.

HRA will play a dual role in the process; offering new programs of its own, and also acting as the central agency for evaluating the specific initiatives citywide. The budget includes funds for two HRA initiatives: a program to provide employment and training as well as counseling services to noncustodial parents, and an enhanced service to link public assistance recipients with public- and private-sector employment. The plan also includes funds for staff and consultants to evaluate CEO initiatives and to develop more in-depth indices to measure poverty in the city.

Public Assistance Reestimate. This entry reflects new caseload and expenditure projections for each of the city's public assistance programs. The additional savings to the city is a result of the continuing decrease in the family caseloads. For a detailed discussion see the section of this report on public assistance.

CAPITAL BUDGET

Agency Overview. HRA's four-year Capital Commitment Plan calls for \$86 million in commitments for 2007 and

\$132 million in total commitments for 2007 through 2010, an average of \$33 million a year. Over the previous four-year period from 2003 through 2006 actual capital commitments averaged \$22 million a year. Actual commitments for any given year can vary significantly from the plan. For instance, a year ago the plan projected \$85 million in commitments for 2006; actual commitments amounted to only \$5 million.

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

Computer and Telecommunications Systems. 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. An example of this is the continued automation of the Food Stamp application system. In addition, funds have been provided for the development of an integrated case management system. Planned commitments for computer and telecommunications systems total \$41 million for 2007, and \$76 million over the four years of the plan.

Facility Improvements. HRA is also planning and carrying out a wide variety of construction and renovation projects intended to improve agency facilities including the Agudath Israel Service Center, the HRA Command Center at 180 Water Street, the Vocational Training Center for Coney Island, and the Medicaid Model Office at 330 W. 34th Street. Planned commitments for design, construction, renovation, and furniture for agency facilities total \$45 million for 2007 and \$56 million over the four-year period.

Medicaid

OVERVIEW

In the 2008 Preliminary Budget, total city Medicaid expenditures are expected to reach \$5.5 billion in 2008 and grow to just over \$5.7 billion by 2011. The bulk of these expenditures are administered by the Human Resources Administration (HRA). In the past, a portion of city-funded Medicaid expenditures was reflected in the budget of the Health and Hospitals Corporation (HHC), but beginning in 2007, nearly all of the HHC portion will be budgeted under HRA.

Background. Medicaid is a federal- and state-funded health care safety net program covering more than 53 million low-income individuals across the country. In New York State, there were approximately 4.1 million individuals enrolled in Medicaid as of November 2006, 2.7 million of whom lived in New York City. Medicaid is largely 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, and each state 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 to 76 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. The share for localities in New York is calculated as 25 percent of the cost of providing acute care services and 10 percent of long-term care costs. In New York City, the combined share has historically equaled approximately 19 percent of all Medicaid expenditures on behalf of city residents.

The cost of providing Medicaid services to New York City residents has been steadily increasing over the past few years. Based on IBO's estimates, the total cost of city expenditures on Medicaid services through HRA and HHC rose 42 percent over the 2001 to 2006 period, from \$3.6 billion in 2001 to \$5.1 billion in 2006. The primary drivers of the growth in Medicaid expenditures include: rapidly growing pharmaceutical costs, increasing costs for the care of aged and disabled beneficiaries, especially for home care, and the continued growth in Medicaid enrollment, particularly in the Family Health Plus (FHP) program.

In response to this increasingly heavy burden on localities, the state's 2004-2005 budget included a state takeover of half of the required local contribution for FHP as of January 2005, and of the full local contribution as of January 2006. In the enacted budget for 2005-2006, the Legislature and the Governor took a further step, agreeing to cap the annual growth rate in local Medicaid contributions to a percentage of each locality's 2005 actual expenditures, excluding spending on the FHP program. The growth rate was capped at 3.5 percent of 2005 expenditures in calendar year 2006, 6.75 percent of 2005 expenditures in 2007, and 9.75 percent of 2005 expenditures in 2008. In other words, local Medicaid contributions can grow no more than 3.5 percent in 2006, 3.25 percent in 2007, and 3.0 percent in 2008; note that the growth rates are not compounded. Under the agreement, the local shares remain 25 percent of all acute care costs and 10 percent of all long-term care costs, but the state will be responsible for any expenses incurred in excess of the cap.

Medicaid: HRA and HHC. The bulk of the city's Medicaid expenses are recorded in HRA's budget. In the past, the exception to this was the city's contribution for Medicaid services delivered at HHC facilities, which was recorded in a separate section of the city's budget for HHC. In response to the state-imposed cap on local Medicaid expenditures, beginning in 2007, the city is consolidating all Medicaid spending in the HRA budget in order to simplify accounting under the cap. According to the Mayor's Office of Management and Budget, this change will have no impact on the process for reimbursing HHC or on the amount of HHC's Medicaid payments.

Because of this change, the Preliminary Budget shows a \$202.7 million decrease in city-funded Medicaid expenses for HHC in 2007. HRA's Medicaid budget for 2007 increases by \$215.2 million, reflecting not only the shift of the HHC funding, but also a \$12.5 million increase in funding for the Disproportionate Hospital Share (DSH) and Upper Payment Limit (UPL) programs. Similarly, in 2008 city-funded Medicaid spending shown in HHC's budget declines by \$782.5 million, while HRA's Medicaid spending rises by \$1.08 billion, the result of the shift and a \$297 million increase in DSH and UPL funding.

KEY ISSUES AND CHANGES

State Budget Actions. A major initiative in the Governor's

2007-2008 Executive Budget is the proposal to hold annual Medicaid growth at 1.7 percent, compared to the annual growth rate of 8 percent in recent years. As a result, the Governor's Executive Budget calls for \$47.6 billion in Medicaid spending in 2007-2008, an increase of just over \$1 billion from the previous year.

To limit the growth of Medicaid spending, the Governor proposes a number of new initiatives, including the freezing of reimbursement rates for hospitals, nursing homes, and public health managed care plans, as well as the restriction of graduate medical education payments to actual costs. The Governor's budget also calls for an increase in staff for the office of the Medicaid inspector general to help reduce Medicaid fraud for an expected savings of \$400 million. In total, the state estimates that the Medicaid cost containment proposals in the 2007-2008 budget would result in approximately \$1.2 billion in annual savings for the state.

The Governor's budget also proposes several measures to expand health insurance and Medicaid coverage. The most significant of these is the proposal to raise the annual family income limits for the state's Child Health Plus (CHP) program from 250 percent of the federal poverty level (FPL) to 400 percent. If enacted, the state estimates that this will result in an additional 400,000 children becoming newly eligible for the CHP program. The budget also proposes to streamline the Medicaid enrollment process to encourage the enrollment of uninsured adults and children. The state estimates that these expansions will cost approximately \$34 million in 2007-2008.

Impact of State Budget Actions on HHC. If the Governor's proposals held growth in the city's Medicaid expenses below the state-imposed cap on local Medicaid contributions this would result in savings to the city, but these same proposals are projected to cost HHC \$32 million. If adopted in its current

form, HHC expects to see \$60 million in new funding but \$92 million in cuts, resulting in a net loss of \$32 million. On the one hand, the expanded eligibility for the CHP program would increase health insurance coverage among children, which would have a positive impact on HHC's budget. On the other hand, the Governor's proposals to restrict Medicaid growth, particularly his proposal to freeze reimbursement rates for certain providers and services, would likely have an adverse effect on HHC's budget.

Federal Budget Actions. The President's 2007-2008 Budget includes several proposals aimed at containing Medicaid costs. One of the most significant of these proposed cuts is a plan to cap federal Medicaid payments to public providers at the cost of providing services to Medicaid beneficiaries. Under this proposal, public providers would no longer receive Medicaid reimbursement for the cost of providing services to uninsured low-income patients. The President's budget also proposes a funding boost of \$5 billion over five years for the State Children's Health Insurance Program (SCHIP), which otherwise would have expired in 2007, although state governors argue that this amount will cover less than half the funding necessary to maintain their existing caseloads. The budget also proposes capping family eligibility at 200 percent of the federal poverty level.

Impact of Federal Budget Actions on HHC. HHC projects that, if enacted in its current form, the President's budget would cost the agency \$350 million, or 7 percent of its operating budget, annually. In addition, the limited funding reauthorization for SCHIP, as well as the proposal to cap eligibility at 200 percent of the FPL, could result in the Governor's proposal to expand the CHP program becoming financially infeasible. HHC would therefore not realize any potential benefits associated with that proposed expansion.

Public Assistance

OVERVIEW

The Preliminary Budget projects that the overall number of people receiving public assistance will slowly decrease from 381,000 in December 2006 to 374,000 in June 2007, and then level off after that point. Similarly, the Bloomberg Administration projects that total federal, state, and city expenditures for public assistance grants will decrease slightly from \$1.21 billion in 2007 to \$1.20 billion in 2008 and remain unchanged in later years. Because of a change in the expected composition of the caseload, the city's share of welfare spending is forecast to remain flat at about \$454 million in 2007 and the remaining years of the plan.

While the Bloomberg Administration expects the total caseload to level off at the end of 2007, IBO projects that public assistance caseloads will continue to decrease modestly through 2008 along with the modest growth in the city's job market. Based on these caseload projections we expect total expenditures for public assistance grants to decrease from \$1.20 billion in 2007 to \$1.17 billion in 2008 and \$1.16 billion in 2009, and remain flat after that point. Similarly, IBO projects that city expenditures will decrease from \$455 million in 2007 to \$448 million in 2008 and \$445 million in 2009, before leveling off in the remaining years of the Financial Plan. IBO's projections for city-funded expenditures are lower than the Bloomberg Administration's forecast by \$5 million in 2008, and \$9 million in 2009 and later years.

Background. There are three distinct components of public assistance, which differ by eligible beneficiary and sources of funding; the Preliminary Budget includes separate caseload projections for each of these three groups. 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 and couples without children 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.

CASELOAD TRENDS

From 1995 to 2001 federal, state, and city welfare reform policies combined with a rapidly expanding economy led to large, continuous decreases among all segments of the city's public assistance population. This caseload reduction was temporarily interrupted by the economic downturn that began in 2001. More recently, as the local job market has gained strength the city's welfare caseloads have begun to diverge, with the family caseload resuming its downward trend while the SNA caseload has increased.

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 economic downturn of calendar year 2001 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 shock leading to heavy job losses. Between December 2000 and December 2003 the city experienced a net loss of about 230,000 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 family 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. 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. During calendar year 2003 the combined family caseload stabilized, with 335,000 individuals receiving assistance in December 2003—the same caseload as in December 2002.

Growth in local employment resumed in 2004 with the number of jobs increasing by 18,600 over the 2003 level, followed by a gain of 51,900 in 2005, and another gain of 62,200 in 2006.¹ Along with continued policy efforts by the city to move recipients into jobs, this upturn in employment appears to be having an impact on at least a portion of the public assistance caseload. During calendar year 2004 the combined family (FA and C-SN) caseload decreased by a modest 12,000 recipients, reaching 323,000 in December 2004. In calendar year 2005, with the city experiencing continued job growth, the family caseload decreased by another 22,000 recipients, reaching 301,000 by the end of the year. In calendar year 2006 the decrease accelerated, with the combined family caseload falling by 45,000 recipients to 256,000. IBO projects that the family caseload will continue to decrease to 220,000 recipients by June 2008. The Bloomberg Administration forecasts a smaller decline, with the combined family caseload reaching 238,000 by June 2007 and remaining at that level for the rest of the forecast period.

In contrast to the family caseload, the number of SNA recipients has continued to rise from 96,000 in December 2003 to 105,000 in December 2004, 113,000 in December 2005, and 125,000 in December 2006. In the early years of recovery from the 2001 recession this continued growth may have reflected in part the relatively slow recovery of some sectors of the economy that are most likely to employ low-skilled men. Adult men have historically accounted for a far larger portion of the SNA caseload than the family caseload. In addition, because of a recent change in state welfare regulations, some families that reach their 60-month limit on Family Assistance are being converted to SNA rather than the usual conversion to C-SN. Finally, in October 2006 state officials converted more than 6,000 FA recipients in

two-parent families to SNA in order to avoid the extremely high work quotas for this group required by the recent federal TANF reauthorization legislation. (These policy changes have gradually been transforming the composition of the SNA caseload. In December 2001 children accounted for only 3 percent of all SNA recipients; by December 2006 they accounted for 23 percent.) As a result of these factors IBO projects that the SNA caseload will continue to grow for a while longer, reaching 134,000 by June 2008 and then level off at that point. The Bloomberg Administration projects that the number of SNA recipients will level off at 136,000 in June 2007.

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 to a peak of 133,000 in November 2003, the number of C-SN recipients has gradually decreased to 88,000 by December 2006. We project that the number of C-SN recipients will continue to gradually decline to 70,000 by June 2008. In contrast, the Bloomberg Administration projects that the C-SN caseload will bottom out at 78,000 in June 2007.

Taken by itself, the shift from FA to C-SN has 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 cost to the city of the shift of public assistance recipients from FA to C-SN will total \$45 million in fiscal year 2007, and decrease to \$39 million in 2008.

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 and the 2006 TANF reauthorization, 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. In the early years of the TANF system, as the FA caseload and grant expenditures decreased, the state and the city began to have difficulty in achieving the required level of spending.

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. (As mentioned earlier, some categories of families have recently been shifted to SNA rather than C-SN. Grant costs for these SNA families are not counted towards the MOE.) 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. In spite of the recent decreases in the C-SN caseload, state officials expect the increased state and local spending due to the movement of families from FA to C-SN, along with other TANF-related spending, 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 could have an impact on recipients. Although there is no reduction in their level of benefits, once recipients are shifted to C-SN or SNA 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 or SNA 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 and SNA families, the implementation of the debit card program has been indefinitely delayed as a result of technical problems.

TANF REAUTHORIZATION AND THE SHRINKING SURPLUS

In February 2006 Congress passed and the President signed legislation to reauthorize the TANF program of 1996. This program had originally been up for reauthorization in 2002, but had received several temporary extensions in the intervening years. Additional changes were included in the interim final TANF rules issued in June by the Department of Health and Human Services, as called for in the legislation. These rules went into effect in October.

Some provisions in the reauthorized law and implementation rules could have significant fiscal implications for the city.

Among these provisions are: the continuation of the 50 percent work quota for TANF recipients but with a more limited caseload reduction credit, the expansion of the work quota to the maintenance of effort (MOE) caseload—which New York State refers to as the C-SN caseload—tighter definitions of work categories that could make it more difficult to achieve the work quota, and new work verification requirements. The law includes significant financial penalties for failure to meet these federal requirements. But, meeting the new requirements will involve significant new expenditures for additional work programs and child care.

The new law provides few new resources to help states fulfill the new work requirements. The reauthorization law increases federal child care funds by only about 4 percent, and freezes the TANF block grant at its 1996 level, with no adjustment for inflation. The annual surplus from the TANF block grant, which results from the decline in caseloads since 1996, is already budgeted by the city and state to fund existing welfare-related programs. In the long run, the lack of additional federal funding to help meet the new federal work requirements could have serious budgetary consequences for the city.

Over the last several years New York City has made increasing use of TANF 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. In the early years of the TANF system the state's TANF surplus grew as the federally funded portion of the public assistance caseload decreased and fewer funds were needed for grant costs. In the last few years, however, these caseload decreases have moderated and the size of the annual surplus has stagnated, while the costs of the programs it funds have continued to rise. In addition, the city's social service programs have faced increasing competition from alternative uses of the TANF surplus, such as the expansion of the state's Earned Income Tax Credit (EITC).

Faced with a shrinking pool of TANF funds, the Governor's Executive Budget for 2005-2006 proposed to alter the TANF surplus allocation system by creating a \$1.0 billion Flexible Fund for Family Services (FFFS) block grant to localities, in place of the specific program allocations of previous years. Under this new system each local government 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. The state's Adopted Budget for 2005-2006 included a scaled-back version of this

proposal, establishing a \$600 million FFFS while leaving more TANF-funded programs outside of the FFFS. The 2006-2007 Adopted Budget expanded the FFFS to just over \$1 billion, and for the first time included child care funds in the FFFS block grant rather than in a separate allocation. As a result the city used a large portion of its FFFS allocation for child care.

The Spitzer Administration's Executive Budget for 2007-2008 proposes to continue the FFFS at about the same level as the current year. If adopted by the state, it would once again

require local officials to make difficult decisions about how to allocate decreasing amounts of TANF surplus funds among competing social programs.

END NOTE

¹These numbers include the recent benchmarking changes made by the Bureau of Labor Statistics. As a result they are slightly different than those in the economic section of this report, which was produced on an earlier date.

Department of Buildings (DOB)

PRELIMINARY BUDGET HIGHLIGHTS

- **Scaffold Task Force.** The 2008 Preliminary Budget adds \$1.2 million for the creation of a scaffold inspection unit.
- **Lower Manhattan Construction Command Center.** The 2008 Preliminary Budget adds \$516,000 for coordination of construction projects in Lower Manhattan.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes \$82.4 million for the Department of Buildings in 2008, \$7.8 million less than the current 2007 budget of \$90.2 million. There were a number of one-time expenses for administration and information technology projects in 2007 that explain the budget decrease for 2008.

The Executive Budget regularly adds about \$3 million in spending for the Department of Buildings to accommodate the coming year's contract for elevator inspectors. IBO has added this expense to the 2008 Preliminary Budget, for a projected total of \$85.4 million—roughly comparable to spending in 2006, when DOB's budget increased substantially (see program budget table).

Revenues. Revenues collected by the Department of Buildings have increased as the volume and cost of construction has risen in recent years. Construction permit fees are the biggest source of revenue for the department. Permits are priced depending on the type of construction, with new building permits based on the size of the building, and major and minor alterations permits charged based on the cost of construction. Alterations are the biggest source of construction permit revenue (specifically A2 alterations, which typically involve multiple types of work, but no change in the use or occupancy of a building). As a result, with increasing costs, fewer construction permits could still yield increased or constant revenue.

The Department of Buildings has estimated revenue more conservatively for fiscal years 2007 and 2008, projecting a decrease from 2006. Since the peak construction season begins in the spring, a better estimate of construction permit revenues will not be available until later in the year.

Effects of Key Budget Proposals

Scaffold Task Force. In response to an increase in the number of scaffold accidents, the city created the scaffold inspection unit to ensure the safe and lawful use of scaffolding equipment. The unit is funded at \$1.1 million in 2007 and \$1.2 million in fiscal year 2008. It will consist of 10 inspectors and five support positions.

Lower Manhattan Construction Command Center. The city and state jointly created the command center to oversee and coordinate construction projects south of Canal Street. It is intended to serve as a central point to inform the community on projects and help manage the impacts on the neighborhood. Funding from the Department of Buildings will be \$318,000 in 2007 and \$516,000 in 2008.

Current Legislative Activity

The 2006 calendar year has seen significant legislative activity regarding the Department of Buildings, with more on the agenda for 2007. The department plans to introduce the second phase of the model building code this year. Also, responding to concerns over rapid construction and allegations that contractors were ignoring policies and regulations, the City Council Task Force on the Operations and Improvement of the Department of Buildings held town hall meetings in each of the five boroughs. The main concerns focused on: abuse of professional certification, which allows professional

Department of Buildings Revenue						
<i>Dollars in millions</i>						
	2003	2004	2005	2006	2007	2008
Construction Permits	\$51.7	\$56.7	\$67.7	\$78.2	\$74.0	\$74.0
Inspection and Other Fees	17.6	17.8	20.8	20.7	18.3	18.6
Fines	9.0	11.5	12.1	11.3	10.9	6.3
Other Permits	7.2	7.6	8.4	9.1	8.1	7.3
Elevator Inspection Fees	3.9	4.5	4.5	4.0	3.4	0.3
Licenses	0.9	1.2	0.9	1.2	0.9	1.2
Other	0.2	0.0	0.0	0.1	-	-
TOTAL	\$90.5	\$99.5	\$114.4	\$124.5	\$115.5	\$107.7
SOURCES: IBO; Consolidated Annual Financial Report of the Comptroller, various years; Mayor's Office of Management and Budget.						
NOTE: 2007 and 2008 are budgeted as of January 2007.						

Department of Buildings				
<i>Budget by agency programs ^a</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Inspection / Examination				
Plan Examination	\$5,165,977	\$6,301,253	\$8,210,621	\$8,246,003
Central Inspections	1,362,580	980,054	896,532	1,018,589
Elevator Inspection ^b	7,737,634	7,000,745	6,003,075	6,883,309
Electrical Inspection	2,310,616	2,487,196	2,468,150	2,483,195
Plumbing Inspection	1,594,007	1,456,040	1,414,487	1,416,162
Boiler Inspection	906,883	1,053,156	998,722	1,003,047
Crane and Derrick Inspection	867,141	746,737	822,261	830,011
Scaffold Inspection			1,065,000	1,204,500
Borough Construction Inspection	3,282,269	5,666,195	5,951,291	5,707,292
Total, Inspection / Examination	\$23,227,106	\$25,691,376	\$27,830,139	\$28,792,108
Investigation / Enforcement				
Investigation/Discipline	\$1,333,083	\$1,415,644	\$1,553,442	\$1,544,887
Enforcement/Compliance Division	2,221,800	2,651,024	2,917,233	3,705,725
Illegal Occupancy Program	573,137	612,997	481,632	437,818
Total, Investigation / Enforcement	\$4,128,020	\$4,679,665	\$4,952,307	\$5,688,430
Safety				
Emergency Response	\$2,109,773	\$2,588,560	\$2,086,566	\$2,029,972
Building Enforcement Safety Team (BEST) Squad	997,490	1,479,571	1,310,576	1,267,629
Misc. Other Safety Services	715,207	949,508	1,116,400	1,010,971
Total, Safety	\$3,822,470	\$5,017,639	\$4,513,542	\$4,308,572
Administration				
Borough Office Management	\$8,343,001	\$10,308,435	\$10,627,666	\$10,838,528
Administration and Operations	6,996,048	7,548,447	13,201,532	14,444,757
Information Technology	2,590,060	3,073,818	6,558,736	3,142,372
Model Code	431,952	1,245,010	1,289,464	1,305,944
Lower Manhattan Construction Command Center			317,876	515,574
Other Centralized Units	3,444,223	4,461,298	5,051,723	5,000,845
Total, Administration	\$21,805,285	\$26,637,008	\$37,046,997	\$35,248,020
Unallocated OTPS	\$11,289,642	\$19,500,542	\$15,820,389	\$11,361,464
GRAND TOTAL, DOB	\$64,272,523	\$81,526,229	\$90,163,374	\$85,398,594
Full-Time Staffing	893	1,023	1,184	1,196

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

NOTES: ^aDepartment of Buildings purchases many services and supplies centrally, so IBO cannot allocate certain OTPS expenditures by program. ^bElevator Inspection for 2008 includes IBO estimate of \$3.0 million for elevator inspection contracts.

engineers and registered architects to certify that the plans they submit meet all applicable city laws; illegal night and weekend work; demolition that destabilizes neighboring buildings; rushed construction to beat zoning changes; and slow response from DOB to investigate complaints.

In December 2006, the City Council passed legislation increasing fines for work conducted without a permit and

for violating a stop work order. Local Law 47 increased fines for conducting demolition work without a permit from a maximum of \$5,000 to a minimum of \$5,000 and a maximum of \$10,000. Local Law 48 increased the penalty for failing to comply with a stop work order from the current \$500 to \$2,000 for the first offense, \$5,000 for the second and \$10,000 for the third. It also increased penalties for work without a permit at a one-family or two-family dwelling

from a minimum of \$100 to a minimum of \$500, and for other work without a permit from a minimum of \$500 to a minimum of \$5,000.

The department has generally been supportive of the Council's changes, and has also addressed some of these issues in its strategic plan for 2006-2009. Among the department's planned initiatives are an overhaul of the plan examination process, a targeted zoning compliance program, and improving inspection quality assurance. According to the preliminary Mayor's Management Report for 2007, some progress has been made. Due to an increase in staffing, construction inspections increased by 18.5 percent during the first four months of fiscal year 2007.

In response to growing concerns over abuse of the self-certification program, the City Council passed, and

the Mayor signed, two new laws: Intro 308 prohibits professional engineers or registered architects on probation from submitting self-certified plans. Intro 309 takes away self-certification privileges from professional engineers or registered architects who submit self-certified plans that are not in compliance with all applicable provisions of city law either twice in one year or once if a hearing shows they did it knowingly.

The City Council is considering legislation to end all or part of the self-certification process. One proposal would end professional certification for all demolition work, and for major alterations for one-, two-, and three-family dwellings.

Department of Environmental Protection (DEP)

PRELIMINARY BUDGET HIGHLIGHTS

- Croton Filtration Forestry.** The January Financial Plan and 2008 Preliminary Budget provides \$1.2 million in both 2007 and 2008 to fund forestry management by the Department of Parks and Recreation around the site of the Croton Filtration Plant.

EXPENSE BUDGET

Agency Overview. The 2008 Preliminary Budget for the Department of Environmental Protection is \$883.8 million, 3 percent below the 2007 current modified budget of \$911.1 million, but almost 10 percent above 2006 spending.

Operation of the city's water and sewer system, including customer service and conservation, accounts for 85 percent of the DEP budget. Spending grew 6 percent in 2006, to \$696.6 million, and is projected to grow a further 11 percent this year, to \$773.4 million. DEP also has responsibility for enforcement of the city's air and noise codes and for monitoring and response to toxic and hazardous materials incidents. The Environmental Control Board (ECB) adjudicates environmental and other quality-of-life summonses issued by several city agencies.

Effects of Key Budget Proposals

Croton Filtration Forestry. The Preliminary Budget provides \$1.2 million annually beginning in 2007 under the terms of a June 2004 memorandum of agreement (MOA) signed by DEP and the Department of Parks and Recreation, under which DEP will pay the parks department a total of \$13.4 million over a 10-year period for forestry management around the construction site of the Croton Filtration Plant in Van Cortlandt Park in the Bronx. The MOA also provided approximately \$200 million to the parks department for capital projects in the

Bronx to mitigate the impact of the construction.

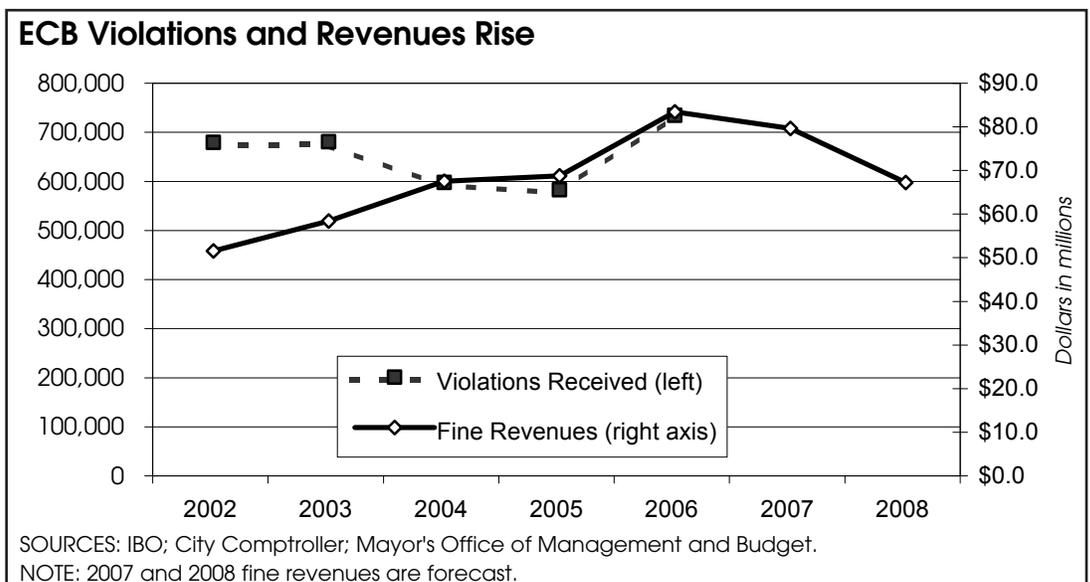
Agency Program Highlights

Environmental Control Board Violations and Revenues Rising. The Environmental Control Board, administratively housed in the Department of Environmental Protection, receives and adjudicates violations issued by a number of city agencies, including the Departments of Sanitation, Parks and Recreation, Health and Mental Hygiene, Buildings and the fire department, as well as by enforcement agents of DEP's Bureau of Environmental Compliance.

Beginning in fiscal year 2004, penalties for a number of violations—most notably sanitation—were increased. Thus, although the volume of ticket issuance actually fell in 2004 and 2005, ECB fine revenue increased. In 2006 the number of violations issued by city agencies that are returnable to ECB grew 26 percent, to nearly 730,000, driven in large measure by an increase in the number of sanitation violations (including recycling), which make up roughly 70 percent of all ECB violations. Three other categories of violations—violations of the Fire and Building Codes, and of street construction permits—make up another 20 percent of violations, and these have also risen. Trends so far this year suggest that 2007 will see a similar level of violations issuance. Improved collection efforts by ECB and the Department of Finance have also increased revenues from outstanding unpaid violations.

CAPITAL BUDGET

Agency Overview. Aside from the Department of Education,



Environmental Protection Capital Program			
<i>Dollars in thousands</i>			
		Total	Planned
Project Type	Ten-Year Plan Category	Commitments	Commitments
		2000-2006	2008-2017
Equipment	Landfill Remediation	\$260,609	\$167,040
	Metering and Conservation	127,644	367,762
	Utility Relocation for Sewer & Water Main Projects	149,500	404,149
	Management Information Systems	36,549	104,433
	Facility Purchases & Reconstruction	84,478	140,214
	Vehicles & Equipment	34,490	83,273
	Total, Equipment		\$693,271
Sewers	Replacement of Chronically Failing Components	\$801,638	\$731,380
	Extensions to Accommodate New Development	478,993	499,361
	Replacement or Augmentation of Existing Systems	83,054	1,234,920
	Programmatic Replacement and Reconstruction	11,664	630
	Trunk Main Extension & Replacement	-	6,044
	Programmatic Response to Regulatory Mandates	175	9,900
Total, Sewers		\$1,375,525	\$2,482,235
Water Supply	City Tunnel No. 3 Stage 1	\$134,366	\$260,707
	City Tunnel No. 3 Stage 2	1,016,543	223,620
	Conveyance	29,423	773,403
	Kensico-City Tunnel	11,924	239,360
	City Tunnel No. 1 Reconstruction	6,071	100,000
	Miscellaneous Programs	2,299	10,103
	Total, Water Supply		1,200,625
Water Mains	Water Quality Preservation	1,201,076	2,217,341
	Croton Filter Project	572,845	420,913
	Trunk & Distribution Main Replacement	413,308	1,541,440
	Dam Safety Program	152,027	790,848
	Trunk & Distribution Main Extension	140,156	387,163
	Brooklyn-Queens Aquifer	9,568	73,111
	Mapping & Telemetry	6,536	-
	Augmentation of Water Supply Systems	2,230	186
Total, Water Mains		\$2,497,747	\$5,431,002
Water Pollution Control	Biological Nutrient Removal	\$35,528	\$26,422
	Sludge Disposal	44,563	339,825
	Consent Decree Upgrading and Construction	2,290,316	2,408,327
	Plant Upgrading & Reconstruction	462,150	1,557,027
	Plant Component Stabilization	1,984,868	2,996,479
	Water Quality Mandates	762,185	1,396,804
Total, Water Pollution Control		\$5,579,610	\$8,724,884
TOTAL, Environmental Protection		\$11,346,778	\$19,512,185

SOURCES: IBO; Preliminary Ten-Year Capital Strategy, 2008-2017.

NOTE: Data for planned 2007 commitments not available by 10-year plan categories.

DEP's capital program is the largest component of the city's 10-year capital strategy for 2008 to 2017, totaling \$19.5 billion in spending—one-quarter of the total 10-year capital program. The DEP capital program is almost entirely funded by debt issued by the Municipal Water Finance Authority, which is repaid from water and sewer system user charges. Between 2000 and 2006, DEP spent \$11.3 billion on its capital program.

Equipment. The equipment component of the DEP capital program has been dominated by spending for remediation of inactive city landfills (paid for through a combination of city

general obligation debt and state Environmental Quality Bond Act funds). The city spent \$260.6 million for landfill remediation from 2000 through 2006, predominantly for closure of the Pennsylvania Avenue site in Brooklyn. Another \$167.0 million is planned for remediation of the Brookfield Avenue landfill on Staten Island.

The city spent \$127.6 million between 2000 and 2006 to install and replace water meters. Another \$367.8 million is planned over the course of the 10-year plan, including \$200.0 million to implement an automatic meter reading program in an effort to improve DEP's billing and collections.

Department of Environmental Protection				
Budget by Agency Programs				
	2005	2006	2007 Current Modified	2008 Preliminary
Water & Sewer System Operations				
Water & Sewer Maintenance and Operations	\$129,553,974	\$137,540,682	\$151,941,803	\$149,595,376
Wastewater Treatment	280,601,004	305,637,260	320,243,378	323,966,476
Water Supply Quality and Protection	171,936,607	178,330,424	204,980,487	198,862,041
<i>Filtration Avoidance</i>	9,454,070	10,302,589	16,531,271	13,705,930
<i>Homeland Security</i>	184,064	141,908	5,909,757	-
Environmental Design & Construction	24,997,023	25,507,143	28,371,141	28,983,024
Water Board	842,745	868,408	959,296	959,296
Total, Water & Sewer System Operations	\$617,569,488	\$658,328,414	\$728,937,133	\$716,072,143
Customer Service & Conservation	\$39,953,395	\$38,257,174	\$47,005,205	\$44,459,873
Environmental Compliance				
Air, Noise, and Asbestos	\$7,909,413	\$8,326,915	\$8,721,887	\$9,182,992
Hazardous Materials	3,868,605	3,430,642	4,275,538	3,589,094
Remediation & Enforcement	1,781,471	2,442,460	3,308,896	2,575,558
Total, Environmental Compliance	\$13,559,489	\$14,200,017	\$16,306,321	\$15,347,644
Environmental Control Board	\$14,343,167	\$14,962,163	\$17,365,343	\$16,871,443
Agency Administration & Support				
Exec. Management & Support	\$45,116,079	\$51,691,021	\$53,779,284	\$52,128,022
Building & Vehicle Maintenance & Admin.	14,035,200	13,818,115	14,894,842	14,945,161
Environmental Health & Safety Program	11,007,647	13,135,911	31,205,979	22,289,421
Total, Agency Admin & Support	\$70,158,926	\$78,645,048	\$99,880,105	\$89,362,604
Financial Plan Savings*	-	-	\$1,630,002	\$1,683,814
GRAND TOTAL,				
Department of Environmental Protection	\$755,584,465	\$804,392,816	\$911,124,109	\$883,797,521
Full-Time Staffing	5,644	5,675	6,047	6,465

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

NOTE: *Although labeled "Financial Plan Savings," these amounts represent additional unallocated budgetary resources.

Finally, the city pays 51 percent of the cost of relocating utility lines required by water and sewer construction projects, which cost \$149.5 million from 2000 through 2006, with \$404.1 million projected for 2008 to 2017.

Sewers. Spending on sewer projects totaled almost \$1.4 billion from 2000 through 2006, nearly 60 percent of it to replace malfunctioning or collapsed cement pipe combined sewers. The 2008-2017 capital plan projects spending of nearly \$2.5 million, half of this amount will replace or augment existing sewer capacity. In particular, three large projects will increase capacity in southeast Queens and the Rockaways to remediate flooding (\$427.6 million). Another \$236.8 million will be committed to the development of the Staten Island Bluebelt, a natural stormwater management system.

Water Supply. Construction of City Water Tunnel No. 3 dominated spending in this category over the last seven years, at a total cost of almost \$1.2 billion. Another \$484 million is planned between 2008 and 2017. The majority of the planned \$1.6 billion in spending during the next 10 years is for a \$773.4 million program to develop alternative water supplies for the city, to provide added dependability and redundancy for droughts, repairs and inspections, and emergencies, including \$195 million for construction of a new groundwater treatment plant in Jamaica, Queens.

Water Mains. The principal focus of the water mains component of the DEP capital program is on water quality preservation. The \$2.2 billion in planned spending for this purpose includes construction of the filtration plant for

the East-of-Hudson Croton system in Van Cortlandt Park (the plant will ultimately cost over \$2.2 billion, including \$573 million committed through 2006, almost \$1.5 billion in planned commitments for 2007, and a combined \$163 million in 2008 and 2009). The plan also provides \$197 million, in addition to the \$10.4 million already committed, for parks and recreation projects throughout the Bronx as mitigation of the impact of plant construction.

The plan also provides \$790.8 million to continue a program of dam reconstruction throughout the city's watersheds on either side of the Hudson, for which \$152.0 million was committed through 2006. One major project, reconstruction of the Gilboa Dam at the Schoharie reservoir, will cost \$332.3 million beginning in 2007, in addition to the \$32.9 million committed in 2006.

Filtration Avoidance Determination (FAD) Spending. Also included in the water mains category is spending on filtration avoidance. The city's water supply is the largest unfiltered above-ground water supply in the country, and one of only five unfiltered big city systems nationwide. Since 1997, the city has operated under a Filtration Avoidance Determination from the federal Environmental Protection Agency, which allows the city to continue to operate an unfiltered system from the West-of-Hudson Catskill and Delaware watersheds, provided that it implements a watershed protection program and demonstrates continued ability to provide drinking water that meets federal and state water quality standards.

Between 2000 and 2006, DEP spent \$644.6 million from its capital budget on filtration avoidance measures, including \$136.4 million to begin construction of an ultraviolet (UV)

light disinfection facility for the Catskill/Delaware watershed. Planned capital spending for 2007 through 2017 as of the January Capital Commitment Plan totals \$1.5 billion for FAD programs, including \$1.1 billion to complete construction of the UV light disinfection plant.

Water Pollution Control. The most costly element of the city's environmental protection capital program is the reconstruction of the city's 14 wastewater treatment plants and other facilities to meet the requirements of the federal Clean Water Act and other mandates to protect and improve water quality in the Long Island Sound, Hudson and East Rivers, and New York Harbor. The \$5.6 billion spent for this purpose between 2000 and 2006 represents nearly half the total DEP capital program for that period, and the proposed \$8.7 billion to be spent during the 10-year plan period is 44 percent of the total. Most of the funds are for reconstruction of the city's wastewater treatment plants, the most costly of which has been the Newtown Creek plant. Nearly \$2.0 billion was spent to upgrade Newtown Creek over the last seven years, with another \$1.9 billion planned.

The category "water quality mandates" refers principally to projects to remediate the problem of combined sewer overflows, which typically occur during and after heavy rainfalls when the flow of stormwater and wastewater exceed system capacity. The department projects spending of \$1.4 billion during the 10-year plan period, which would bring the total spent on this program area since 2000 to \$2.2 billion.

Department of Housing Preservation and Development (HPD)

PRELIMINARY BUDGET HIGHLIGHTS

- **Family Self-Sufficiency.** The 2008 Preliminary Budget includes \$2.2 million for an expansion of the Family Self-Sufficiency program. The expansion follows a recommendation of the Commission for Economic Opportunity (see appendix for full program list).
- **Housing Trust Fund.** The 2007 development budget includes \$43.5 million for the New York City Housing Trust Fund, created in 2005 to use surplus Battery Park City Authority revenues to create or preserve 4,500 units of affordable housing.
- **Urban Development Action Grants.** The 2007 preservation budget contains \$5.8 million for two one-time funding items under the Urban Development Action Grant, which is intended to stimulate development and recovery in areas facing economic distress.
- **Community Development Block Grants.** The 2008 Preliminary Budget includes a decrease of \$5.2 million based on a review of, and potential cuts, to community development funding.

EXPENSE BUDGET

Agency Overview. The Preliminary Budget proposes \$491.7 million for the Department of Housing Preservation and Development in 2008, \$94.4 million less than the current modified budget for 2007, and \$51.5 million below actual spending in 2006. There are two reasons for the projected decline. First, although this agency typically receives a significant amount of federal aid, the Preliminary Budget does not fully reflect all of these federal funds. Second, 2007 includes certain one-time funding sources, including a grant from the Lower Manhattan Development Corporation and from the Housing Trust Fund.

IBO has reestimated the federal aid that HPD will receive in 2008, specifically an additional \$35.0 million in federal Section 8 funds, which increases HPD's projected 2008 budget to \$526.7 million.

Effects of Key Budget Proposals

Family Self-Sufficiency. The Commission for Economic Opportunity was charged with examining poverty in New York City and analyzing its causes, scope and consequences. One of its recommendations was to expand the Family Self-Sufficiency program. This program provides families receiving public assistance with training and employment services, as well as offers a tool to help them build financial assets by placing an amount of money equal to any rent increases from increased wages into an escrow account (recipients normally pay up to 30 percent of their income in rent, so any increase in wage income would result in higher rent payments). Spending for this program in 2006 was \$3.2 million. The Preliminary Budget adds \$1.6 million in 2007 and \$2.2 million in 2008 to this program from an original budget of \$2.0 million.

Housing Trust Fund. In April of 2005, Mayor Bloomberg and Comptroller Thompson announced the creation of the New York City Housing Trust Fund (NYCHTF), which will use \$130 million of surplus Battery Park City Authority revenues to create and preserve affordable housing. The trust fund will provide subsidies for low- and moderate-income New Yorkers, fund large-scale renovation or building acquisition, and fund land acquisition and predevelopment costs. For 2007, HPD will use \$43.5 million in NYCHTF funds. Of this amount, \$25 million is set aside for new construction or substantial rehabilitation of housing for low- to middle-income households. The city expects to use another \$45 million for this purpose over the next two years. The 2007 budget also includes \$18.5 million for preservation projects, including acquisition of assisted and distressed properties at risk of converting to market rate. Funding for the NYCHTF will be added to the 2008 budget at a later date.

Urban Development Action Grants. The Urban Development Action Grant is intended to stimulate development and recovery in urban areas facing economic distress. The 2007 preservation budget contains \$5.8 million for two grants under the Urban Development Action Grant, for the Diego Beekman and Gates Avenue projects.

Lower Manhattan Development Grant. The 2007 development (housing finance) budget includes \$16 million from the Lower Manhattan Development Corporation to fund the Chinatown / Lower East Side Acquisition and Preservation

Department of Housing Preservation and Development				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Preservation				
Neighborhood Preservation*	\$8,049,905	\$8,758,641	\$16,179,579	\$7,333,115
Code Enforcement	21,100,141	20,760,113	24,398,959	23,390,822
Lead Paint	18,245,915	20,374,265	24,852,668	19,479,103
Emergency Repair	23,461,801	25,665,690	32,274,686	31,209,504
Housing Litigation	7,923,125	7,815,995	9,052,009	5,922,554
Other City Council Initiatives	774,459	753,102	770,000	0
Demolition	4,085,777	5,011,988	8,237,113	8,578,731
Admin & Other	1,300	4,685,689	112,685	300,685
Financial Plan Savings***	0	0	145,072	1,145,072
Total, Preservation	\$83,642,422	\$93,825,482	\$116,022,771	\$97,359,586
Housing Operations				
In-Rem Operations	\$66,188,593	\$61,960,572	\$71,360,136	\$60,534,271
Emergency Housing Services	24,153,810	18,254,648	11,832,031	19,941,165
Rental Assistance **	236,415,263	288,169,701	243,165,534	276,429,973
Article 7A	582,485	895,567	825,000	825,000
Admin & Other	623,602	288,843	774,726	941,646
Financial Plan Savings***	0	0	1,429,234	1,372,534
Total, Housing Operations	\$327,963,753	\$369,569,331	\$329,386,661	\$360,044,589
Development				
Housing Finance	\$6,066,819	\$24,015,132	\$33,201,870	\$10,749,245
Homeownership	3,800,005	4,531,651	8,144,480	2,348,158
Special Needs Housing	1,010,064	1,523,539	1,229,527	431,422
Planning	3,662,474	3,438,038	4,377,856	4,183,856
Housing Trust Fund	0	0	43,859,606	409,606
Financial Plan Savings***	0	0	955,853	1,007,353
Total, Development	\$14,539,363	\$33,508,359	\$91,769,192	\$19,129,640
Administration				
General	\$37,509,208	\$37,137,738	\$39,134,882	\$38,449,919
Fair Housing	621,541	662,475	833,544	833,544
Housing Supervision	3,065,196	3,224,980	3,196,684	3,196,684
Research, Planning, & Policy	4,344,401	4,447,243	5,010,381	6,978,844
NYCHA	2,186,696	864,381	697,930	675,000
Financial Plan Savings***	0	0	68,177	68,177
Total, Administration	\$47,727,042	\$46,336,817	\$48,941,598	\$50,202,168
GRAND TOTAL, HPD	\$473,872,580	\$543,239,990	\$586,120,222	\$526,735,983
Full-Time Staffing	2,582	2,565	2,614	2,817

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

NOTES: * Formerly Anti-Abandonment.

**2008 Preliminary Budget includes \$35 million adjustment for Section 8 funding.

***Although called Financial Plan Savings, these represent additional unallocated city funds.

Grant program. The grant program will fund the preservation or rehabilitation of 160 or more units in the Chinatown and Lower East Side neighborhoods.

Community Development Block Grants (CDBG). The 2008 Preliminary Budget includes a projected \$4.4 million decrease in federal CDBG funding for HPD compared to 2007,

dropping further through 2010. President Bush's budget proposal for 2008 includes what would amount to a 20 percent cut in CDBG funds from 2006 levels. The proposed cut is on top of a 10 percent drop in the city's allocation in 2006 and a 5 percent cut in 2005.

CAPITAL BUDGET

Agency Overview. Planned capital commitments for the Department of Housing Preservation and Development total over \$2 billion for the period 2007 through 2010. Of the total commitments, 86 percent is for construction costs (including renovation and reconstruction), 7 percent is for site acquisition, and 7 percent is for other costs including design and legal services, and furniture and equipment.

Key Capital Programs

Privatization of City-Owned Units. The city projects that the remaining 4,399 city-owned, or *in rem*, units will be rehabilitated and privatized by the end of the 10-year capital plan. The units that remain in the city's possession require the most extensive rehabilitation, with an average renovation cost per unit of \$122,000. Of the three main programs used for the disposition of *in rem* property, HPD is planning to fund only the Tenant Interim Lease Program past 2008 (\$244.5 million total for 2007 to 2010). The other two programs for occupied *in rem* buildings, the Neighborhood Entrepreneurs Program (\$18.7 million), which conveys *in rem* property to neighborhood-based private property managers to own and manage, and the Neighborhood Redevelopment Program (\$88.5 million), which conveys *in rem* property to community-based not-for-profits for rehabilitation and operation, are funded in 2007 and 2008.

Housing Preservation Programs. HPD plans to commit \$510.0 million between fiscal year 2007 through fiscal year 2010 to provide loans to private owners for rehabilitation and major maintenance. The Article 8A program, which provides loans for rehabilitation of major building systems to prolong the useful life of multiple dwellings, is funded at \$117.4 million from 2007 through 2010. The Participation Loan Program, which provides low-interest loans for rehabilitation to private owners of multiple dwellings with 20 or more units, is funded at \$105.8 million. Third Party Transfer, which was created under Local Law 37 and allows the city to convey tax delinquent property to a qualified third party through *in rem* foreclosure, is funded at \$195.3 million. Other preservation programs receiving funding include Small Homes Reconstruction loan program, and Lead Paint Abatement.

Department of Housing Preservation and Development Capital Budget*Dollars in thousands*

Program Area	Total	Planned
	Commitments 2003-2006	Commitments 2007-2010
In-Rem Privatization	\$599.9	\$355.5
Homeownership Programs	48.5	123.4
Neighborhood Development	131.5	234.3
Middle Income Housing Production	-	210.0
Mixed Income Rental	-	210.6
Housing Preservation Programs	395.4	510.0
Supportive Housing	177.6	265.0
All Other HPD	21.3	105.0
TOTAL, All Funds	\$1,374.2	\$2,013.7

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

HPD is also funding \$35.5 for a program in which the city will purchase a portfolio of distressed HUD-assisted properties facing foreclosure, for rehab and eventual transfer to new ownership.

Middle-Income Housing Production. HPD plans to commit \$140.0 million in 2007 and \$70.0 million from 2008 through 2010 for the construction of housing for middle-income households—defined as household income between 75 percent and 195 percent of Area Median Income. A citywide middle-income housing program will be funded at \$30.0 million beginning in 2009, and the Queens West development will be funded at \$180.0 million with \$100 million of that for site acquisition from The Port Authority of New York and New Jersey.

Supportive Housing. HPD allocates funding for the creation of supportive housing for homeless single adults, with limited funding for families with special needs and youth aging out of foster care. Supportive housing provides permanent housing where social service support is located on site so the formerly homeless and people with disabilities can live independently. Capital commitments for the Supportive Housing Loan Program for 2007 through 2010 are \$257.0 million, of which 73 percent is federally funded.

Mixed-Income Rental Program. HPD is planning \$210.6 million for fiscal years 2007 through 2010 for the Mixed-Income Rental Program, of which 85 percent is federally funded. The program supports the development of affordable multifamily housing, either through new construction or rehabilitation, with a target of 30 percent of the units set aside for formerly homeless families.

Department of Transportation (DOT)

PRELIMINARY BUDGET HIGHLIGHTS

- **Bus Rapid Transit Lanes.** DOT will place a solid color overlay on the lanes to be used for five bus rapid transit demonstration projects, one in each borough. DOT has budgeted \$2 million for this project in 2008.
- **Street Light Contract.** DOT contracts with private firms for the installation, repair, and maintenance of streetlights. The contracts have recently been renewed, with a projected increase in cost of \$1.4 million in 2007 and \$3.4 million per year starting in 2008.
- **Permit Staff.** DOT issues several types of permits. Due to increased demand, DOT is hiring additional staff for its permit offices, at an annual cost of \$1.1 million in 2007.

EXPENSE BUDGET

Agency Overview. The Department of Transportation maintains city streets and bridges, including the four East River bridges; regulates construction projects that affect city streets; manages traffic operations including all street lights, signals, signs and lane markings, as well as traffic management research and planning; operates the Staten Island Ferry and oversees other public and private ferry providers and surface transit providers. The department also manages a capital program that averages almost \$1 billion annually. Beginning in 2007 the department no longer is responsible for providing pre-kindergarten transportation or for oversight of the privately operated franchise bus lines that have been taken over by the Metropolitan Transportation Authority.

The Mayor's proposed 2008 expense budget for DOT is \$565.0 million. IBO projects that actual state and federal funding in 2008 will be \$76.0 million greater than currently projected, for a total 2008 budget of \$641.0 million. This is slightly above IBO's \$637.2 million estimate of DOT's current modified budget for 2007, and represents a 3 percent increase over 2006 spending, and a 15.8 percent increase over 2005 spending.

Effects of Key Budget Proposals

Bus Rapid Transit Lanes. In conjunction with MTA New York City Transit (NYC Transit) and the state transportation department, the Department of Transportation has been

studying the potential for bus rapid transit (BRT) on the city's streets. As detailed in IBO's analysis of NYC Transit's budget, BRT refers to measures that expedite the movement of buses, and thus make bus travel speeds more comparable to those of rail.

DOT and its partners have chosen five corridors, one in each borough, for a BRT demonstration project. DOT plans to spend \$2 million in 2008 to place a solid color overlay in two of these corridors, and will seek federal funding for the remaining three corridors.

Street Light Contract. DOT contracts with private firms for the installation, maintenance, and repair of streetlights. There is a separate contract for each borough. Funding for streetlight installation comes out of the capital budget, while funding for maintenance and routine repairs comes out of the expense budget.

New streetlight contracts began on February 1, 2007. The two vendors that held the former contracts have been joined by an additional vendor. One vendor holds contracts for the Bronx, Brooklyn, and Queens, another for Manhattan, and another for Staten Island. The new contracts will increase expenses by an estimated \$1.4 million in 2007, and \$3.4 million beginning in 2008.

Permit Staff. DOT requires permits whenever work is done on or below the city's roadways, curbs, and sidewalks. The high level of construction activity in the city has increased the demand for these permits. DOT is spending an additional \$842,000 annually starting in 2007 to increase staffing in its Bureau of Permit Management and Construction Control.

DOT also issues parking permits for disabled drivers. Due to high demand, DOT is spending an additional \$300,000 beginning in 2007 for additional staff to issue these permits.

Agency Program Changes. Policy and program changes have led to shifts in spending between the different program areas in DOT's expense budget. Since 2005, there have been large increases in the areas of traffic and parking and streets and highways; modest increases in administration, operations and in bridges; and declines in transit operations.

Traffic and Parking. Projected 2007 spending in the traffic and parking program area is \$254.7 million, \$37.2 million (17.1 percent) above actual 2006 spending. The increase is due primarily to higher spending on streetlight operation and

Department of Transportation				
Budget by agency programs				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration and Operations				
Commissioners & General Admin.	\$33,372,066	\$33,906,712	\$36,087,963	\$34,039,401
Operations and Call Center	1,921,194	1,580,469	2,480,722	2,137,290
Permits and Consents	1,800,202	1,580,172	3,022,058	3,014,522
Vehicle Maint. & Facilities Mgmt.	11,355,462	11,558,433	16,561,759	17,781,579
Engineering & Construction Coord.	2,232,276	2,323,678	3,359,912	1,742,790
Lower Manhattan Constr. Coord. C	-	-	608,271	-
TOTAL, Administration & Operations	\$50,681,199	\$50,949,463	\$61,512,414	\$58,715,582
Streets & Highways				
Administration, Capital, & Other	\$2,330,455	\$2,423,172	\$5,616,928	\$5,847,482
Permit Mgmt. and Constr. Coord.	11,023,001	11,770,265	12,863,346	11,087,228
Permit Management	2,052,405	2,146,035	2,679,904	2,731,165
Roadway Repair and Maintenance	102,858,780	122,387,826	134,890,580	119,950,305
TOTAL, Streets & Highways	\$116,212,237	\$136,581,262	\$153,370,854	\$136,885,015
Traffic & Parking				
Administration & Other	\$9,674,163	\$8,297,403	\$14,741,947	\$10,216,340
Bus Stops	1,242,758	1,088,650	619,245	-
Planning and Research	4,462,090	4,413,714	7,353,883	1,624,211
Parking & Towing	34,954,793	39,349,445	39,395,531	40,273,307
Safety & Red Light Cameras	10,407,482	10,152,194	16,932,273	15,918,443
Signals, Signs, and Lighting	144,808,026	154,186,524	175,689,446	156,186,371
TOTAL, Traffic & Parking	\$205,549,312	\$217,487,929	\$254,732,325	\$224,218,672
Bridges				
Admin., Operations, & Support	\$10,032,537	\$8,994,484	\$9,806,996	\$9,508,790
Bridge Repair	25,655,327	27,519,672	29,100,959	21,596,396
Engineering & Design	14,822,154	16,233,787	17,591,270	17,688,424
Inspection & Quality Assurance	2,140,945	2,264,254	2,987,527	2,879,027
Preventive Maintenance	12,696,476	13,313,024	15,094,329	15,090,373
TOTAL, Bridges	\$65,347,438	\$68,325,221	\$74,581,081	\$66,763,010
Transit				
Administration & Other	\$2,620,277	\$3,074,903	\$1,953,621	\$1,728,740
Ferries	55,034,940	70,590,693	86,403,369	75,443,991
Staten Island Ferry	53,889,791	69,333,605	83,779,387	74,227,719
Pre-Kindergarten Transportation	55,583,163	73,307,167	2,583	2,083
Surface Transportation	2,561,835	2,906,665	2,841,305	1,252,858
TOTAL, Transit	\$115,800,215	\$149,879,428	\$91,200,878	\$78,427,672
IBO Re-estimate of State and Federal Categorical Grants			\$1,770,000	\$76,005,000
GRAND TOTAL, DOT	\$553,590,400	\$623,223,303	\$637,167,552	\$641,014,951
Full-Time Staffing	4,081	4,187	4,157	4,195
SOURCES: IBO; Mayor's Office of Management and Budget.				

maintenance (including a \$7.2 million increase in electrical costs, to \$61.3 million), as well as signs and markings. The 2008 Preliminary Budget allocates \$224.2 million to this function, but additional state and federal grants for planning and research and for signs will eventually increase 2008 spending.

Streets and Highways. Projected 2007 spending on streets and highways is \$153.4 million, \$16.8 million (12 percent) above 2006 spending. This increase has been almost entirely in the roadway repair and maintenance program. According to the *Mayor's Management Report*, DOT resurfaced 918.9 lane miles of city streets in 2006, a 20 percent increase over the 763.5

miles resurfaced in 2005. The cost of asphalt has also risen, adding to the cost growth in this program.

Transit Operations. Projected 2007 spending in the transit program area is \$91.2 million, far below the actual spending of \$149.9 million in 2006 and \$115.8 million in 2005. Reductions of DOT's costs for pre-kindergarten transportation, administration, and surface transit have been partially offset by increased costs for the Staten Island Ferry.

Management of pre-kindergarten transportation reverted to the Department of Education in 2007. As a result, DOT spending on pre-k transportation, which was \$73.3 million in 2006, will be all but eliminated in 2007. Similarly, the franchise bus service once administered by DOT has been taken over by the Metropolitan Transportation Authority (MTA). While DOT retains a minimal oversight role with respect to these buses, their transfer to the MTA has led to reductions in the administration and surface transit programs.

Ferry program spending consists almost entirely of the operating expenses of the Staten Island Ferry. As detailed in a recent IBO report, DOT spending on the Staten Island Ferry has increased dramatically in recent years, due to expanded service, the use of boats with greater staffing requirements, the operation of new terminals, and the higher cost of diesel fuel. Total ferry spending is projected to be \$86.4 million in 2007 (\$83.8 million for the Staten Island Ferry), an increase of \$15.8 million (22 percent) over 2006.

CAPITAL BUDGET

Agency Overview. DOT has five main categories of capital projects: bridges (waterway and highway), streets and highways, traffic and parking, ferries, and administration and operations (transportation equipment). The city's January 2007 Capital Commitment Plan contains \$5.3 billion in commitments for the Department of Transportation over the period 2007-2010. This compares with \$4.5 billion in actual commitments (excluding franchise transportation, which now corresponds to MTA Bus Company) over the period 2000-2006.

Capital Spending by Category

Bridges. Capital spending on bridges has been extraordinarily high during the past decade. While bridges will continue to absorb over half of DOT's capital commitments during 2007-2010 (\$2.8 billion out of \$5.3 billion), their share of the total will

decline to 53.8 percent compared with 56 percent during 2000-2006.

Although actual capital commitments for bridge work were somewhat below the planned level for the period 2000 through 2006, according to the *Mayor's Management Report*, the condition of city bridges improved slightly between 2000 and 2006. (In contrast, the condition of city streets has by some measures deteriorated.)

The city's Preliminary Ten-Year Capital Strategy for 2008-2017 allocates \$4.5 billion to bridge work. The bulk of these commitments are for reconstructing bridges currently rated in "fair" condition (\$1.9 billion), and for the Bridge Life Extension program, which rehabilitates bridges rated "fair" or "good" (\$1.5 billion). The major rehabilitation of the four East River bridges, begun in the 1990s, is almost complete, with planned commitments of \$590.6 million through 2011 to complete their reconstruction.

Streets and Highways. According to the *Mayor's Management Report*, the percentage of city streets maintained with a pavement rating of "good" declined from 84.3 percent in 2000, to 69.9 percent in 2006. In response, the city is increasing its street reconstruction and resurfacing efforts. The city's Preliminary Ten-Year Capital Strategy for 2008-2017 allocates \$3.6 billion to streets and highways (plus an additional \$545 million in the 2007 commitment plan). These commitments are primarily for street reconstruction (\$1.9 billion), street resurfacing (\$1.2 billion), sidewalk and ramp reconstruction (\$390.7 million), with small amounts for facility reconstruction and retaining walls. The 10-year strategy provides for the reconstruction of 246 linear miles (811 lane-miles) of streets—at a cost of about \$2.4 million per lane-mile—and the resurfacing of 2,744 linear miles (9,000 lane-miles, at about \$133,000 per lane-mile).

Traffic and Parking. The 2007-2010 Capital Commitment

Program Area	Total	Planned	Projected
	Commitments 2000-2006	Commitments 2007-2010	Commitments 2011-2017
Bridges	\$2,536.9	\$2,833.8	\$2,575.2
Streets & Highways	1,236.9	1,744.6	2,411.4
Traffic & Parking	303.7	411.0	361.0
Ferries	386.9	191.3	80.3
Admin. & Operations	66.5	90.9	31.1
TOTAL	\$4,530.9	\$5,271.6	\$5,458.9

SOURCES: IBO; Mayor's Office of Management and Budget: January 2007 Capital Commitment Plan.

Plan allocates \$411 million to traffic and parking projects. This is 7.8 percent of the plan total, and compares with a 6.7 percent share of actual commitments during 2000-2006.

The city's Preliminary Ten-Year Capital Strategy for 2008-2017 allocates \$602.2 million to traffic and parking projects, including \$214 million for signal installation and computerization, \$184 million for installation of street lighting, and \$106.7 million for projects associated with street and highway reconstruction. The strategy calls for the replacement of 2,800 traffic signals and 10,000 streetlights.

Ferries. DOT has in recent years made major capital investments in the Staten Island Ferry. Because the overall condition of the system has improved markedly, capital spending on ferries is projected to decline significantly in the coming years. The 2007-2010 commitment plan allocates \$191.3 million to ferries, compared to \$386.9 million in actual commitments for 2000-2006 (including \$206.1 million for reconstruction of the Whitehall and St. George

terminals; an additional \$171.2 million was spent by the city's Economic Development Corporation and other agencies as part of the overall terminal modernization project). The ferry commitments are all for the Staten Island Ferry, with the exception of \$42.3 million (\$21 million city, \$21.3 million non-city) for private ferry facilities and boats. DOT provides capital assistance to private ferry operators in order to encourage greater development of this transit option.

Transportation Equipment. The final category in DOT's capital program is transportation equipment. The 2007-2010 Capital Commitment Plan allocates \$90.9 million (\$79.5 million city, \$11.4 million non-city) to this category, 1.7 percent of the total. Over half (\$53 million) of the 2007-2010 planned commitments for administration and operations are for computer equipment. Of the remaining commitments, most (\$30.3 million) are for vehicles. In 2000-2006, actual commitments for this category were \$66.5 million, 1.5 percent of the total.

MTA New York City Transit (NYC Transit)

OPERATING BUDGET HIGHLIGHTS

- **Big Gaps Loom, But No Fare Hike in 2007.** The continued strength of tax revenues dedicated to transit has led NYC Transit to drop its proposed fare increase for 2007. Despite projected Metropolitan Transportation Authority (MTA) gaps of nearly \$800 million in calendar year 2008 and \$1.5 billion in 2009, a further increase originally proposed for 2009 has also been dropped from the authority's 2007-2010 financial plan.
- **Labor Settlement.** In December 2006 a state arbitration panel handed down a binding settlement that ended the contract dispute between the MTA and Transport Workers Union Local 100. The terms of the settlement are substantially the same as those that union members narrowly rejected in January 2006.

EXPENSE BUDGET

Agency Overview. The state's Metropolitan Transportation Authority provides rail and bus service and operates seven bridges and two tunnels in the New York City metropolitan region. All MTA subsidiaries serve city residents, but New York City Transit (NYC Transit) and the MTA Bus Company (MTA Bus) are of particular importance. NYC Transit is the MTA's largest operating subsidiary, and provides subway and local and express bus service within New York City. MTA Bus was created in 2004 to take over the operations of seven private bus companies that formerly provided local and express service under a franchise agreement with the city. NYC Transit and MTA Bus both receive substantial financial assistance from the city.

According to preliminary results for 2006, NYC Transit ridership was 2.23 billion, a 2.3 percent increase over 2005 (note that the authority's fiscal year coincides with the calendar year). Fare revenue was \$2.72 billion, 3.7 percent above 2005 levels. Fare revenue increased faster than the growth in ridership because the MTA did not repeat the holiday fare discounts of the previous year, and because 2006 was the first full year in which the fare adjustments of February 2005 (higher fares for express buses and higher prices for unlimited ride MetroCards) were in effect.

Financial Plan Overview. The MTA released a revised 2007-2010 financial plan in February 2007. This plan reports an MTA-wide closing cash surplus of \$941 million for 2006. It projects a surplus of \$270 million in 2007, followed by large gaps in 2008 (\$799 million), 2009 (\$1.46 billion), and 2010 (\$1.78 billion). As explained in more detail below, these deficits are the result of MTA's forecast of stagnant revenues combined with growing expenses. The projected average annual growth rate in NYC Transit revenues from all sources for the financial plan period is 1.0 percent, while expenses, including debt service, are projected to grow at a 5.4 percent rate.

Revenues. NYC Transit receives expense budget revenue from fares, surplus bridge and tunnel revenues, dedicated taxes, and city and state operating assistance and reimbursement. For the most part, these revenue streams are projected to be flat or declining during 2007-2010.

Farebox Revenue. The MTA financial plan projects that as ridership growth tapers off, NYC Transit farebox revenue will increase only 2.2 percent between 2007 and 2010. The fare increases for 2007 and 2009 that were included in earlier financial plans have been dropped for now.

Dedicated Taxes. The next largest source of NYC Transit revenue is dedicated state and city taxes. Due to continued strong real estate and energy markets, receipts from real estate-related taxes and the petroleum business tax have been especially strong. Preliminary results for 2006 indicate that NYC Transit received \$2.13 billion in revenue from dedicated taxes in 2006, up slightly from 2005. The MTA expects NYC Transit's revenues from dedicated taxes to decline slightly over the next two years. After reaching \$2.0 billion in 2008, revenues are expected to return to \$2.13 billion by 2010. The expected decline is much softer than what has been forecast in past years, and is consistent with IBO's own projections of real estate activity.

Operating Assistance. NYC Transit receives \$158 million per year in operating assistance from the city, and an equivalent amount from New York State; operating assistance has remained constant in nominal terms 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 the Access-A-Ride paratransit program, which is administered by NYC Transit. In 2006 the subsidy was roughly \$36 million.

NYC Transit Operating Budget					
<i>Dollars in millions</i>					
	2006	2007	2008	2009	2010
	(est.)	Budget	Plan	Plan	Plan
Expenses					
Labor	\$3,753.6	\$4,080.7	\$4,326.6	\$4,498.1	\$4,655.6
Non-labor	1,157.2	1,291.7	1,341.3	1,442.5	1,502.9
Total expenses before debt service	\$4,910.8	\$5,372.4	\$5,667.9	\$5,940.6	\$6,158.5
Debt service	777.0	857.0	940.2	1,033.5	1,132.3
TOTAL Expenses	\$5,687.8	\$6,229.4	\$6,608.1	\$6,974.1	\$7,290.8
Revenues					
Farebox revenues	\$2,745.3	\$2,778.1	\$2,812.0	\$2,826.1	\$2,838.7
Other operating revenue	291.4	276.8	297.3	313.0	330.3
Bridge & tunnel surplus	154.9	121.9	116.7	96.6	68.4
Operating assistance	316.4	316.4	316.4	316.4	316.4
Dedicated taxes	2,130.2	2,025.6	1,997.6	2,058.2	2,126.5
TOTAL Revenues	\$5,638.2	\$5,518.8	\$5,540.0	\$5,610.3	\$5,680.3
SOURCES: IBO; Metropolitan Transportation Authority.					
NOTES: Non-reimbursable expenses; excluding depreciation. The authority's fiscal year coincides with the calendar year.					

Surplus Bridge and Tunnel Revenues. NYC Transit receives a portion of the surplus tolls generated by MTA Bridges and Tunnels. Preliminary results indicate that the agency's share of the surplus in 2006 was \$154.9 million. This amount is expected to decline over the coming years, as more revenue is needed to pay the debt service on bridge and tunnel capital projects. By 2010, MTA projects that NYC Transit will receive only \$68.4 million in surplus toll revenue.

Expenses. NYC Transit projects that total expenses will rise almost 10 percent in 2007, to \$6.2 billion. They are projected to rise a further 17 percent by 2010, reaching \$7.3 billion. Rising labor and non-labor costs and debt service all contribute to the increase.

Labor. NYC Transit's largest expense is labor—wages and salaries, benefits, and pensions. NYC Transit's labor expenses were \$3.8 billion in 2006—about 76 percent of operating expenses before debt service. They are projected to increase to \$4.1 billion in 2007 and to \$4.7 billion by 2010. These increases reflect the new collective bargaining agreement (see below), and higher premiums for employee health plans. One-time pension savings reduced New York City Employees' Retirement System overall pension costs in 2006. Pension costs for 2007 will be substantially higher, and then remain stable at around \$600 million per year through 2010.

Non-Labor. Non-labor expenses include, among other items, energy and fuel costs, materials and supplies, and service contracts. NYC Transit's non-labor costs were estimated at \$1.2 billion in 2006, and are expected to rise to \$1.5 billion

by 2010. Nearly half of this increase is attributed to a sharp jump in the expected cost of paratransit service contracts, from an estimated \$189.8 million in 2006 to a projected \$356.7 million in 2010.

Debt Service. The MTA issues bonds to finance the major part of its capital spending. The debt service on those bonds is paid out of individual agencies' operating budgets. Although the MTA has benefited from lower than anticipated interest rates, its total indebtedness and annual debt service continue to climb. Total NYC Transit debt service was \$777 million in 2006. It is expected to reach \$857 million in 2007, and \$1.1 billion by 2010.

Key Operating Budget Issues

No Fare Hike in 2007. The MTA 2005 Adopted Budget contained proposals for a 5 percent increase in fare and toll "yields" (i.e., revenues) in 2007 and 2009. Due primarily to the continued strength of dedicated tax revenue, in July 2006 the MTA decided to postpone the proposed 2007 increases from January to September. In November 2006 both the 2007 and 2009 increases were removed from the MTA's financial plan. While there would appear to be no chance of a fare or toll increase this year, the MTA's \$799 million operating budget gap projected for next year might lead the authority to consider an increase in 2008 or 2009.

Labor Settlement. Most NYC Transit subway and bus workers are represented by Transport Workers Union Local 100. The existing labor agreements between TWU-100 and NYC

Transit expired in December 2005 without an agreement on a new contract, leading to a three-day strike. NYC Transit and the TWU-100 board announced a tentative agreement on December 27, 2005, but this contract was narrowly voted down by union members in January 2006. TWU-100 workers finally approved the contract in an April vote, but by that time the MTA was insisting on binding arbitration. In December 2006 a state arbitration panel handed down a settlement whose terms were substantially the same as the one the union had first rejected, then approved. The 37-month contract expires in January 2009, and contains annual wage increases of 3.0 percent in the first year, 4.0 percent in the second year, and 3.5 percent in the third year. The contract adds Martin Luther King Jr.'s birthday as a holiday, and provides improved retiree health coverage. The contract also requires current employees to contribute 1.5 percent of their salary for health care.

The MTA had already accounted for most of the increased labor costs from the new collective bargaining agreement before a settlement was reached. However, the new financial plan adds another \$66 million to labor costs in 2007, \$39 million of which is attributed to the additional holiday. The employee contribution to health care of 1.5 percent of salary is expected to bring in around \$40 million in 2007. This money will be placed in a special account to help fund post-retirement health benefits.

Paratransit Ridership and Costs Soar. NYC Transit administers Access-A-Ride, the city's paratransit service for individuals who

are unable to use conventional transit due to disability. NYC Transit contracts with private transportation companies to provide this service. As documented in a recent IBO report, the cost of these contracts has risen dramatically since 2000. In mid-2006 MTA was projecting that the contracts would cost \$170.9 million in 2006. Due to increases in rates and the number of passengers, however, the cost subsequently rose to an estimated \$189.8 million. NYC Transit projects that paratransit ridership will increase 15 percent annually from 2007 through 2010, while the cost of the contracts will increase over 17 percent annually. By 2010 the annual cost of the contracts is projected to reach \$356.7 million. Based on current institutional arrangements, almost two-thirds of this cost will be borne by NYC Transit, with the remainder coming from a city contribution, a portion of dedicated tax revenue, and passenger fares.

MTA Bus Company. This MTA subsidiary was created in 2004 to operate the local and express routes that were formerly provided by seven different private companies under a franchise agreement with the New York City Department of Transportation. The takeover of the private bus lines was completed in February 2006. MTA Bus now operates 46 local routes (the majority in Queens), and 42 express routes that connect Manhattan with the Bronx, Brooklyn, and Queens. Total ridership in 2007 is projected to be 99.2 million, making MTA one of the largest providers of bus transit service in the United States.

As part of its arrangement to have the MTA take over the private companies, the city agreed to pay the difference between actual operating expenses and revenues received (essentially fare revenue and state aid). Thus, despite the takeover by the MTA, the city continues to subsidize the service. In city fiscal year 2006, the city made payments of \$152 million to MTA Bus, and another \$70 million to the bus companies while they were in private hands. The city currently expects to pay \$177 million in operating subsidies to MTA Bus in 2007, and another \$16 million to cover the company's leases of land, buildings, and structures. In 2008 the operating subsidy is projected to be \$223 million, with another \$16 million for lease payments.

MTA Capital Program, 2005-2009	
<i>Dollars in millions</i>	
Commitments by Program Element	
Core Programs (see text):	
NYC Transit	\$11,219.5
Long Island Rail Road	2,169.9
Metro-North Railroad	1,375.5
Security Program	495.0
Interagency	155.4
East Side Access, 2nd Ave. Subway, JFK Link, and Constr. Administration	2,475.0
#7 Line Extension	2,100.0
Bridges and Tunnels	1,202.1
MTA Bus	138.2
TOTAL	\$21,330.6
Funding Sources	
Federal	\$6,587.3
City	2,528.6
MTA Bonds	10,890.7
Asset Sales/Program Income/Carryover	1,273.5
Other	50.5
TOTAL	\$21,330.6
SOURCES: IBO; Metropolitan Transportation Authority.	

CAPITAL PROGRAM

MTA capital projects typically span multiple years, and spending from one plan period often spills over into the next. Because of this overlap, the MTA currently has two active capital programs, both of which underwent minor revisions in 2006. The 2000-2004 program now totals

\$21.15 billion, of which \$19.07 billion (90 percent) had been committed and \$15.22 billion (72 percent) expended as of December 31, 2006. The plan total includes \$10.29 billion for the NYC Transit “core” program of state of good repair, normal replacement, and system improvement. The 2000-2004 plan also includes \$2.4 billion for subway system expansion projects administered by the MTA Capital Construction Company, \$502 million to purchase buses for the MTA Bus Company, and \$249 million for repairs related to the attacks of September 11, 2001.

The 2005-2009 capital program totals \$21.33 billion, of which \$5.17 billion (24 percent) had been committed and \$1.67 billion (8 percent) expended as of December 31, 2006. The 2005-2009 plan includes \$11.22 billion for the NYC Transit “core” program, \$2.1 billion for an extension of the #7 subway line to the far west side of Manhattan, \$2.40 billion for subway and commuter rail expansion projects within New York City, and \$138 million for the MTA Bus Company, primarily to upgrade bus maintenance and storage facilities.

The largest components of the 2005-2009 NYC Transit “core” program are \$1.80 billion for the purchase of 959 subway cars, \$1.74 billion for signals and communications, and \$1.66 billion for station rehabilitation and improvement, including meeting Americans with Disabilities Act accessibility standards at 17 stations. Even with these high levels of planned spending, however, key elements of the subway system will still be years away from achieving a state of good repair. Currently, stations are not expected to reach state of good repair until 2024, and signals and communications systems not until 2027.

System Expansion. The 2005-2009 capital program contains funding for two subway expansion projects: the extension of the #7 line to the far west side of Manhattan, and the Second Avenue Subway. The #7 extension has a cost currently estimated at \$2.1 billion, to be funded entirely by the city. Neither the city nor the MTA has made a clear commitment to paying for cost overruns that may occur, and some observers are concerned that this issue could delay or halt the project.

In capital program documents, the Second Avenue Subway is combined with East Side Access (Long Island Rail Road connection with Grand Central) and a Kennedy Airport-downtown Manhattan rail link (a project in preliminary planning stages), to make one project line labeled “system expansion.” Total funding for the three projects combined is \$2.4 billion, far less than is needed to do significant construction work. Of the three projects, East Side Access has advanced the farthest. The MTA and the Federal Transit

Administration (FTA) entered into a full-funding grant agreement for the project in December 2006. Under the agreement, the total project cost is \$7.4 billion, with slightly over one-third (\$2.6 billion) to be funded through the federal New Starts program.

The FTA expects to enter into a funding agreement for Phase I of the Second Avenue Subway in late 2007. Phase I would involve construction of a 2.3-mile subway line from 96th Street to 63rd Street in Manhattan. At 63rd Street the new line will connect with existing tracks on the Broadway line. The MTA is seeking \$1.3 billion in federal funding for Phase I, around 28 percent of the estimated total cost of \$4.7 billion. Subsequent phases of construction will extend the new subway line north to 125th Street, and south to Hanover Square.

There are two large NYC Transit capital projects that are not contained in the capital program because they will be paid for with federal funds earmarked for Lower Manhattan recovery. The South Ferry Terminal project will improve turnaround time on the #1 line, as well as provide improved connections with the R and W lines at Whitehall Street. The estimated cost of this project is \$489 million. The Fulton Street Transit Center is intended to improve connectivity between the subway lines that serve downtown, as well as provide an aesthetically pleasing environment. The estimated cost is \$888 million. The projected cost of both the South Ferry and Fulton Street projects have increased substantially since they were first proposed.

While NYC Transit’s subway projects move forward, the agency is also proceeding with a pilot project for bus rapid transit (BRT). Bus rapid transit refers to measures that expedite the movement of buses, and thus make bus travel speeds more comparable to those of rail. Bus rapid transit systems may include elements such as exclusive bus lanes, traffic signal priority for buses, and off-board fare collection. In conjunction with the city and state departments of transportation, NYC Transit has identified five corridors, one in each borough, for a BRT demonstration project. The MTA committed \$2.9 million for the planning and design of Bus Rapid Transit in its 2000-2004 capital program, and plans to commit \$21.9 million for implementation of the project in the 2005-2009 program. The New York City Department of Transportation also budgeted \$2 million in its 2008 budget to place a solid color overlay on the lanes to be used for the five BRT demonstration projects.

City Capital Contribution. Until 2003, New York City committed around \$105 million annually to NYC Transit’s

capital program, plus \$1 million to the Staten Island Railway. In 2003 the city announced a reduction in its annual baseline commitment, to \$75 million—subsequently increased to \$80 million. The city's January 2007 Capital Commitment Plan commits \$70 million to NYC Transit in 2007, \$80 million in 2008, and \$89 million in 2009 and again in 2010.

Commitments to the Staten Island Railway are \$1.7 million in 2007 and \$400,000-\$500,000 annually during 2008-2010. The city is also providing \$21.3 million (\$20.2 million in 2007 and \$1.1 million in 2008) as matching funds for federal aid to the MTA Bus Company.

Civilian Complaint Review Board (CCRB)

PRELIMINARY BUDGET HIGHLIGHTS

- **Additional Investigator Positions.** A total of 25 investigator positions are to be “baselined,” (included in each year of the Financial Plan) in CCRB’s budget at an annual cost of \$1.15 million beginning in 2008.
- **Investigator Retention Initiative.** The proposed budget adds \$150,000 annually beginning in 2008 to allow the agency to devise strategies for retaining investigators on staff. The average newly hired CCRB investigator, with a starting salary of \$32,969, currently remains with the agency for only about 17 months.
- **Enhanced Mediation Capabilities.** In order to help increase the share of complaint cases resolved through mediation, an annual appropriation of \$57,000 is proposed over the 2008-2011 period, to hire a mediation coordinator as well as to increase the per diem rate paid to professional mediators.
- **Director of Recruitment and Training.** CCRB is to receive an additional \$70,000 each year from 2008-2011 to hire a director of recruitment and training.

EXPENSE BUDGET

Agency Overview. The Civilian Complaint Review Board is an independent agency with the authority to investigate allegations of police misconduct and, when appropriate, recommend disciplinary action to the Police Commissioner. The board also strives when possible to resolve complaints through a mediation program that brings together police officers and complainants for a dialogue concerning the alleged wrongdoing on the part of the police officer.

The January 2007 Financial Plan proposes a budget of \$11.2 million for the CCRB in 2008, an increase of 3.4 percent over the 2007 current modified budget, and of nearly 11 percent over 2006 spending.

	2000	2001	2002	2003	2004	2005	2006	*2007
Investigative Division Staffing	108	116	125	120	126	142	141	148
All Other Staffing	50	49	45	48	39	37	35	35
TOTAL	158	165	170	168	165	179	176	183

SOURCES: IBO; Civilian Complaint Review Board.
 NOTES: Staffing figures reflect average daily number of fulltime personnel on staff.
 *Figures displayed for 2007 reflect average daily staffing for first half of the fiscal year (July-December 2006).

Effects of Key Budget Proposals

Additional Investigator Positions. The City Council in each of the past three years has added \$1.0 million to fund an additional 24 investigator positions. In the 2008 Preliminary Budget the Mayor has baselined 25 investigator positions in the CCRB’s budget at an annual cost of \$1.15 million beginning in 2008. Fiscal year 2008 budgeted staffing within CCRB’s investigative unit would increase to 148 from the current level of 147.

The growth in CCRB funding and staffing has been accompanied by a sustained growth in the number of complaints the agency receives pertaining to police misconduct. The first four months of the current fiscal year (July through October 2006) marked the fifth consecutive year in which complaints increased compared to the same period in the previous year.

As complaints have increased in recent years, the number of days required to complete a full investigation has also risen, with 2007 marking the first year in which this statistic has dropped since 2004.

Although the investigation time has fallen in the first months of 2007, concerns have been raised recently that CCRB is not referring substantiated complaints to the Police Commissioner’s office in a timely fashion. There must be adequate time for the Police Commissioner to review and decide on an appropriate discipline (if any) before expiration of the statute of limitations. Police officers cannot be disciplined if more than 18 months have elapsed from the date a substantiated incident occurred. CCRB had made significant progress in getting substantiated cases to the Police Commissioner’s office in a timely fashion through 2004, but since then the number of cases reaching the police department in sufficient time to allow for review and action (with the benchmark being at least three months prior to expiration of the statute of limitations), has slipped.

Investigator Retention Initiative. At present, newly hired investigators earn a starting salary of \$32,969, which increases to \$37,914 after two years on the job. The average investigator stays with the agency for only 17 months despite the verbal commitment all new investigators make to stay for at least two years. To address this turnover, the January 2007

Financial Plan provides CCRB with funding for an “investigator retention initiative” in the annual amount of \$150,000 from 2008 through 2011. The agency has not yet finalized precise plans for utilization of the \$150,000, but it will most likely consist of a mix of promotional opportunities to encourage the agency’s most promising investigators to remain with the agency.

Enhanced Mediation Capabilities. To increase the proportion of complaint cases resolved by mediation, an annual appropriation of \$57,000 is proposed in the 2008 Preliminary Budget and Financial Plan. Of that annual amount, \$43,000 would be used to hire a mediation coordinator. An additional \$14,000 is proposed each year for increasing from \$50 to \$100 the per diem rate paid to outside mediators brought in to conduct mediation between complainants and police officers.

The CCRB currently disposes of about 5 percent of its caseload through mediation. In a mediated case, the police officer and complainant agree to meet face-to-face in an attempt to reconcile their differences in a neutral,

CCRB Complaints and Performance Indicators

Data for July through October

	2000	2001	2002	2003	2004	2005	2006	2007
New CCRB Complaints	1,787	1,306	1,241	1,602	1,912	2,102	2,376	2,605
Number of Days Required to Complete a Full Investigation	250	314	240	256	253	295	303	272
Percentage of Substantiated Cases with Three Months or Less Remaining on Statute of Limitations	N/A	24%	23%	11%	5%	13%	19%	16%

SOURCES: IBO; Mayor’s Management Reports.

nondisciplinary environment. The proceedings are confidential and cannot be used in any future judicial or administrative proceedings. If the matter is resolved in a manner satisfactory to both parties, the case is considered closed. If mediation fails to resolve the matter, the complainant has the right to request that the case be returned for standard case processing. Cases that are mediated are not fully investigated because the goal is not to ascertain whether or not misconduct actually occurred. For that reason, mediated cases are typically disposed of more expeditiously than other types of cases. For example, mediated cases in the first third of the current fiscal year were completed in an average of 167 days as opposed to an average of 272 days for fully investigated cases.

Director of Recruitment and Training. CCRB is to receive an additional \$70,000 each year from 2008-2011 for the purpose of hiring a director of recruitment and training.

Civilian Complaint Review Board				
	2005	2006	2007 Current Modified	2008 Preliminary
Personal Services (PS)	\$8,249,664	\$8,145,964	\$8,847,000	\$9,292,000
Other Than Personal Services (OTPS)	1,525,923	1,995,740	2,024,000	1,948,000
TOTAL,				
CIVILIAN COMPLAINT REVIEW BOARD	\$9,775,587	\$10,141,704	\$10,871,000	\$11,240,000
Full-Time Staffing	179	182	184	187

SOURCE: IBO.

Department of Correction (DOC)

PRELIMINARY BUDGET HIGHLIGHTS

- **Increase in Overtime Spending.** Higher than projected jail population and staffing shortages caused by high attrition have led to an increase in overtime spending in the current year to \$87.0 million; the current projection for 2008 is for \$54.6 million.
- **New Security and Escort Posts.** New security and escort posts will cost \$4.2 million in the current year, which increases to \$5.8 million in 2008. Assuming two of the programs that are pilots do not receive renewed funding, the three remaining programs are budgeted at \$3.3 million each year through 2011.
- **Two Commission for Economic Opportunity (CEO) Initiatives.** Two new pilot educational programs receive a combined \$1.9 million in 2008 (see appendix for full program list).
- **Savings from Replacing Retiring Officers with New Hires.** The lower starting salaries of officers replacing those lost through attrition have provided \$33 million in savings since the beginning of fiscal year 2006, according to IBO's estimate.

EXPENSE BUDGET

Agency Overview. The Department of Correction houses inmates in 10 jail buildings on Rikers Island and in four borough detention centers. The majority of inmates are detainees awaiting trial. Of the rest, most are serving a misdemeanor sentence or awaiting transfer to state facilities. The department transports prisoners to court appearances, and provides discharge planning to inmates prior to their release.

The Preliminary Budget proposes \$911.6 million for DOC in fiscal year 2008. This is \$41.6 million less than the current modified 2007 budget—largely due to lower projected overtime spending in 2008—and \$11.6 million more than was spent in 2006.

Effects of Key Budget Proposals

Increase in Overtime Spending. Since the 2007 budget was adopted, DOC has raised its projected 2007 spending for uniformed overtime by \$23.3 million, to a total of \$87.0 million. This is up from \$63.4 million of actual overtime spending in 2006. Overtime is projected to fall to \$54.0 million per year from 2008 through 2011. There are three reasons for the higher 2007 overtime projections.

First, DOC average daily jail population is on pace to rise by 4 percent, in contrast to the Bloomberg Administration's original projection of a 4 percent *decline* in average daily population. While the average length of stay is down slightly to 47.1 days in the first four months of fiscal year 2007 from 47.6 days per inmate from over the same time period in 2006, the average daily population is up to 13,933 inmates per day from 13,311. This has been driven by a 5.5 percent increase in admissions, to 36,448 inmates in the first four months of 2007, compared to 34,564 in the same period in 2006. The higher than expected population has also increased food costs this year by \$3.3 million and \$2.3 million next year.

Second, DOC has had trouble recruiting enough correction officers to replace those lost by attrition. DOC currently has a 10 percent attrition rate, which is due to both a large number of officers reaching retirement age (with 50 percent of current uniformed staff eligible for retirement over the next five years) and the relatively low starting salary for an officer's first six months on the job. In contrast to police department recruits, who also receive lower pay during their first six months, police officer recruits are in training for the entire period, while correction officers are in training for only the first three months. This means that correction officers are paid at the lower rate for three months while they are actually on the job in addition to their training period. To help address the recruiting shortfalls, the Financial Plan includes \$517,000 this year and \$463,000 in 2008 to create a recruiting unit staffed with recruiting specialists.

Third, DOC has several new security stations funded on overtime in 2007 that will be funded on normal, or straight-time, beginning in 2008 (see below).

New Security and Escort Stations. DOC has plans to fund 88 correction officers at five new security stations in 2007. These include:

- security and escorts for Brooklyn grand juries;
- a new "close custody" program for high profile inmates;
- escort posts for operation of the 32-bed intensive treatment unit;
- additional posts for expansion of the 150-bed mental health assessment unit;
- staff to monitor and maintain the new centralized fire and safety command center on Rikers Island.

Combined, these five new security programs are projected to cost \$4.2 million in 2007, when they will be funded on

overtime (and only operating for part of the year) and \$5.8 million in 2008, when they will be funded on straight-time. The mental health assessment and intensive treatment security posts are pilot programs that do not currently have funding after 2008. The remaining three programs have a combined \$3.3 million of projected funding for 51 correction officers each year through 2011.

Two Commission for Economic Opportunity Initiatives. DOC is also funding two initiatives recommended by the Mayor's antipoverty commission. A program to help 16 to 21 year olds released from DOC or Department of Probation custody complete their high school graduate equivalency diploma and college admission has been budgeted \$875,000 in 2008, while an education program for 18 to 21 year olds on Rikers Island has been budgeted at \$1 million (with an additional \$1.8 million in the Department of Education Budget). Like other CEO programs, these are pilot programs not funded beyond fiscal year 2008, pending evaluation of their success.

Delayed Initiatives Cost \$9.2 Million in 2007. Delays in implementing two initiatives have led the department to reverse \$9.2 million in previously projected savings in 2007. The first involved outsourcing of Rikers Island commissary operations to a private vendor (\$6.1 million); the second arises from a delay in handing off responsibility for court feeder pens to the state Office of Court Administration (\$3.1 million).

Savings from Low Starting Salary of Correction Officers. Despite the increase in overtime costs that are partly due to replacing officers lost through attrition, DOC is seeing savings through the low starting salary of those new officers. Since August 2005, DOC has hired 770 new officers (at an average annual salary of \$29,498), replacing a combined 959 lost to resignation and retirement (at an average annual salary of \$57,639). Since the beginning of fiscal year 2006, this represents \$33 million in savings due to both the lower headcount and the lower starting salaries. Notwithstanding training costs for these new officers, these savings should more than offset the increased overtime costs due to lower staffing levels.

Funding for the Correction Academy is lower in 2007 and 2008 than actual spending in 2005 and 2006. Current projections do not include full funding for new classes of Correction Academy recruits, which will likely result in higher actual spending.

CAPITAL BUDGET

According to the Mayor's Ten-Year Capital Strategy, the lower jail population in recent years has allowed DOC to concentrate on upgrading existing capacity, rather than adding new permanent capacity, as it has long planned to do. It has also had the flexibility to close entire jails and significant portions of some facilities, which has allowed it to conduct major reconstruction and capital improvement projects with minimal disruption to operations.

DOC's capital plan includes several new additions to permanent facilities, but will reduce the overall capacity of the city's jail system from 20,800 as of July 2004 to 18,700. The plan will shift the jail population away from Rikers toward borough-based facilities closer to inmates' communities and support services, which the department believes aids in the discharge planning process. The inmate population on Rikers Island will be reduced by 4,000 as older, deteriorating structures are closed.

Large capacity replacement projects include replacing temporary structures on Rikers Island with 800 permanent beds at the Rose M. Singer Center, and reconstruction of the currently closed 1,200-cell maximum-security James A. Thomas Center. The department also plans to double the size of the Brooklyn Detention Center (currently closed), to 1,479 beds, and to construct a new jail complex at Oak Point in the Bronx housing 2,040 prisoners. These planned projects will replace a total of 4,764 temporary beds currently on Rikers Island and will provide "operational and security advantages as well as a safe and healthy environment for staff and inmates" according to a DOC report. Combined, capacity replacement programs will cost \$1.095 billion dollars over the next 10 years.

Department of Correction Capital Commitments		
<i>Dollars in millions</i>		
	Total Commitments 2000-2006	Planned Commitments 2007-20017
Replacement Capacity	\$197.9	\$1,083.7
Building Systems and Infrastructure	243.4	577.3
Support Space	28.7	164.6
Equipment	31.7	89.2
TOTAL	\$501.7	\$1,914.8

SOURCES: IBO; Office of Management and Budget.

DOC also plans to upgrade infrastructure on Rikers Island. These include plans to replace security fencing; complete the water distribution system; reconstruct storm sewers; improve plumbing; replace facades, roofs, and windows; and ensure compliance with fire/life safety standards. These upgrades will cost \$513.9 million over the next 10 years.

Department of Correction				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration				
Administration	\$95,951,083	\$101,824,639	\$120,368,347	\$109,843,673
Academy & Training	14,289,450	17,933,675	10,826,933	4,822,164
TOTAL, Administration	\$110,240,533	\$119,758,314	\$131,195,280	\$114,665,837
Jails & Operations				
Jails	\$498,361,240	\$548,516,772	\$413,711,286	\$379,148,967
Rikers Facilities	417,494,396	455,473,985	349,486,809	319,903,048
Borough Detention Centers	80,866,844	93,042,787	64,224,477	59,245,919
Central Operations	\$172,526,420	\$191,414,179	\$374,414,744	\$385,683,697
Rikers Island Security and Operations	28,842,140	36,079,405	250,544,183	268,257,951
Special Operations/ESU/GIU	27,825,730	31,608,219	22,687,304	19,686,031
Infrastructure, Environmental Health	23,453,540	26,602,702	22,811,017	21,843,541
Transportation & Court Pens	54,251,214	56,568,654	44,581,546	42,140,541
Hospital Prison Wards	19,248,760	20,628,241	14,608,575	14,608,575
Nutritional Services	18,905,036	19,926,958	19,182,119	19,147,058
TOTAL, Jails & Operations	\$670,887,660	\$739,930,951	\$788,126,030	\$764,832,664
<i>Memo: Uniformed Overtime Spending</i>	<i>\$56,246,924</i>	<i>\$64,017,799</i>	<i>\$87,046,000</i>	<i>\$54,563,000</i>
Health & Programs				
Health Programs	\$13,134,322	\$13,636,982	\$15,121,012	\$11,850,462
North Infirmary Command	25,698,749	26,734,567	18,612,566	18,656,393
TOTAL, Health and Programs	\$38,833,071	\$40,371,549	\$33,733,578	\$30,506,855
Financial Plan Savings*	\$0	\$0	\$135,015	\$1,610,015
GRAND TOTAL, CORRECTION	\$819,961,264	\$900,060,814	\$953,189,903	\$911,615,371
Full-Time Staffing	10,804	10,539	10,879	11,024
Uniformed	9,477	9,189	9,447	9,471
Civilian	1,327	1,350	1,432	1,553
SOURCE: IBO.				
NOTES: Overtime and other pay differentials are budgeted under Central Operations/Rikers Island Security and Operations, and transferred to other budget lines as expenses are incurred. *Although called Financial Plan Savings, these represent additional unallocated city funds.				

In addition, DOC will spend \$164.6 million for administration and maintenance buildings and a parking facility on Rikers Island over the next 10 years, as well as \$57

million for life-cycle replacements and upgrades for vehicles, computers, security, and communication systems.

Department of Juvenile Justice (DJJ)

PRELIMINARY BUDGET HIGHLIGHTS

- **Increase in Payments to State Office of Children and Family Services (OCFS).** Payments to OCFS are projected to increase to \$52.0 million in fiscal year 2008, up from \$37.2 million of actual spending in 2006.
- **Increase in Detention Population Leads to Increase in Spending.** In 2008 spending on secure detention is budgeted at \$1.6 million more than in 2006 and spending on nonsecure detention is \$4.6 million more.
- **New Funding for Center for Employment Opportunity (CEO) Pilot.** The department plans to spend \$156,000 on a Life-Skills program in the current year (see appendix for full program list).

EXPENSE BUDGET

Agency Overview. The Department of Juvenile Justice provides both secure and nonsecure detention of alleged juvenile delinquents and secure detention for juvenile offenders (youth tried as adults). Detainees have cases that are pending or are post-adjudication and are awaiting transfer to state facilities. DJJ provides many services while juveniles are in detention, including education, health programs, discharge planning, and case management. The DJJ budget also covers payments to the state Office of Children and Family Services for placement of convicted New York City juveniles in state-run facilities.

The Preliminary Budget proposes \$121.7 million for DJJ in fiscal year 2008. This is \$5.8 million less than the current modified 2007 budget and \$17.4 million more than was spent in 2006, mostly due to an increase in payments to OCFS and an increase in detention populations.

Effects of Key Budget Proposals

Increase in Payments to State. The department will increase payments to the New York State Office of Children and Family Services to \$57.0 million in 2007 and \$52.0 million in 2008, from \$37.2 million paid in 2006. These payments are to reimburse OCFS for 50 percent of the cost of care for youth placed in OCFS facilities.

Payments are increasing because of an increase in the cost of

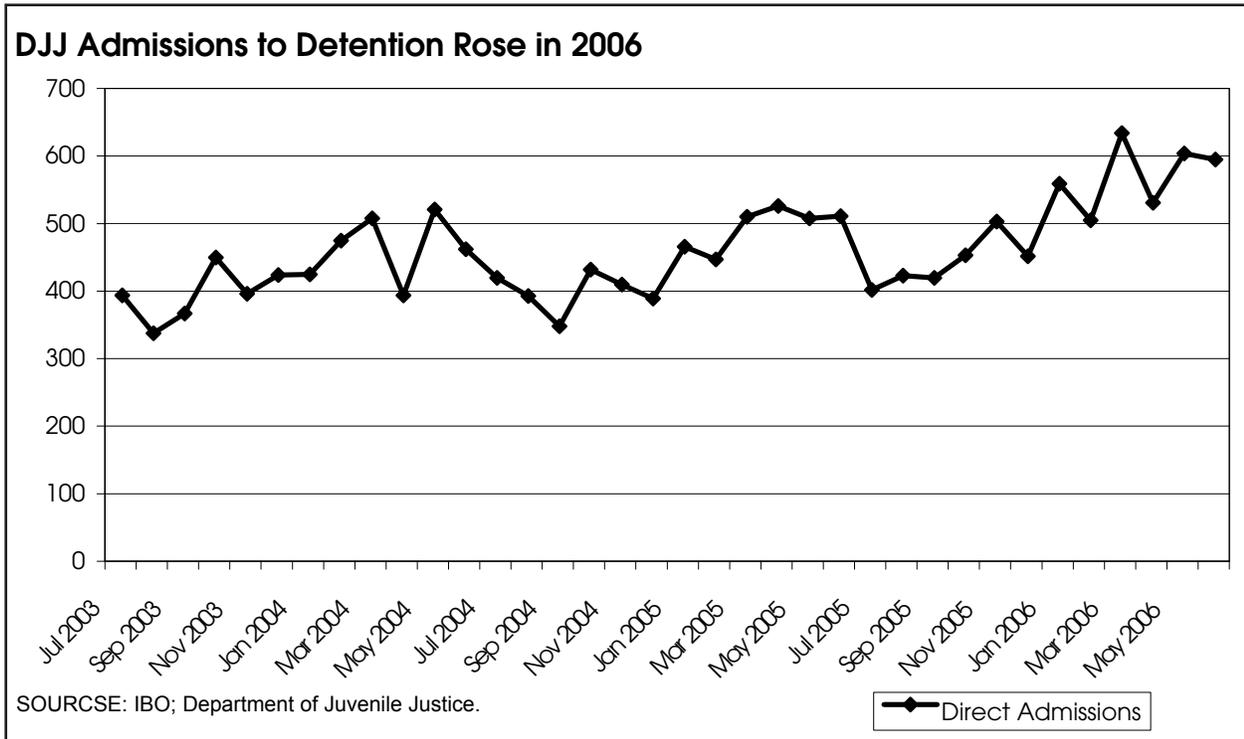
care in OCFS facilities. The rate that DJJ pays OCFS is based on actual costs from two years earlier. For payments in 2001 through 2006, that rate was based on 1999 costs because of a suspension of audits after the state agency merger that created OCFS. With audits resuming in 2006, the 2007 and 2008 budgets reflects the five-year increase in costs that occurred during the suspension. This increase does not reflect an increase in the number of juveniles being sent to OCFS. Over the first four months of 2007, the average daily population awaiting transfer to OCFS in both secure and nonsecure detention facilities was down to 52 per day as compared to 58 per day over the same period in 2006.

Increase in Detention Population Leads to Increase in Spending. DJJ projects spending \$41.9 million on secure detention in fiscal year 2008, up from \$40.3 million in 2006 (a 4.0 percent increase). It also is expecting to increase spending on nonsecure detention to \$20.8 million in 2008 from \$16.3 million in 2006 (a 27.6 percent increase).

The spending increases are driven by an 8.2 percent increase in admissions to detention (1,798 for the first four months of fiscal year 2007 compared to 1,662 for the same period in 2006) and an 11.1 percent increase in the average daily population (461 compared to 415).

Decrease in Funding for Discharge Planning Programs. Budgeted spending on discharge planning programs in 2008 is down to \$614,559 from \$2.8 million in the current 2007 budget and the \$2.2 million that was spent in 2006. The totals for both 2006 and 2007 include funding added by the City Council when the budget was adopted (\$779,000 in 2006 and \$1.3 million in 2007).

Discharge planning programs include aftercare programs for juveniles released from detention facilities and a Vera Institute of Justice program called Adolescent Portable Therapy (APT). APT, a family-focused and home-based drug treatment program, currently has no planned funding in 2008, down from the \$1.0 million spent in 2006 spending and currently budgeted for 2007. DJJ continues to release all youth with medical and mental health needs with a discharge plan and is enhancing that model through the Collaborative Family Initiative. According to the DJJ Web site, this initiative “seeks to improve community connections and increase parental engagement for residents with mental health needs.”



New Funding for Center for Employment Opportunity Pilot.
 The budget includes \$156,000 for the current year (split evenly between city and state funding) and \$526,000 in 2008 for a CEO Life-Skills pilot project. This 15-month pilot (April 2007 through June 2008) will be implemented in DJJ nonsecure detention facilities and will contract with not-for-profit organizations to provide workforce development and life skills educational programming for residents.

million for renovation work at secure detention facilities; \$7 million for renovations and improvements at Bridges, Horizon, and Crossroads secure detention centers; \$200,000 for renovations and improvements at DJJ’s nonsecure detention centers; \$4.3 million for a build out of new central office space; and \$1 million to replace secure passenger van vehicles.

CAPITAL BUDGET

The 10-year capital strategy for DJJ totals \$23.6 million to be spent over the next ten years. This amount includes \$11

Department of Juvenile Justice				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration				
Central Administration	\$6,651,066	\$7,519,623	\$6,947,387	\$6,353,163
Payments to OCFS	36,086,981	37,191,845	57,041,845	52,041,845
Total, Administration	\$42,738,047	\$44,711,468	\$63,989,232	\$58,395,008
Detention				
Secure Detention	\$37,210,972	\$40,320,632	\$41,294,568	\$41,909,387
Nonsecure Detention	14,192,584	16,254,744	19,429,792	20,826,077
Total, Detention	\$51,403,555	\$56,575,376	\$60,724,360	\$62,735,464
Programs				
Discharge Planning	\$1,685,711	\$2,183,081	\$2,805,840	\$614,559
Total, Programs	\$1,685,711	\$2,183,081	\$2,805,840	\$614,559
Financial Plan Savings / Unallocated	-	\$821,031	-	-
GRAND TOTAL, JUVENILE JUSTICE	\$95,827,313	\$104,290,957	\$127,519,432	\$121,745,031
Full-Time Staffing	783	848	799	986
SOURCE: IBO.				

Department of Probation (DOP)

PRELIMINARY BUDGET HIGHLIGHTS

- **Continued Shift from Adult Supervision to Adult Investigation.** The department continues to shift resources away from Adult Supervision and into Adult Investigation. The 2008 Preliminary Budget proposes \$10.8 million for Adult Supervision and \$27.7 million for Adult Investigation.
- **Restructuring of the Alternative to Detention (ATD) Program.** Proposed funding for ATD has been phased out for fiscal year 2007, as the department works to restructure the program.
- **Continued funding for Esperanza.** Esperanza funding remains consistent with 2006 and 2007 levels at \$3.2 million.
- **Enhanced Supervision Program (ESP) Funding Increases.** Funding for ESP is budgeted to rise from \$1.1 million of actual spending in 2006 to \$2.1 million in 2008.
- **New Funding for an ACS/Juvenile Justice Initiative.** In 2007, \$250,000 has been added to the budget and \$952,000 for future years for an initiative to place social workers in family courts.

EXPENSE BUDGET

Agency Overview. The Department of Probation provides supervision for thousands of adults and juveniles placed on probation each year by judges in the Supreme, Criminal, and Family Courts. It also prepares background investigation reports that assist judges in determining sentences for adult offenders and juvenile delinquents. The Preliminary Budget proposes \$84.5 million for DOP in fiscal year 2008. This is \$420,000 less than the current modified 2007 budget and \$4.7 million more than was spent in 2006.

Effects of Key Budget Proposals

Continued Shift from Adult Supervision to Adult Investigation. Beginning in the Adopted Budget for fiscal year 2003, the Department of Probation has shifted funding from adult supervision to adult investigation. In fiscal year 2002, \$23.7 million was spent on adult supervision compared with \$13.5 million on adult investigation. The 2008 Preliminary Budget projects \$10.8 million in spending on adult supervision and \$27.7 million on adult investigation.

This shift reflects the restructuring of probation supervision beginning in 2003 to provide more intensive supervision for high-risk cases, and minimal supervision for the majority of the agency's caseload. In addition, DOP adopted more stringent criterion for pre-sentencing investigative reports, provided to criminal court judges during the sentencing phase of trials, requiring them to be delivered to court at least 24 hours before sentencing. This more stringent timeframe has required DOP to shift budgetary resources from supervision to investigation.

Overall caseload decreased for both supervision and investigations over this time, reflecting declining crime and arrest trends. In 2006, 9,581 cases were received by supervision, compared to 13,780 cases in 2001. The department completed 26,256 pre-sentence investigation reports in 2006, compared to 40,006 in fiscal year 2001. The percentage of reports submitted 24 hours before the scheduled sentencing hearing has improved from 88 percent in 2003, to consistently over 99 percent since 2005.

Restructuring of the Alternative to Detention (ATD) Program. In fiscal year 2006, \$1.5 million was spent on the department's ATD program. ATD serves alleged juvenile delinquents between the ages of 11 and 16 while their court cases are pending. It allows youths to remain in the community with their families rather than in detention, and requires them to attend either eight hours or 12 hours of supervision and education services at program sites daily and return to their homes in the evening.

Although the 2007 Adopted Budget funded ATD at \$2.8 million, Commissioner Martin Horn announced the decision to discontinue the existing ATD program in January 2006 because of health and safety concerns at the ATD sites and an educational experience that did not "meet the test of excellence." Enrollment in ATD had increased since fiscal year 2000 in which it enrolled 1,080 juveniles. In 2005 (its last full fiscal year of operation) it had enrolled 1,436 youths.

DOP, the Office of the Criminal Justice Coordinator, and the Vera Institute of Justice are currently developing a new version of the ATD program. The new program will use a risk assessment tool to decide which of the 2,400 medium risk juveniles with petitioned cases in Family Court to accept into ATD programs. Two programs, Community Monitoring and After-School Supervision, will each take approximately 600 and an Intensive Community Monitoring program will

Department of Probation				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Administration				
Administration	\$15,434,492	\$15,249,834	\$14,328,049	\$13,821,333
TOTAL, Administration	\$15,434,492	\$15,249,834	\$14,328,049	\$13,821,333
Adult Court Services				
Adult Investigation	\$23,661,324	\$21,644,232	\$27,402,699	\$27,712,325
Adult Supervision	13,480,925	15,773,691	11,203,440	10,809,236
Intensive Supervision Program	2,302,179	1,930,850	3,163,629	3,163,629
Field Service Unit	1,999,077	2,039,175	3,231,778	3,231,778
Drug Treatment	48,178	-	-	80,380
Kings Juvenile Offender Program	268,680	260,141	435,946	386,388
TOTAL, Adult Court Services	\$41,760,363	\$41,648,090	\$45,437,492	\$45,383,736
Family Court Services				
Intake and Services	\$11,122,682	\$12,490,985	\$12,045,195	\$12,699,242
Alternative to Placement (Esperanza)	2,752,524	3,199,263	3,199,263	3,199,263
Alternative to Detention	2,248,817	1,514,461	-	-
Enhanced Supervision Program (ESP)	1,583,076	1,104,222	2,113,592	2,113,592
Other	190,371	17,598	-	-
TOTAL, Family Court Services	\$17,897,470	\$18,326,529	\$17,358,050	\$18,012,097
Shared Services				
Shared Services	\$3,317,722	\$4,546,157	\$5,147,459	\$4,775,684
TOTAL, Shared Services	\$3,317,722	\$4,546,157	\$5,147,459	\$4,775,684
Financial Plan Savings *				
	\$0	\$0	\$2,605,832	\$2,464,698
GRAND TOTAL, PROBATION	\$78,410,047	\$79,770,610	\$84,876,882	\$84,457,548
Full-Time Staffing	1,276	1,234	1,233	1,327
SOURCE IBO.				
NOTE: *Although labeled "Financial Plan Savings," these amounts represent additional unallocated agency budget resources.				

take between 400 and 600 of those juveniles for a total of 1,600 to 1,800. The first two of those programs are contracted out to nonprofit agencies and are currently budgeted at just under \$2.0 millions out of the miscellaneous section of the city's budget in fiscal year 2008. The Intensive Community Monitoring program will be funded in the DOP budget using existing resources and probation officers who were previously assigned to the former ATD program.

Continued Funding for Esperanza. The department continues to fund Esperanza at previous levels. In the Preliminary Budget, \$3.2 million was budgeted for this program, which is the same amount that was actually spent in 2006 and provided in 2007. Esperanza is an Alternative to Placement program in which staff works with youth in their homes instead of placing them in state facilities. Meanwhile, service

delivery is increasing, as DOP has increased its average monthly participation from 69 to 79 youths. According to the *Preliminary Fiscal 2007 Mayor's Management Report*, capacity has increased due to the "overall success of the program."

Enhanced Supervision Program (ESP) Funding Increases.

Projected funding for Enhanced Supervision for Family Court cases has almost doubled in the Preliminary Budget compared to fiscal year 2006 actual spending. In that year, DOP spent \$1.1 million on this program, which is projected to increase to more than \$2.1 million in 2008. ESP provides community-based, intensive, family-centered supervision as an alternative to out-of-home placements. Over the first four months of fiscal year 2007, DOP has increased enrollment in ESP by 67 percent, to 627 from 375 enrolled over the same period in 2006.

New Funding for an ACS/Juvenile Justice Initiative. \$250,000 (\$200,000 from city funds and \$50,000 in state funds) was added to the department budget in fiscal year 2007 to fund a joint program with the New York City Administration for Children's Services (ACS). This initiative would build on Esperanza and ESP and provide a greater range of options for intensive, family-based treatment for delinquent youth. It places master's level family-services supervisors in Family Court to assess youth who may potentially be eligible for

program services. These services are provided by community-based organizations and will include so-called evidence-based approaches, such as multisystemic therapy and functional family therapy, as alternatives to placement in detention facilities. Funding for this program increases to \$952,000 (\$762,000 city funds and \$190,000 state funds) beginning in fiscal year 2008. The majority of the funding for this program (\$11.5 million) is in the ACS budget.

New York City Fire Department (FDNY)

PRELIMINARY BUDGET HIGHLIGHTS

- **Labor Contract Reached Between City and Firefighters.** The city has reached a tentative two-year contract agreement with firefighters providing annual wage increases of 4 percent and higher starting salaries for new recruits.
- **Extended Training for New Firefighters.** Extended training for newly hired firefighters will result in additional costs of \$1.9 million in the current year and \$12.4 million annually beginning in 2008.
- **Higher Overtime Due to Increased Sick Leave and Firefighter Attrition.** FDNY overtime spending is increasing by \$13.1 million in 2007 and \$8.8 million in 2008 through 2011 to reflect higher sick leave usage, and by \$11.8 million in 2007 as a result of increased attrition as well as some additional training for experienced firefighters.
- **Hazardous Materials Post Coverage.** Funding is being provided beginning this year for 20 additional uniformed personnel to provide round-the-clock response capability for hazardous materials emergencies. The budget provides \$732,000 this year and \$860,000 in 2008.
- **Additional Emergency Medical Services (EMS) Ambulance Tours.** The FDNY is providing additional Emergency Medical Services staff and ambulance runs to compensate for cuts in such services by Kingsbrook Jewish Hospital and Wyckoff Hospital. In 2007, about \$1.2 million is to be expended, \$428,000 of which will be funded with revenues generated by the additional ambulance runs.
- **Increasing Uniformed Diversity.** The FDNY increased its annual budget for recruitment and affirmative employment (i.e. diversity) initiatives from about \$515,000 in 2005 to \$2.6 million this year. The agency reported a 41 percent increase in minority (non-white) filers for the January 2007 written firefighter exam compared to the number of minority applicants for the prior exam offered in 2002.

EXPENSE BUDGET

Agency Overview. The fire department responds to fires and public safety emergencies, medical emergencies, and disasters so as to protect the lives and property of city residents and visitors. The FDNY also advances fire safety through its fire prevention, investigation, and education programs, as well as contributes to the city's counter-terrorism efforts and related preparedness programs. The agency maintains over 250 firehouses and ambulance stations and responds annually to approximately 280,000 fire and non-fire related emergencies as well as over 1 million medical emergencies.

The Preliminary Budget proposes FDNY expenditures of \$1.4 billion in 2008. In addition, IBO estimates that \$20 million in federal grant funds likely to materialize next year are not yet reflected in the agency's 2008 budget. We also estimate that the labor agreement between the city and the Uniformed Firefighters Association (UFA) will add \$55 million to the department's budget in 2007, and \$128 million in 2008, for total projected spending of over \$1.6 billion.

Effects of Key Budget Proposal

Tentative Labor Contract Reached Between City and Firefighters. The city recently reached a tentative two-year contract agreement with the roughly 8,900 member Uniformed Firefighters Association. The UFA membership, which makes up about three-quarters of FDNY's uniformed work force, has been working from an expired contract since July 2006. The new accord, which still requires ratification by UFA members, calls for a 4 percent wage increase retroactive to August 1, 2006 and another 4 percent increase effective this coming August 1, 2007. Starting salaries for newly hired firefighters would rise from \$25,100 to \$35,000 per year. The agreement also provides for increased pay for firefighters assigned to hazardous materials and rescue duty, as well as a \$1,000 per year boost in longevity pay for experienced firefighters.

The tentative agreement between the city and UFA is funded in part through productivity enhancements or "givebacks." Newly hired firefighters will receive only six paid holidays during their first five years on the job, as opposed to the 12 paid holidays received by all other firefighters. Firefighters with less than five years on the job will also receive 50 percent less in night differential pay as compared to more experienced firefighters.

IBO estimates that the contract's wage, pension, and fringe

benefit provisions would cost the city an additional \$59 million in 2007, rising to roughly \$196 million by 2009. Of this amount, \$55 million would be paid from the FDNY budget for wages and salaries of firefighters in 2007, and \$128 million in 2008.

Absence Rate for Uniformed Firefighting Personnel

Preliminary Data (July through October)

	2001	2002	2003	2004	2005	2006	2007
Sick Leave	1.95%	1.70%	2.00%	1.62%	2.47%	2.47%	2.35%
Line of Duty Injury (LODI)	4.40%	4.10%	6.51%	5.24%	5.16%	4.28%	4.74%
TOTAL	6.35%	5.79%	8.51%	6.87%	7.63%	6.76%	7.09%

SOURCES: IBO, Mayor's Management Report.

Extended Training for New Firefighters. The training period for newly hired firefighters ("probies") is being extended from 13 weeks to 18 weeks in the current year, and from 13 weeks to 23 weeks in 2008 and beyond. The longer training period will result in additional costs of \$1.9 million in the current year and \$12.4 million annually from 2008 through 2011.

The additional costs arise primarily from additional overtime shifts to provide coverage during the longer training period: The extension of the training period from 13 weeks to 23 weeks requires modification of FDNY's current practice of training four classes per year with about 150 new firefighters per class. The new training period of 23 weeks will instead translate into two classes per year with about 300 new recruits in each class. Less frequent entry of new firefighters into the force will require additional overtime coverage to offset attrition between classes.

Additional classroom and locker space has been added to the Fire Academy on Randall's Island to accommodate the larger classes.

The additional 400 hours of training will provide instruction on many new topics added to the curriculum in recent years, with terrorism and disaster preparedness among the most critical. Increased training on building construction principles and inspection techniques, the chemistry of fires, the study of hazardous materials, and various ladder and engine company operational tactics will be provided to newly hired firefighters in the hope that the additional instruction will pay long-term dividends in the form of enhancing the safety of both firefighting personnel and the general public. Lastly, newly hired firefighters will receive training on overall communications with the public as well as instruction on both the recognition and reporting of suspected incidents of domestic violence and child abuse.

(Note that the "Training" line in the "Extinguishing and Response" program area in the FDNY budget table shows a decline from 2006 actual expenditures to the amount currently budgeted for 2007. This is largely attributable to the fact that the salaries for probationary firefighters as well as uniformed

personnel from higher ranks undergoing training this year accrued elsewhere in the budget and not yet allocated in the training line.)

Increased Sickness/Absence Rate for Uniformed FDNY Personnel. The January 2007 Financial Plan adds \$13.1 million in 2007 and \$8.8 million in each year through 2011 for uniformed overtime, to compensate for greater than expected usage of medical leave on the part of firefighting personnel. The agency's expected absence rate for uniformed personnel, which had been 6.0 percent in 2006 and 6.5 percent up to this point in 2007, is being raised to 7.0 percent in 2008 and beyond.

As indicated in the table below, the actual absence rate for FDNY uniformed personnel during the first four months of the current fiscal year was 7.09 percent, higher than the comparable rate in four of the previous six years. The "sick leave" component of the total absence rate has generally trended upward since 2001, with firefighters contractually entitled to unlimited sick leave. Absences due to line of duty injuries have been on the decline since spiking up to 6.51 percent in the wake of the September 11, 2001 terrorist attack on the World Trade Center.

A potential consequence of a higher absence rate among FDNY uniformed personnel would be for the department to invoke its right under the existing contract to decrease mandated staffing on up to 49 of the department's 198 engine company trucks if the absence rate throughout the department for uniformed personnel exceeds 7.5 percent for 365 consecutive days. While engine company trucks are typically staffed with five firefighters and one officer, roster staffing permits the FDNY to operate engine companies with only four firefighters and one officer. Such a reduction in mandated staffing helps to curtail overtime spending made necessary by the increased rate at which uniformed personnel fail to report for duty.

Higher Attrition and Additional Training for Experienced Firefighters. Attrition among uniformed firefighters, primarily due to voluntary retirements, is running at a greater than expected pace in the current year, with about 40 retirements each month, compared to the previous average of about 30.

Fire Department*Budget by agency programs*

	2005	2006	2007 Current Modified	2008 Preliminary
Extinguishing and Response				
Operations	\$808,019,470	\$915,530,628	\$976,646,023	\$954,917,545
Special Units	8,101,192	8,197,529	30,120,227	30,309,768
Training	50,455,365	93,964,840	10,422,371	20,245,571
Communications	16,280,904	18,015,405	19,347,666	19,463,634
Infrastructure	6,081,982	7,581,534	8,047,464	8,054,007
TOTAL, Extinguishing and Response	\$888,938,912	\$1,043,289,935	\$1,044,583,751	\$1,032,990,525
Investigation/Prevention				
Building Inspections	\$14,586,568	\$15,379,311	\$15,969,701	\$16,323,845
Investigations	12,055,334	12,497,418	10,583,322	10,550,182
Miscellaneous Operations	2,610,180	2,484,337	4,492,753	4,518,179
Technology	1,141,498	1,075,175	1,061,289	1,088,080
TOTAL, Investigation/Prevention	\$30,393,581	\$31,436,241	\$32,107,065	\$32,480,286
Administration				
Analysis and Public Relations	\$62,151,955	\$72,658,057	\$51,038,343	\$51,809,269
Fleet Maintenance	18,224,382	19,686,488	29,782,087	29,243,484
Buildings	6,487,758	7,624,909	18,340,163	17,699,689
Technology	7,591,140	8,797,735	35,935,539	14,981,898
Personnel Services	9,360,752	11,061,366	19,524,032	13,042,641
Health Services	4,074,226	5,932,874	7,139,153	6,739,892
Recruitment and Affirmative Employment	514,754	1,010,260	2,599,090	2,652,676
Other	3,885,612	5,001,784	4,505,514	3,998,536
TOTAL, Administration	\$112,290,579	\$131,773,473	\$168,863,921	\$140,168,085
Specific Homeland Security Programs				
Urban Area Security Grant	\$14,894,505	\$17,314,088	\$19,830,734	\$11,531,422
State Homeland Security Grant	6,673,992	3,597,880	11,037,043	5,653,738
Hazmat	489,980	308,722	4,673,841	4,871,620
Other	899,490	233,716	0	0
TOTAL, Specific Homeland Security Programs	\$22,957,968	\$21,454,406	\$35,541,618	\$22,056,780
Emergency Medical Service (EMS)				
Operations	\$119,550,711	\$136,395,342	\$155,199,944	\$147,321,161
Administration	23,817,133	27,666,000	16,294,588	19,876,227
Communications	11,449,435	13,070,083	12,833,697	12,362,812
Training	8,026,432	7,021,445	5,872,355	5,057,675
Technology	54,403	68,895	1,050,834	1,052,033
TOTAL, Emergency Medical Service	\$162,898,114	\$184,221,765	\$191,251,418	\$185,669,908
Unallocated Financial Plan Changes	\$9,332,000		\$10,267,800	\$2,217,123
IBO Re-estimate of Federal Homeland Security Grant Funding		-	-	\$20,000,000
IBO Estimate of UFA Contract		-	\$55,000,000	\$128,100,000
GRAND TOTAL, FIRE DEPARTMENT	\$1,226,811,153	\$1,412,175,819	\$1,537,615,573	\$1,563,682,707
Full-Time Staffing	15,864	16,073	16,063	15,982
Uniformed	11,488	11,643	11,554	11,243
Civilian	4,376	4,430	4,509	4,739

SOURCE: IBO.

NOTES: Due to changes in the fire department's budget structure, particularly between 2006 and 2007, a number of the year-to-year fluctuations in the table may not reflect actual changes to agency programs. In other cases, apparent drops in funding for various programs in 2007 or 2008 are due to the practice of not recognizing federal and state grants in the budget until they actually materialize.

The higher rate of attrition requires additional overtime spending of \$6.5 million this year as otherwise off-duty firefighters are called upon to compensate for the absence of those recently retired and not yet replaced by new recruits. Although no funds are included in the 2008 budget at this point, if attrition continues at this rate it may result in additional overtime spending next year as well. An additional \$5.3 million in overtime spending will occur this year as a result of added training for experienced firefighters.

Hazardous Materials Post Coverage. Funding is being provided for 20 additional uniformed personnel to be assigned to four full-time posts intended to provide round-the-clock response capability in case of an emergency involving hazardous materials. Staffing the posts will require adding \$732,000 in city funds to the FDNY budget for the current year, followed by \$860,000 in 2008, \$938,000 in 2009, \$1.0 million in 2010, and \$1.1 million in 2011.

Additional EMS Ambulance Tours. The city's November 2006 Financial Plan revealed that the FDNY would be required to provide additional Emergency Medical Services staff and ambulance runs to compensate for cuts in such services by Kingsbrook Jewish Hospital and Wyckoff Hospital. In total, 22 new EMS positions were to be staffed at a cost in 2007 of about \$1.2 million, \$754,000 of which was to be funded with city resources and the balance with revenues generated by Medicaid and insurance reimbursements.

Recruitment and Affirmative Employment. Among the significant programmatic efforts at FDNY is the agency's attempt to diversify its workforce. As of November 2006, over 91 percent of FDNY uniformed personnel were white, with less than and about 5 percent Latino, and 3 percent black. Less than 1 percent was Asian or Native American and only 33 members (0.29 percent) were female. The FDNY increased its annual budget for recruitment and affirmative employment (i.e. diversity) initiatives from about \$515,000 in 2005 to \$2.6 million this year. As the agency worked to increase the diversity of applicants signing up to take the January 2007 written firefighter exam, a total of \$1.4 million financed the efforts of uniformed and civilian personnel who often worked significant amounts of overtime staffing various recruitment events throughout the city. Another \$1.0 million was appropriated for the purpose of funding marketing and other promotional activities for the agency's recruitment efforts. The department reported a 41 percent increase in minority (non-white) filers for the written exam compared to the number of minority applicants for the prior exam offered in 2002.

CAPITAL BUDGET

Agency Overview. Planned FDNY capital commitments total \$271.3 million in 2007 and \$513.4 million over the 2007 through 2010 plan period. Key capital projects within the four-year plan include the following:

Citywide Facility Improvements. A broad assortment of improvements to the agency's network of firehouses and Emergency Medical Services stations is planned at a total cost of \$240.6 million. The average age of the agency's 221 firehouses is 75 years, with many built in the 19th century. The various types of renovations planned include the replacement and waterproofing of roofs, window replacements, and the installation of new heating systems. Electrical systems as well as kitchen and bathroom facilities in many firehouses are also to be upgraded or replaced. Meanwhile, entirely new firehouses are to be constructed for Engine Company 201 in Brooklyn and Rescue Company 3 in the Bronx. In addition, two new EMS stations are to be constructed, one situated in Greenpoint (Brooklyn) and the other in Jamaica (Queens).

Management Information and Control System. A number of components of the agency's existing management information system are to be upgraded or replaced. Such upgrades, including the purchase of a new computers and peripheral equipment, are to require the commitment of \$42.3 million.

Acquisition of Vehicles and Fireboats. The fire department maintains a fleet of over 2,000 emergency response and support vehicles, including just over 500 fire trucks, about 450 ambulances, over 1,000 support vehicles of various sorts, and about 30 other vehicles designed for rescue operations and/or for responses to emergencies involving hazardous materials. The 2007-2010 capital plan calls for the replacement of an array of such vehicles at a total cost of \$159.1 million. The plan also proposes to commit \$31.3 million for the purchase of new fireboats and related equipment. More specifically, the 2007-2010 capital plan calls for acquiring 85 "pumper" trucks staffed by engine companies, 48 ladder-equipped trucks used by FDNY ladder companies, and 88 Suburbans used to transport supervisory personnel to emergencies throughout the city. Three new fireboats are also to be acquired for a total cost of \$31.3 million.

Given the fact that FDNY typically procures vehicles on a predetermined replacement cycle, usually 11 years, nearly the entire fleet of the agency's vehicles will be replaced as part of the preliminary 10-year capital plan covering the years from 2008-2017. The total cost is projected to be \$349.7 million.

Fire Alarm Communication and Emergency Response Systems. A total of \$28.0 million is to be committed for maintenance of FDNY's citywide network of fire alarm call boxes as well for the acquisition of an assortment of radios and other communications equipment.

Training Center. The capital plan includes \$10.4 million in planned commitments related to renovating various components of the Fire Academy on Randall's Island as well the Emergency Medical Services training facility located at Fort Totten in Queens.

New York City Police Department (NYPD)

PRELIMINARY BUDGET HIGHLIGHTS

- **Additional Funding for Real Time Crime Center.** Funding from 2007 through 2011 of about \$2 million per year is proposed for ongoing maintenance and support of the NYPD Real Time Crime Center.
- **Funding for Lower Manhattan Construction Command Center.** The January 2008 Financial Plan provides \$1.0 million in funding to the NYPD budget in 2007, \$1.6 million in 2008, and lower amounts thereafter, to cover traffic controls costs in support of the Lower Manhattan Construction Command Center (LMCCC).
- **Additional Funding for NYPD Aviation Unit.** The Aviation Unit responds to various emergencies and supports a wide array of NYPD operations. An increase in funding is needed to cover growth in non-personnel related operating expenditures.
- **NYPD Unable to Fill Police Office Recruit Classes.** The police department has been unable to attract the number of new hires needed to reach its staffing goals. On January 1, 2007, the hiring of 1,001 new police recruits brought total police staffing to 36,673—nearly 1,200 under the budgeted goal of 37,838.
- **Increased NYPD Labor Costs.** A total of \$54 million (or about 62 percent) of the difference between agency wide expenditures in 2005 and NYPD's current budget for 2007 can be attributed to higher outlays for base pay.

EXPENSE BUDGET

Agency Overview. Police department personnel assigned to the agency's 76 precincts, 12 transit districts, nine housing police service areas, and other investigative and specialized units strive to protect life and property and deter crime by responding to emergency calls as well as through proactive crime-fighting efforts.

The 2008 Preliminary Budget proposes NYPD expenditures of \$3.9 billion. In addition, IBO estimates that \$232.5 million from a number of other sources will ultimately appear in the agency's 2008 budget. The additional funds include \$75 million in city funds likely to be needed to cover agency overtime expenditures in 2008. Also anticipated are an additional \$125 million in federal funds, \$12.5 million in state funds, and \$20 million in other categorical funding, bringing total projected spending to \$4.1 billion, 2 percent above our

projected spending for 2007.

Effects of Key Budget Proposals

Additional Funding for Real Time Crime Center. Funding from 2007 through 2011 of about \$2 million per year is proposed to be added for ongoing maintenance and support of the NYPD Real Time Crime Center, roughly doubling budgeted spending. The Real Time Crime Center, which opened in July 2005, conducts rapid computer-aided analyses of crime trends, quickly provides investigators in the field with information about crime scenes, and assists in the expeditious identification of criminal suspects. The center also employs satellite imaging and sophisticated mapping of the city on a precinct-by-precinct basis. Its "Link Analysis Capacity" can track suspects to all of their known addresses and point detectives to the locations where they are most likely to flee. The center also tracks the deployment of police resources in the field, thereby making it an important management tool and overall crime-fighting resource.

Funding to Support Efforts of Lower Manhattan Construction Command Center. The January 2008 Financial Plan proposes adding funding to the NYPD's budget to cover operating costs associated with the agency's support of the Lower Manhattan Construction Command Center. The LMCCC, which was created pursuant to executive orders signed by both Mayor Bloomberg and former Governor Pataki in November 2004, provides oversight and coordination of all private and public construction projects in Lower Manhattan. The NYPD's principal involvement with the LMCCC is in the area of traffic management. More specifically, the amounts added to NYPD's budget to fund its traffic control related assistance of the LMCCC over the period from 2007 through 2011 are \$967,000, \$1.6 million, \$1.4 million, \$1.4 million, and \$616,000, respectively.

Additional Funding for Aviation Unit. The NYPD Aviation Unit, based at Floyd Bennett Field in Brooklyn, responds to various emergencies and supports a wide array of NYPD operations. The increase in funding would cover growth in nonpersonnel related operating expenditures stemming in part from the unit's growing involvement in NYPD's counterterrorism efforts. The January 2007 Financial Plan proposes adding \$756,000, \$722,000, \$692,000, and \$692,000 in each of fiscal years 2008 through 2011, respectively—bringing the budget for 2008 to roughly its 2006 level of \$5.7 million.

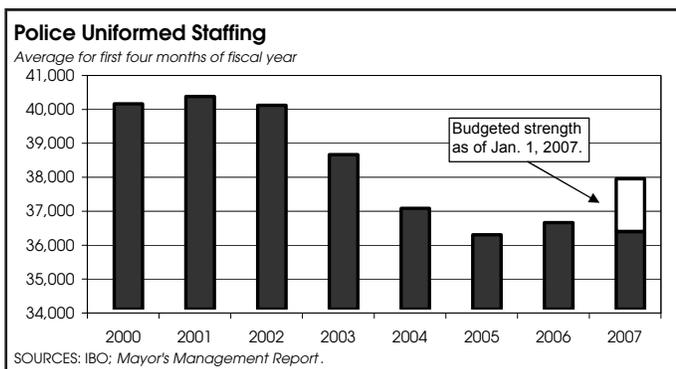
Police Department				
<i>Budget by agency programs</i>				
	2005	2006	2007 Current Modified	2008 Preliminary
Borough Operations				
Precinct Operations	\$956,504,630	\$1,000,150,191	\$960,676,747	\$952,005,738
Patrol Borough Operations	135,178,839	129,903,677	130,031,458	130,031,458
Specific Enforcement Units	\$148,189,582	\$164,359,748	\$163,869,856	\$163,869,856
Detective / Investigation Units	142,291,972	158,386,793	157,903,626	157,903,626
TOTAL, Borough Operations	\$1,239,873,052	\$1,294,413,616	\$1,254,578,061	\$1,245,907,052
Centralized Enforcement Operations				
General Operations	\$757,276,449	\$619,510,654	\$738,898,656	\$783,632,552
Chief of Operations	731,233,161	557,487,882	667,161,416	724,327,092
Other General Operations	10,159,275	42,321,152	54,225,222	41,788,988
Special Function Units	\$54,026,518	\$57,149,091	\$57,196,001	\$56,749,600
Specific Enforcement Units	\$489,607,110	\$429,812,145	\$469,748,268	\$368,406,534
Detective / Investigation Units	95,945,358	72,419,549	71,789,065	68,857,080
Narcotics Enforcement	112,141,311	116,926,440	107,457,260	117,910,798
Counter-Terrorism Operations	122,083,883	90,983,151	132,035,274	25,405,961
Organized Crime Control	50,557,218	43,884,544	43,551,323	43,296,590
Support Functions	\$302,673,442	\$316,458,108	\$361,433,907	\$323,640,599
Communications (including 911)	95,769,033	98,103,134	127,117,004	105,121,904
Motor Transport / Fleet Services	82,743,855	90,294,854	97,743,516	87,249,167
Quartermaster	15,332,859	19,608,222	22,609,717	20,022,691
TOTAL, Centralized Enforcement Operations	\$1,603,583,519	\$1,422,929,998	\$1,627,276,832	\$1,532,429,285
Policing of Public Housing	\$122,537,685	\$128,926,337	\$132,349,443	\$129,153,594
Policing of Transit System	\$182,266,867	\$186,131,375	\$185,006,368	\$183,887,942
School Safety Operations	\$160,972,133	\$191,109,808	\$186,224,808	\$186,061,689
Traffic Enforcement	\$142,764,497	\$144,869,944	\$167,702,991	\$155,868,825
Training	\$123,517,408	\$108,022,122	\$112,785,983	\$113,192,496
Administration	\$329,364,977	\$317,779,755	\$332,233,067	\$321,591,505
Unallocated Financial Plan Savings			(\$6,277,523)	(\$6,277,523)
IBO Reestimate of Overtime Expenditures, City Funds			\$25,000,000	\$75,000,000
IBO Reestimate of Federal, State, and Other Categorical Grants				\$157,500,000
GRAND TOTAL, POLICE DEPARTMENT	\$3,904,880,139	\$3,794,182,955	\$4,016,880,030	\$4,094,314,865
Full-Time Staffing	44,599	45,104	45,141	45,896
Uniformed	35,489	35,773	35,672	35,624
Civilian	9,110	9,331	9,469	10,272

SOURCE: IBO.

Other Agency Budget Highlights

NYPD Hiring Falls Short. The NYPD has been unable to attract a sufficient number of new police recruits this year to reach its budgeted uniformed staffing level. In the budget

adopted in June 2006 for the current fiscal year, funding was included for the purpose of a two-stage increase in NYPD police officer staffing, resulting in 800 more police officers on the force as compared to the previously budgeted level. More specifically, the hiring of a new class of recruits on July 1, 2006



was to result in total police staffing of 37,438 (400 more than previously planned). Six months later (on January 1, 2007), a recruit class of sufficient size to bring total police staffing to 37,838 was to be hired, 800 more than previously budgeted.

The NYPD, however, has been unable to attract the number of new hires needed to reach its hiring goals. On July 1, 2006, 1,322 new recruits were hired, bringing total police staffing to 37,095, about 350 fewer than the budgeted goal of 37,438. On January 1, 2007, the hiring of 1,001 new recruits brought total police staffing to 36,673, 1,165 officers under the budgeted goal of 37,838.

Many have attributed the NYPD's inability to meet its hiring goals to an inadequate starting salary for new recruits. The starting salary is currently \$25,100 during a newly hired officer's initial six month training period, followed by an increase to \$32,700 upon graduation from the police academy.

Increased Spending on School Safety. Since the end of the 2004-2005 school year, the number of NYPD school safety agents deployed throughout the city's public school system has increased by almost 25 percent, from some 3,700 to the current level of about 4,600. The number of uniformed police personnel assigned to the NYPD School Safety Division also increased, from 202 in 2005 to 218 in 2007. In corresponding fashion, total NYPD spending on school safety grew from \$161.0 million in 2005 to \$191.1 million in 2006. Budgeted spending for 2007 and 2008 is \$186 million, which is likely to rise if overtime spending exceeds its budgeted level, as it did in 2006. Despite the increased spending, all three categories of crimes and other incidents in the schools were higher in

	2003	2004	2005	2006	2007
Seven Major Crimes*	316	321	304	287	348
Other Criminal Categories	735	845	740	820	983
Other Incidents	1,744	1,806	1,653	1,614	1,926

SOURCES: IBO; Preliminary Mayor's Management Report.
NOTE: *Murder & non-negligent manslaughter, rape, robbery, felonious assault, burglary, grand larceny and grand larceny auto

the first four months of the current fiscal year than in the comparable period in each of the previous four years.

Increased Spending on Traffic Enforcement. NYPD spending on traffic enforcement increased from \$142.8 million in 2005 to a budgeted level of \$167.7 million in the current year. The increase is due in part to the hiring of additional traffic enforcement personnel. Civilian traffic enforcement staffing grew from about 2,500 in June 2005 to a currently budgeted level of 2,720. Over the same period, uniformed personnel dedicated to traffic control also increased from 11 in 2005 to 50 in the current year.

The \$167.7 million budgeted for NYPD traffic enforcement in 2007 drops to \$155.9 million in the 2008 Preliminary Budget. This decline is mainly due to reimbursements already received for this year (but not yet for next year) from private contractors required to reimburse the NYPD for traffic control activities at construction sites across the city.

Despite the increased staffing, summonses for parking violations were lower in the first third of the current fiscal year compared to the comparable periods in 2005 and 2006. With respect to towing activity, the total number of tows increased between 2005 and 2006 but then dropped by about 11 percent between 2006 and 2007.

Revenues from parking violations dropped from \$578.6 million in 2005 to \$552.2 million in 2006. Projected revenues in the current year total \$526.5 million.

Increased Labor Costs Drive Boost in Agency Expenses. Base pay for its roughly 36,000 uniformed and 9,500 civilian personnel consumes just under two-thirds of the NYPD budget. Changes in labor costs are a major factor driving increased spending. More specifically, \$54 million (or about 62 percent) of the \$87 million difference between actual agency wide expenditures in 2005 and NYPD's current budget for 2007 can be attributed to higher outlays for base pay. In turn, the growth in agency base pay over the 2005 through 2007 period is attributable to collectively bargained salary increases for officers at the rank of detective and lieutenant as well as an increase of about 300 in the number of civilian personnel employed by the agency.

NYPD expenditures on labor will go up again in the near future given that three of the five unions representing the agency's roughly 36,000 uniformed personnel are already working from expired contracts, with the other two unions' contracts set to expire later in the current fiscal year.

Traffic Enforcement Statistics*Data for July through October period*

	2003	2004	2005	2006	2007
Parking Violation Summonses	2,255	2,757	2,951	2,846	2,776
Violation and Target Tows	35,924	39,471	38,842	40,721	36,114

SOURCES: IBO, Preliminary Mayor's Management Report.

CAPITAL BUDGET

Agency Overview. Planned NYPD capital commitments total \$213.1 million in 2007 and \$543.6 million over the 2007 through 2010 plan period. Key capital projects within the four year plan include:

Acquisition and Installation of Computer Equipment. The agency plans to purchase and install a wide array of computers and related equipment at a cost of \$112.3 million.

Citywide Facility Improvements. The police department occupies and operates from a wide assortment of over 200 facilities such as precinct station houses and administrative buildings along with training and storage facilities. A broad assortment of improvements to this network of structures is planned at a cost of \$161.4 million over the four-year plan period. The various types of renovations planned include the replacement or repair of roofs, elevators, windows, and heating and air conditioning systems. Electrical and lighting systems,

bathroom facilities, and parking lots are also to be upgraded or replaced.

Work on construction of a number of new precinct station houses is to be at least commenced over the 2007-2011 plan period at a total cost of \$78.3 million.

For example, design and construction of new station houses for the 40th Precinct in the Bronx and the 120th Precinct in Staten Island are to begin, while sites will be acquired for construction of new station houses for the 66th and 70th Precincts in Brooklyn at a cost of \$4.0 million per site. Lastly, the four-year capital plan calls for committing a total of \$30.0 million for design and construction of a new, fourth police precinct on Staten Island.

Police Vehicles and Helicopters. The police department maintains a fleet of just under 9,000 operational and support vehicles. The 2007-2010 capital plan calls for the replacement of a broad array of such vehicles at a total cost of \$31.7 million. The agency also plans to acquire additional helicopters at a total cost of \$20.0 million.

Radio and Telephone Equipment. The agency plans to purchase ultra-high frequency radio and telephone equipment over the 2007-2010 plan period at a total cost of \$106.7 million.

Appendix

Commission for Economic Opportunity Initiatives								
<i>Dollars in thousands</i>								
Agency/Program	2007 Funding				2008 Funding			
	City	State	Federal	Total	City	State	Federal	Total
Mayorality								
Language Access Program	\$40	-	-	\$40	\$80	-	-	\$80
Food Policy Coordinator	40	-	-	40	80	-	-	80
Research, Measurement, and Evaluation Unit	100	-	-	100	200	-	-	200
Department of Education								
Career Ladder Program - LPN	738	-	-	738	747	-	-	747
Early Childhood Policy and Planning	50	-	-	50	72	-	-	72
Education for 18-24 Year Olds on Rikers	-	-	-	-	1,755	-	-	1,755
City University of New York								
CUNY Prep	1,700	-	-	1,700	3,500	-	-	3,500
CUNY Pathways to Success	1,000	-	-	1,000	6,500	-	-	6,500
Civic Justice Corps	-	-	-	-	4,800	-	-	4,800
Administration for Children's Services								
Early Childhood Policy and Planning	39	-	-	39	58	-	-	58
Individual Development Accounts	16	13	5	34	206	48	20	274
Human Resources Administration								
Evaluation and Measurement	2,108	-	-	2,108	4,637	-	-	4,637
Employment Services for Non-Custodial Parents	-	-	-	-	380	380	1,479	2,239
Enhanced Employment Services	27	27	-	54	111	111	-	222
Department of Corrections								
Model Education Program for Adults	-	-	-	-	875	-	-	875
Discharged from DOC & DOP	-	-	-	-	1,003	-	-	1,003
Expand Education for 18-21 Yr Olds in Rikers	-	-	-	-	-	-	-	-
Miscellaneous								
Fringe Benefits Associated with CEO	487	-	-	487	1,272	-	-	1,272
Department of Juvenile Justice								
CEO Life Skills Pilot	78	78	-	156	263	263	-	526
Department of Youth and Community Development								
Youth Internships	250	-	-	250	9,407	-	-	9,407
Service Learning	184	-	-	184	5,673	-	-	5,673
Department of Small Business Services								
City Contractors Orientation	100	-	-	100	300	-	-	300
Workforce Coordination - CBOs	348	-	-	348	944	-	-	944
Workforce Coordination - Training	692	-	-	692	692	-	-	692
Workforce Coordination - FSET	189	-	-	189	189	-	-	189
Transitional Jobs & Reentry	-	-	-	-	3,311	-	-	3,311
Customized Training Grants	240	-	-	240	3,400	-	-	3,400
Worker Advancement and Support Centers	925	-	-	925	2,725	-	-	2,725
Workforce1 Center Sector Strategy	-	-	-	-	2,800	-	-	2,800
Department of Housing Preservation and Development								
Family Self-Sufficiency Program	1,626	-	-	1,626	2,162	-	-	2,162
Department of Health and Mental Hygiene								
School Based Health and Reproductive Health Centers	48	27	-	75	855	481	-	1,336
Food Policy Program	182	102	-	284	182	102	-	284
Health and Hospitals Corporation								
HHC Career Ladder Program	787	-	-	787	1,072	-	-	1,072
D.O.I.T.T.								
Improve Language Access for 311	88	-	-	88	39	-	-	39
Expand and Promote Access NYC	1,800	-	-	1,800	1,900	-	-	1,900
Department of Consumer Affairs								
Office of Financial Empowerment	1,240	-	-	1,240	2,480	-	-	2,480
TOTAL	\$15,122	\$247	\$5	\$15,374	\$64,670	\$1,385	\$1,499	\$67,554

SOURCES: IBO; January 2007 Financial Plan.

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Paul Lopatto	Social services, public assistance, City University of New York
Bernard O'Brien	Police, Civilian Complaint Review Board, fire
Nashla Rivas Salas	Youth, seniors
Yolanda Smith	Education
Alan Treffeisen	Transportation, NYC Transit, property transfer taxes
Ana Ventura	Education (capital)
Matthew Wong	Correction, probation, juvenile justice, consumer affairs



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