New York City’s Fiscal Outlook

January 2000

IBO’s Forecast of City Revenues and Expenditures for Fiscal Years 2000 through 2003

New York City Independent Budget Office
PREFACE

January 2000

The New York City Charter directs the Independent Budget Office (IBO) to publish a report by February of each year giving our view of how much the city is going to collect in taxes and other revenues and how much it is going to spend. We have issued New York City's Fiscal Outlook well in advance of the deadline so that readers have this information before the 2001 budget adoption process gets underway.

We are not trying to predict future policy and budget decisions that will be made by the Mayor and the City Council, nor are we recommending any particular course of action. Instead, we are providing a forecast of what the city’s finances would look like if current spending policies and tax laws are allowed to run their course over the next few years. Such a forecast provides an objective starting point and serves as a benchmark for consideration of the Mayor’s soon-to-be-released 2001 budget.

The report begins with an overview, is followed by our national and local economic outlook and a forecast of city revenues, and concludes with a discussion of our spending projections. As required by the Charter, we will follow this report up in March with an analysis of the Mayor’s preliminary budget.

This report was completed under the supervision of Ronnie Lowenstein, Frank Posillico, George Sweeting and Andrew Rein. Christine Lidbury served as project manager for the report.

Douglas A. Criscitello
Director
NOTES TO THE READER:

- Unless otherwise noted, all references to years in both text and figures denote New York City fiscal years (July 1st to June 30th).

- Numbers in the text and figures in this report may not add to totals because of rounding.
Chapter 1. Budget Outlook

Introduction

The continued strength of the national and local economies will help New York City generate a municipal budget surplus of $1.4 billion in the current fiscal year. Next year, absent use of this surplus, the Independent Budget Office (IBO) estimates that the city would face a $2.3 billion budget gap. However, if the city follows its standard practice and uses the surplus to help balance next year’s budget, the gap would be $899 million, or 2.4 percent of revenues.

Beyond 2001, the city faces serious fiscal challenges for two reasons. First, the economy cannot be expected continually to outperform expectations. If economic growth slows to a more moderate rate, the city would no longer have surpluses to help balance the budget. Second, adjusted for prepayments, city spending is growing 3.1 percent annually, outstripping the 2.2 percent annual growth in revenues. Assuming a moderate rate of economic growth, by 2003 the city will face a gap of $2.4 billion, or 6.0 percent of revenues.

Although the city is benefiting from its longest post-war economic expansion, the projected gaps are larger than those we forecast last year and those presented in the city’s November financial plan.

The gap in 2003, the last year of these projections, is almost $600 million larger than the final-year gap IBO projected one year ago. Although many factors over the past year—such as estimates of economic activity and changes in service levels—have affected

Key Findings

The city’s near-term fiscal outlook is bright …

- The continued strength of the national and local economies will help New York City generate a municipal budget surplus of $1.4 billion in the current fiscal year.

- Next year, absent use of this surplus, the city would face a $2.3 billion budget gap. However, if the city follows its standard practice and uses the surplus to help balance next year’s budget, the gap would be $899 million, or 2.4 percent of revenues.

... but its long-term prospects remain cloudy.

- In the long run, revenue growth will be insufficient to sustain current spending policies. Spending will rise 3.1 percent annually, outstripping the 2.2 percent annual growth in revenues.

- Assuming a moderate rate of economic growth, by 2003 the city will face a gap of $2.4 billion, or 6.0 percent of revenues.

- The projected gaps are larger than those we forecast last year. Although many factors over the past year have affected our projections, the gap estimate would have been virtually unchanged without the state’s repeal of the commuter tax.

- The city’s fiscal outlook would improve if it used surpluses to fortify its long-term fiscal foundation instead of using them to balance near-term budgets. The city could establish a rainy day fund, repay a portion of its outstanding debt and/or substitute pay-as-you-go financing for borrowing.
The 2003 projected gap also exceeds that contained in the city’s November financial plan by $679 million. Although we expect tax revenues to be $689 million higher than the November forecast, these revenues are more than offset by higher estimates of spending for programs ($495 million) and our inclusion of salary increases equaling the rate of inflation ($912 million).

The city’s fiscal outlook would improve if it used surpluses to fortify its long-term fiscal foundation instead of using them to balance budgets without regard to difficulties down the road. The city could establish a rainy day fund for use only when needed to address a short-term emergency, such as an economic downturn. Also, the city could repay a portion of its outstanding debt and/or substitute pay-as-you-go financing for borrowing, both of which would help the city balance future budgets by lowering annual debt service costs.

If the surpluses were used in these ways, other actions would be required to balance the budget. Achieving budgetary savings always requires effort and perseverance. However, it is better to do so over time when the economy is strong, rather than abruptly in a weak economy when revenue growth slows and spending pressures increase.
Revenue Forecast. IBO’s revenue forecast is discussed in Chapter 3. We project total revenues—the sum of taxes and non-tax receipts such as state and federal grants—will grow at an annual rate of 2.2 percent over the 2000-2003 period. Tax revenues are projected to grow 3.0 percent annually while other revenues will increase at an annual rate of 1.2 percent. This modest tax revenue growth, just slightly greater than the rate of inflation, is the result of tax cuts somewhat offsetting the impact of moderate economic growth.

Highlights of our tax revenue forecast include the following:

- Tax revenues grow only 0.2 percent in 2001, to $21.4 billion. This minimal growth is primarily the result of cuts in personal income and business taxes—including the elimination of the income tax on commuters—and a return of corporate profits to normal levels from the higher levels that are generating extraordinary revenues in 2000.
- The net effect of tax policy changes is to reduce the projected annual rate of growth in tax revenues over the 2000-2003 period from 3.6 percent to 3.0 percent. These changes include the state School Tax Relief program (STaR), the elimination of the commuter tax, the expiration of coop/condo tax relief, general corporation tax (GCT) reform, and the elimination of the sales tax on clothing and footwear priced under $110. (While STaR reduces tax revenues, the program is revenue neutral because the state increases its aid an equal amount.)
- Total revenue in 2003 is $2.6 billion higher than in 2000, with over half of the growth attributable to property and property-related taxes.

Economic and Revenue Forecasts

Economic Forecast. City tax revenues fundamentally depend on the strength of the national and local economies. In calendar year (CY) 1999, the national economy continued to outperform expectations and expanded at an inflation-adjusted rate of 3.9 percent. (See Chapter 2.) We expect the national economy to cool somewhat in CY 2000 to a 2.7 percent growth rate, driven by a combination of the recent tightening of monetary policy and rising energy prices. Beyond CY 2000, we expect slightly higher growth accompanied by small increases in inflation and the unemployment rate.

The city’s economic performance will largely mirror the nation’s with growth cooling from the rate of the last three years. Personal income, which in CY 1999 grew 4.0 percent in inflation-adjusted terms, will continue to make solid gains in CY 2000, rising a projected 3.7 percent. Private employment growth will slow from 70,200 jobs in CY 1999 to 28,000 in CY 2000, and the unemployment rate will increase from 6.9 percent to 7.3 percent. Over the following three years, growth in personal income and employment will slow, and inflation will accelerate, but will still average a modest 2.2 percent for the remainder of the forecast period.

Expenditure Forecast

Chapter 4 displays IBO’s spending estimates assuming continuation of existing policies. After adjusting for the city’s use of surpluses to prepay expenses, we project that spending will grow at an annual rate of 3.1 percent over the 2000-2003 period. With the prepayments—which distort year-to-year spending growth—annual spending increases 4.2 percent over the same period.
We have calculated future costs for most programs and agencies by adjusting current spending levels for both inflation and scheduled or anticipated pay raises for city workers. For programs with costs driven principally by factors beyond the immediate control of the city—such as public assistance (caseloads) and education (enrollment)—we have developed our own models to predict future costs. We also assume that the city’s capital program will proceed as planned; therefore, we include money allocated to stadiums, which is to be funded on a pay-as-you-go basis.

Adjusting for prepayments, we estimate spending will be $3.8 billion higher in 2003 than 2000. Over half of this increase is attributable to two items: 1) spending for the Board of Education is expected to rise $1.2 billion or 11.6 percent over the four years; and 2) debt service is projected to increase 19.9 percent, or $720 million over the same period.

Other highlights:

- Medicaid spending will grow 14 percent, from $3.0 billion in 2000 to $3.5 billion in 2003. This reflects continued rapid growth in long-term care and pharmaceutical costs and assumes that the phase-in of managed care will have its full impact in 2002.

- Board of Education spending will grow 3.7 percent annually due to increases in labor costs, the expansion of prekindergarten, new teachers hired to reduce class size, and K-12 enrollment that is expected to grow by 3,000 students per year.

- Sanitation costs are expected to grow 14 percent over the period. More than two-thirds of the increase is due to sharp increases in disposal costs as the city exports a growing share of its garbage in order to close the Fresh Kills landfill.

- Debt service costs will absorb an increasing share of tax revenues. Adjusting for year-end prepayments and the movement of some costs off budget, debt service will increase at an annual rate of 7.1 percent over the 2000-2003 period, rising from 16.2 percent to 18.3 percent of tax revenues.

- We estimate that city-funded payroll costs will increase $912 million over the period. Since collective bargaining agreements expire in 2000 and 2001, we use the assumption that base salary increases equal the rate of inflation to generate an estimate. However, it is impossible to predict the outcome of collective bargaining. If the agreements exceed the rate of inflation by one percentage point each year, city-funded spending—and the budget gap—would be nearly $400 million higher by 2003. Conversely, if the agreements lag the rate of inflation by one percentage point each year, city-funded spending—and the budget gap—would be nearly $400 million lower by 2003.

- Driven by a declining caseload, the city’s share of spending for public assistance will decline nearly 8 percent, from $419 million in 2000 to $386 million in 2001. As recipients reach the federal public assistance five-year time limit in 2002 and the city picks up a greater share of their costs, city spending for public assistance will reach $432 million in 2003.
Introduction

National and local economic conditions affect New York City’s revenues and expenditures and thus are major determinants of the city’s fiscal outlook. As the current U.S. economic expansion has surpassed post-war records for sustained growth, the city’s economy and present fiscal condition have benefited greatly. Looking forward, the key to sustaining solid long-run economic performance nationally will be a slowdown to a more moderate rate of growth.

IBO projects growth in both the U.S. and the city to continue at more moderate levels for the next four years. Figure 2-1 summarizes IBO’s economic forecast. (Note that all economic data in this chapter are presented on a calendar year basis.) Key risks for the future include a sharp downturn in the financial markets, either alone or in combination with a recession in the national economy.

Recent Developments

Driven by continued strong consumer demand, 1999 will once again have been a year of vigorous growth in the national economy. IBO projects real (inflation-adjusted) growth in gross domestic product (GDP) of 3.9 percent. And once again, this growth has been achieved without any notable price pressures, as the rate of inflation is expected to remain at just over 2 percent. This is all the more remarkable since the labor market has become increasingly tight, with unemployment reaching a 30-year low of 4.3 percent. The U.S. economy will have created over 2.7 million new jobs during 1999, down slightly from the increases in 1997 and 1998, but still a very strong performance.

The rate of job creation in New York City in 1999 has slightly outpaced the national economy’s, with over 70,200 new private sector jobs, down slightly from the 78,000 jobs created in 1998. This caps three

| Figure 2-1
| IBO Economic Forecast
| Percentage change from previous year (unless otherwise noted) |
| --- | --- | --- | --- | --- | --- |
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| **United States** | | | | | |
| Real GDP | 3.9 | 2.7 | 3.0 | 2.9 | 2.8 |
| Payroll employment | 2.2 | 1.4 | 1.4 | 1.3 | 1.2 |
| Unemployment rate (%) | 4.3 | 4.4 | 4.8 | 4.9 | 5.1 |
| Consumer price index | 2.1 | 2.1 | 2.2 | 2.4 | 2.4 |
| 30-year Treasury bond rate (%) | 5.8 | 6.1 | 6.3 | 6.4 | 6.0 |
| **New York City** | | | | | |
| Real personal income | 4.0 | 3.7 | 3.4 | 2.5 | 2.4 |
| Payroll employment | 2.3 | 1.1 | 0.9 | 0.8 | 0.7 |
| Unemployment rate (%) | 6.9 | 7.3 | 7.5 | 7.5 | 7.7 |
| Consumer price index | 1.9 | 1.8 | 2.0 | 2.4 | 2.3 |
| Manhattan office asking rents ($ per sq. ft.) | 45.81 | 47.49 | 48.75 | 50.28 | 51.79 |

Source: IBO.
Notes: The local consumer price index covers the metro New York/New Jersey region. Growth rates reflect fourth quarter to fourth quarter comparisons.
years of job growth at average annual rates of 74,000 new jobs per year, following three years of 40,000 jobs per year growth in the earlier part of the expansion. The city has now surpassed its pre-recession peak level of private jobs, with an estimated year-end private-sector employment level of 3,067,000.

The New York area’s inflation rate was lower than the national rate in 1999, with local prices rising just 1.9 percent. Personal income rose 4.0 percent in inflation-adjusted terms, down somewhat from last year’s 5.6 percent growth rate.

The vibrant economy has continued to push commercial vacancy rates down and asking rents up, particularly in the midtown market. Strong demand for commercial and retail space has pushed the market’s boundaries into previously underdeveloped areas on the West Side, NoHo, the Flatiron district, and other parts of the city—fueled by growth in service industries and new media companies.

The National Outlook

In recent years, economists have notoriously underestimated the performance of the national economy. Each year, most forecasts have begun by predicting more moderate growth in the coming year, in the belief that the economy is growing above its sustainable non-inflationary growth rate. Given the ever tighter labor market, economists expect that employers will have to bid up wages in order to attract workers, thus sparking a cycle of higher inflation. Either the economy must cool, the logic goes, or the Federal Reserve will intervene to put the brakes on by raising interest rates. The Fed has watched carefully for early warning signs of acceleration in the rate of inflation, with little evidence until recently.

A few factors that have helped hold inflation in check, including declining energy prices and a strong dollar, have reversed course in recent months and there is evidence that employee compensation is beginning to rise in response to the scarcity of workers. Nervous about these developments and the continuing fall in the unemployment rate, the Fed acted to tighten monetary policy three times in 1999 to forestall development of an inflationary cycle.

As a result, IBO, in company with other economic forecasters, projects a cooling in the national economy in 2000 to a 2.7 percent growth rate. This will be driven by a combination of tighter monetary policy and rising energy prices, somewhat offset by growing U.S. exports and falling imports.

As the economy’s growth rate cools, unemployment will begin to inch up, to a still low 4.4 percent rate. With these developments in hand, Federal Reserve policy is expected to hold steady and inflation to remain low at 2.1 percent for the year.

A key uncertainty for the national economic outlook is the impact of a decline in the stock market. To a large extent, the robust consumer spending that has driven recent growth reflects a confidence in the future borne of large gains in personal wealth, both in the stock market and in home prices. These gains do not have to be realized to fuel spending, since consumers may risk a higher level of indebtedness in the expectation of higher future income. If this confidence were to evaporate, the impact on the economy could be sharply negative.

The City Outlook

The city’s economic performance will largely mirror the nation’s with growth cooling from the rate of the last three years. Personal income will continue to make solid gains in 2000, rising a projected 3.7 percent in inflation-adjusted terms. Over the following three years, growth in personal income will slow. Local inflation is expected to remain below 2.0 percent through 2000, and to average 2.2 percent for the remainder of the forecast period.

The commercial real estate market will continue to be tight. This will push primary office rents up 3.7 percent in 2000 and an average of 2.9 percent annually through 2003.

Employment Growth Will Slow. IBO projects continued but decelerating job growth for the city, with an estimated 28,000 new private-sector jobs in 2000. Growth in employment will continue to be led by the service sector, which is projected to add 19,300 jobs—nearly 60 percent of total job creation (Figure 2-2). Business and health services will show the strongest
growth, accounting for 7,100 and 5,500 new jobs respectively in 2000.

Retail trade jobs will also continue to grow strongly, accounting for over 13 percent of new jobs. Between them, service sector and retail trade jobs will make up over three-quarters of new job growth through 2003.

Construction employment will continue to grow strongly in 2000, adding 2,500 new jobs. As the construction boom eases, however, growth in construction jobs will slow from its recent pace. The manufacturing sector will continue to decline, losing almost 10,000 jobs over the next four years.

The overall finance sector will grow only modestly in 2000, adding just 200 jobs. Modest growth in insurance (400 jobs) and strong growth in real estate (2,800 jobs) will be offset by the loss of about 800 jobs in the securities industry and continuing contraction of the banking sector, which is forecast to lose 2,200 jobs this year. These same employment trends will largely continue over the following three years, with little growth in securities, continued contraction in banking, and strong growth in real estate.

**The Unemployment Rate Will Rise.** Largely as a result of slower national and local economic growth, IBO projects that the city’s unemployment rate will rise somewhat, from 6.9 percent in 1999 to 7.3 percent in 2000. Although job growth has been strong in recent years, the city’s unemployment rate remains relatively high compared with the national rate. This largely reflects a mismatch in the local labor market; there are many low-skilled individuals in the labor force, but demand for their services is relatively weak.

**Key Vulnerabilities**

Much has been made of the city’s reliance on the securities industry both for personal income growth and (mostly indirectly) for job creation. This remains true: although the securities industry represents only 4.8 percent of employment in the city, its employees receive 18.3 percent of earnings. Much of the city’s business and legal services industries are also buoyed by Wall Street.

More recently, the city has also become home to a host of new media companies—estimated to be directly responsible for the creation of some 56,000 new and relatively high-paying jobs over the past five years. While diversification in the city’s job base is welcome, this sector could be highly vulnerable to a downturn in the equities markets, particularly if investors begin to shy away from “dot-com” start-ups and other businesses that have yet to become profitable.

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**Figure 2-2**  
Average Annual Percentage Change in Employment by Sector, 2000-2003

<table>
<thead>
<tr>
<th>Sector</th>
<th>-1.5%</th>
<th>-1.0%</th>
<th>-0.5%</th>
<th>0.0%</th>
<th>0.5%</th>
<th>1.0%</th>
<th>1.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Services</td>
<td>18,600</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Trade</td>
<td>7,000</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Construction</td>
<td>1,400</td>
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<tr>
<td>Transportation</td>
<td>1,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>1,000</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-2,900</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: IBO.
Note: Figures inside bars show change in number of jobs.
The impact of a decline in the financial markets would of course have significant repercussions for New York City, since our economy and tax revenues remain highly dependent on continued good fortune in the financial sector. As part of IBO’s on-going work to assess risks to the city’s economic and fiscal health, we have modeled and compared the impacts of a major stock market correction and a national recession.

Preliminary findings suggest that a broad national recession originating outside of Wall Street would have a significant and negative impact on employment in New York City, with job losses spread broadly across nearly all industries. The employment losses would, however, be concentrated primarily among lower-paying jobs. As a result, the impact of a national recession on total personal income of city residents and consequently on city tax revenues is expected to be comparatively modest.

In contrast, a major stock market correction would have a more narrow impact on employment, primarily concentrated in the securities, business services, and legal services industries. However, because of the high compensation levels associated with these industries, the stock market correction would have a deeper negative impact on personal income and tax revenues than would a recession.

In short, because the city’s fiscal fortunes remain closely tied to those of the securities and related industries, a major correction in the financial markets would inflict greater damage on the city’s revenues than would a recession in the national economy.

**Conclusion**

The majority of risks in the forecast fall on the downside. The risks of a downturn, both nationally and locally, appear greater than the probability of improvement in economic performance, or even of continuing at the current pace. The most likely outcome—as reflected in IBO’s forecast—is a deceleration to a more sustainable level of national growth that in turn will slow the pace of local growth.
Introduction

In this chapter, IBO forecasts revenues from tax collections and other sources including aid from the federal and state governments. These revenues are used to fund the programs and agencies discussed in Chapter 4.

Our projections assume existing tax and intergovernmental aid policies continue through 2003. For the many city tax laws with fixed expiration dates, we have assumed extension of any law that has been renewed more than once in the past.

As shown in Figure 3-1, we project total revenues will increase by an average of 2.2 percent annually over the 2000-2003 period.

Property and property-related taxes, personal and business income taxes, and general sales taxes account for over 93 percent of all city tax collections and just over half of total revenues. Primarily as a result of cuts in business and personal income taxes and the difficulty of sustaining the extraordinarily strong corporate tax collections in 2000, IBO projects that tax revenues will grow just 0.2 percent in 2001, to $21.4 billion. For the 2000 through 2003 period, tax revenues are expected to grow at an annual rate of 3.0 percent, with the impact of moderate economic growth somewhat offset by continuing tax cuts.

Real property taxes are the city’s single largest revenue source. Collections will increase by 2.6 percent over the current year to $8.0 billion in 2001,
equal to 38 percent of total tax revenues. Property values are expected to continue their appreciation in the coming years, which will help push revenues up even faster. Overall revenue growth will average 4.7 percent between 2000 and 2003.

**Property-related taxes** include revenues from taxes on commercial rents, real property transfers, and mortgage recording. Collections will increase 2.1 percent from the current year to $1.1 billion in 2001, equal to 5 percent of total tax revenues. An improved economic outlook, including a projected steady increase in office and other commercial rents, will drive the annual rate of growth in these revenues to 4.1 percent over the 2000-2003 period, despite cuts in the commercial rent tax in recent years.

**Personal income taxes** are the city’s second largest source of tax revenue. They account for $4.9 billion in 2001, or 23 percent of tax collections. This amount is virtually unchanged from 2000 and is $539 million less than 1999 collections, reflecting the elimination of the tax on commuter incomes, the expiration of the 12.5 percent surcharge, and the start of a three-year phase-in of tax cuts under the STaR program. From 2000 to 2003, personal income tax (PIT) revenue will increase at an average rate of 2.7 percent annually. Absent recent tax cuts, including new phases of STaR, PIT revenue would have grown 4.0 percent annually over the same period.

**Business income taxes** include the general corporation tax, the banking corporation tax, and the unincorporated business tax. These three taxes will account for $2.6 billion or 12 percent of total revenues in 2001. That total represents a decline after a strong 2000, which largely is due to the impacts of recent changes in the tax code and a drop-off from the record profit levels earned in the securities industry in calendar year 1999. Business income tax revenues will increase at an annual rate of 3.7 percent through 2003 as a result of moderate economic growth.

**Sales taxes** apply to sales of goods and selected services. The 4 percent city tax will generate over $3.3 billion in 2001, nearly 16 percent of total tax revenues. By 2003, sales tax collections are projected to rise to almost $3.6 billion—an average annual growth of 2.3 percent over the forecast period. This reflects the permanent elimination on March 1, 2000, of taxes on the sale of clothing items costing under $110, as well as the impact of state utility deregulation on sales tax revenues. These policy impacts will leave sales tax revenue growth flat in 2001.

**Real Property Tax**

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 on the annual assessment roll), and the applicable tax rate.1

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

Because assessment rates and, to a lesser extent, tax rates vary from class to class, there are wide differences between the share of total market value in each class, assessed value actually subject to tax, and tax burden (levy). As shown in Figure 3-2, Class 1 homes account for 44 percent of market value in the city, but only 12 percent of assessed value and 13 percent of the tax levy. In contrast, the other three classes each account for greater shares of the assessed value than of market value, and therefore bear a disproportionately large share of the property tax burden.

**Outlook for Assessments.** IBO projects that total assessed value on the 2001 tax roll will grow by 4.1 percent from the 2000 roll. Because of limits in the tax code that prevent the city from immediately taking into account all of the appreciation in property values as the city’s economy expands, this assessment growth is slower than the increase in market values—particularly for Class 1 homes.

Assessment growth in both Class 2 (3.6 percent) and Class 4 (4.6 percent) will outpace the growth in Class 1 (3.0 percent). Among apartment buildings, assessed value of Manhattan rentals will show the
largest increase, rising 8.3 percent. For prime office buildings, the 2001 assessments will show a second consecutive year of significant increase (up 4.5 percent) in assessed value. Assessed value growth for the rest of Class 4 will be even higher (4.7 percent), fueled in part by the continued appreciation in the value of Manhattan hotels and retail properties.

**Revenue Forecast.** While the total value on the assessment roll is the key determinant in predicting revenues, other factors include the cost of tax abatements (which reduce property tax liability without lowering assessed value), delinquencies, collections from prior years, and refunds.

Several tax policy changes will affect property tax collections through 2003. Following current law, IBO assumes that the coop/condo tax relief program that was recently extended for two years (at a cost of $171 million in 2000) will expire at the end of 2001 and not be renewed. In addition, proceeds from the sale of tax liens, which had ballooned to $140 million in 1999 and $92 million in 2000, will be sharply lower in 2001 through 2003.

Property tax collections will also be affected by STaR, which reduces property taxes for homeowners statewide. We expect STaR to reduce city property tax receipts by $60 million in 2000, $99 million in 2001, and $142 million in 2002. The state will reimburse the city for these forgone receipts, however, so STaR has no impact on total city revenues.

After accounting for these factors, IBO projects that property tax revenues will be $8.0 billion in 2001, an increase of 2.8 percent over 2000. In 2002 and 2003, revenues will grow faster, increasing at an average annual rate of 5.6 percent.

**Property-Related Taxes**

**Commercial Rent Tax.** A series of tax policy changes in recent years have significantly altered the incidence of the commercial rent tax and reduced its revenues from over $700 million in 1994 to $345 million projected for 2000. The tax is now only assessed on commercial tenants with annual rents over $100,000 (with liability phased in for rents between $100,000 and $140,000) in Manhattan below 96th Street. In September 1998, the effective tax rate was reduced from 4.5 percent of annual rent to 3.9 percent.

Because rents paid by tenants who are still subject to the tax have risen rapidly over the last four years, with rent increases averaging 6 percent annually, commercial rent tax collections have remained relatively stable despite the recent tax cuts. For 2000, the first full year of the rate cut—costing the city an estimated $47 million—revenues will still grow by 3.5 percent from their 1999 level. In 2001 growth in commercial rent tax revenues is expected to continue, reaching $357 million. The growth in revenues will slow somewhat in 2002 and 2003, with revenues projected to reach $384 million in the last year of the forecast period.

**Transfer and Mortgage Recording Taxes.** The real property transfer tax (RPTT) and mortgage recording tax (MRT) are two closely related revenue sources, levied at opposite ends of residential and commercial real estate transactions. The RPTT is directly levied on the sale price and typically paid by the seller. The MRT is levied on the mortgage (sale price less the down payment) and paid by the buyer. While mortgage refinancings are subject to the MRT, they are exempt from the RPTT, as no transfer of property is involved.
Over the last fifteen years, revenues from these two taxes have shown a common trend. (See Figure 3-3.) Both declined following the 1987 market correction and the early 1990s economic recession and both are increasing in the current expansion. In 1999, both the MRT and the RPTT soared to record collections. The RPTT rose to $424 million, 48 percent above the 1998 level. The MRT shot up to $408 million, 78 percent more than in the previous year. This spike is primarily due to an unusual surge in commercial transactions, though collections from residential deals also posted above-average gains.

Looking forward, IBO expects the volume of commercial transactions to decline from its recent peak. As a result, receipts from the two taxes are projected to decline somewhat in 2000, with the RPTT falling to $404 million and the MRT falling to $368 million. Although the MRT will decline further to $362 million in 2001, the RPTT will rebound to $423 million. From 2002 on, we expect both of these revenue sources to grow, though more slowly than in the recent past. By 2003, the RPTT will reach $480 million and the MRT will rise to $396 million.

**Personal Income Tax**

New York City levies a personal income tax (PIT) on its residents and, until recently, on all non-resident commuters. For resident individuals, estates, and trusts, the tax is the sum of a base-rate liability plus a surcharge. The base rate is progressive, with higher incomes taxed at higher rates, and the surcharge equals 14 percent of the base liability. Resident taxpayers’ rates began to fall in 1999 due to the start of a three-year schedule of cuts in the base rates and the expiration of a second surcharge. For CY 2000, the top marginal tax rate is 3.78 percent, which joint filers pay on taxable income above $90,000 per year. The top rate kicks in at lower income levels for single and head of household filers.

Until the middle of 1999, commuters were taxed at a rate of 0.45 percent on wage income and 0.65 percent on net income from self-employment. The legal status of the city’s tax on the New York City earnings of non-resident commuters is now uncertain. In May 1999, the New York State legislature abolished the tax for commuters who live in New York State, effective July 1, 1999, though the legality of this action has been challenged by the city because it occurred without city legislative approval. Out-of-state

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**Figure 3-3**
Transfer and Mortgage Recording Tax Revenues Move Together

*Dollars in millions*

<table>
<thead>
<tr>
<th>Year</th>
<th>MRT (Actual)</th>
<th>MRT (Projected)</th>
<th>RPTT (Actual)</th>
<th>RPTT (Projected)</th>
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<td>$120</td>
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<tr>
<td>2001</td>
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<tr>
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<td>$240</td>
<td>$240</td>
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</tr>
</tbody>
</table>

Source: IBO.
commuters have also sued to extend the elimination of the tax to themselves. The legal status of the non-resident earnings tax will not be certain until these lawsuits are decided in court, though most observers believe the tax will be abolished for all commuters. The IBO forecast of PIT revenues, therefore, assumes the complete elimination of the commuter tax.

**Tax Policy Changes.** Although collections are expected to reflect the strength of income growth over the next few years, the growth in PIT revenues will be limited because of the likely elimination of the portion of the tax that falls on commuters. As illustrated in Figure 3-4, IBO estimates that complete elimination of the commuter tax would lower collections by $273 million in 2000, $430 million in 2001, $374 million in 2002, and $393 million in 2003.3

Even larger reductions in personal income tax revenue result from two other changes in the tax. Had a 12.5 percent surcharge not been eliminated in 1998, collections would be $733 million greater in 2000, the first year in which the full effect of elimination has been felt. The STaR program, which combines a 10 percent rate reduction with a flat $125 per household ($62.50 for single filers) refundable tax credit, will also have a significant impact on PIT receipts as the program phases in through calendar year 2001. IBO projects that STaR will reduce city personal income taxes by $253 million in 2000, $387 million in 2001, $544 million in 2002, and $562 million in 2003. Under the terms of the program, however, the city will be reimbursed by the state for these lost collections, so the program does not affect total city revenues.

Finally, since calendar year 1997, city residents who are proprietors or partners in businesses paying the city’s unincorporated business tax have been entitled to a partial credit against their PIT liability. As a result, city tax receipts will be $44 million to $49 million less each year.

**Revenue Forecast.** Strong local economic growth, a booming stock market, and a sharp increase in capital gains (profits realized from the sale of assets such as stocks or real estate) together caused personal income tax collections to mushroom by 37.5 percent from 1995 to 1999. This growth, however, will not be repeated in the next four years. Tax policy changes and, to a lesser extent, slower economic growth will cause PIT collections to fall by a total of 10.5 percent from 1999 to 2001, followed by 9.1 percent growth from 2001 to 2003.

For the current fiscal year, IBO projects that collections net of refunds will be $4.9 billion—$532 million or 9.8 percent less than in 1999. Without the STaR cuts and the elimination of both the 12.5 percent surcharge and commuter tax, however, PIT revenue would grow by 9.2 percent, somewhat less than the comparable 12.2 percent policy-adjusted growth in 1999. Local employment and personal income are both growing at slower rates than last year, thus constraining tax collections in the current year. PIT receipts, however, will be boosted in the latter part of the fiscal year by financial service firms’ year-end bonuses to employees, which initial surveys of firms indicate will be very generous this year.4

In 2001, PIT revenues will fall by $33 million—to $4.9 billion—due to even slower employment and

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**Figure 3-4**  
Commuter Tax Elimination Reduces PIT Receipts  
Dollars in millions

Legend
- IBO forecast of PIT revenues
- PIT revenues had commuter tax not been eliminated

Source: IBO.
income growth, a decline in capital gains realizations, and a greater loss of revenue due to STaR and commuter tax elimination. Adjusted for tax policy changes, we project a modest 2.2 percent growth in collections from 2000 to 2001.

This underlying growth picks up somewhat in the out-years, though in 2002 actual PIT collections are again constrained by the greater revenue loss from the last step in the STaR tax cut. Collections will increase 3.0 percent to $5.0 billion. In 2003, when all components of the tax policy changes have been fully phased in for at least a year, the growth in PIT receipts accelerates to 5.8 percent and collections reach $5.3 billion.

**Business Income Taxes**

**General Corporation Tax**

General corporation tax (GCT) payers must calculate their liabilities in three ways and then pay the greatest of the three calculated liabilities or a minimum of $300. About three-quarters of GCT revenue comes from a tax of 8.85 percent imposed on the portion of net income that corporations allocate to New York City. The other two calculations apply lower tax rates to (1) capital allocated to the city and (2) net income plus compensation paid to major shareholders. Audits add substantially to GCT revenue and are expected to yield $264 million in 2001.

**Tax Policy Changes.** The 1997 tax program made three changes in the GCT that are expected to reduce collections by $135 million in 2001. The largest reduction, $81 million, will come from the removal of compensation paid to corporate officers from the income plus compensation base of the GCT. The two other 1997 changes in the GCT allow some corporations—manufacturers and firms with no offices outside the city—to allocate less of their net income to the city. Together these changes will reduce GCT collections by $54 million in 2001.

New York State’s 1994 recognition of Limited Liability Companies (LLCs), a form of business organization that offers some of the benefits of incorporation, will continue to cut into GCT collections. The number of GCT taxpayers has been reduced as businesses have made increasing use of this form. The impact of LLCs on city GCT revenues has grown in recent years but is expected to level off in 2001 when it will equal $126 million, an 7.6 percent reduction in revenues. Some—but not all—of the lost GCT revenue will be offset by gains in the unincorporated business tax, which is imposed on LLCs doing business in the city.

**Revenue Forecast.** After rising 43.8 percent from 1995 to 1998, GCT revenues, along with the other business income taxes, declined in 1999. The increasing impact of LLCs and the 1997 tax reforms accounted for about half of the decrease. Also contributing to the decline were drop-offs in securities industry profits and the profits of U.S. corporations in general in calendar year 1998. Based on preliminary data, both of these underlying factors have bounced back and the GCT is projected to bring in $1.58 billion in fiscal year 2000, an 11.0 percent increase. As profit levels in the securities industry drop back to their 1990s average and the recent tax cuts finally reach their full impact, IBO forecasts an 8.0 percent decline in GCT revenues to $1.45 billion in 2001. IBO forecasts slow GCT growth after 2001, with revenues reaching $1.55 billion in 2003.

**Unincorporated Business Tax**

New York City levies a 4 percent tax on the income of unincorporated businesses (UBT) in the city, including partnerships, sole proprietorships, and limited liability companies. Until very recently, sole proprietorships constituted more than three-quarters of UBT payers, while over 80 percent of UBT revenue has come from partnerships. Recent tax programs, however, have permitted many smaller businesses to stop paying the UBT, and the mix of payers has been changing. The majority of UBT revenue comes from the legal services and financial sectors.

**Tax Policy Changes.** Escalating credits enacted in 1987, 1996, and 1998, have lowered or eliminated tax liability for many small businesses. A non-refundable credit, available to businesses with pre-credit liability below certain threshold levels, was increased in steps from $100 in 1986 to its current level of $1,800 in 1998. With the tax liability eliminated for many small firms, filing requirements were relaxed in 1997, so that many firms are no longer be required to file. Sole proprietorships, for example,
must file only if their taxable income is greater than $35,000. As a result of the relaxed filing requirements, the number of proprietorships—generally the smallest businesses—required to file UBT returns has been cut in half, from nearly 20,000 in 1996 to 9,100 in 1998 (see Figure 3-5).

Starting in 1996 UBT receipts were buoyed by the establishment of LLCs in New York State. This new group of UBT taxpayers will account for $56 million in UBT collections in 2001, and their impact will rise to $70 million by 2003. The impact of the LLCs more than offsets the cost of the credit increases provided in the 1996 and 1998 tax programs, which will total $45 million in 2001 and grow to $48 million in 2003.

**Revenue Forecast.** Between 1995 and 1998, UBT revenues grew a remarkable 77.1 percent, thanks largely to the booming securities industry. After a slight drop in UBT revenues in 1999 and a sharp increase in 2000, IBO projects UBT collections will total $742 million in 2001, a 0.3 percent decline from 2000, the result of an expected small decline in securities industry revenues. Slow but steady UBT growth is expected for the remainder of the forecast period, based on continuing strong growth in legal services, and more moderate growth in the securities industry.

**Banking Corporation Tax**

New York City imposes a special tax on banking corporations doing business in the city. Like the GCT, the banking corporation tax (BCT) requires three alternative calculations, including a 9 percent tax on net income allocated to the city. As with the GCT, audits add significantly to BCT revenues; $80 million in audits are expected in 2001.

BCT revenues have been volatile for decades. That pattern has continued in recent years, with the tax recording a 42.8 percent rise in 1998 and a 24.5 percent drop in 1999. The volatility stems from overpayments and underpayments based on losses or gains experienced in some years but not recognized until a year or two later. Other contributing factors are the underlying volatility of bank profits in this rapidly restructuring industry, the relatively small number of payers, and the reliance on one industry.

**Revenue Forecast.** The 24.5 percent drop in 1999 BCT revenues resulted from weak growth in bank earnings and the fact that much of the growth in 1998 resulted from underpayments in previous years. Growth in bank earnings was robust in calendar 1999, and that strength is reflected in the 11.0 percent growth in BCT collections expected in 2000. Continued earnings growth will push BCT revenues to $440 million in 2001 (an increase of 2.1 percent) and $465 million by 2003.

**Sales Tax**

The city’s tax on sales of goods and services has been 4 percent since July 1974. (The total combined 8.25 percent rate also includes a 4 percent state tax and a 0.25 percent public transportation surcharge.) The sales tax base exempts most food products, medical services and supplies, mortgage and rental payments, and interstate and international telephone services. Although most personal, professional, legal, business, and financial services are also exempt, services and utilities together still generate about 34 percent of total

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**Figure 3-5**
Fewer Proprietorships Filing UBT Returns

![Graph showing the decline in number of proprietorships filing UBT returns from 1996 to 1999.](chart)

Sources: IBO; NYC Department of Finance, Office of Tax Policy.
taxable sales in New York City. Retail sales currently generate about 45 percent, but that share will drop to 42 percent of total taxable sales after the clothing sales exemption is fully phased in.

City sales tax revenues are largely a function of household spending, with expenditures by businesses, commuters, and tourists also playing an important role. Household spending, in turn, is determined by disposable income and the level of consumer confidence.

**Policy Impacts.** The only significant sales tax policy change since the adoption of the 2000 budget was postponement of the start date of the permanent clothing tax cut (for items priced under $110) from December 1, 1999 to March 1, 2000, and the addition of another “tax free week” (for clothing priced under $500) in January 2000.

IBO estimates that postponing the permanent clothing tax cut will reduce its cost in 2000 from $164 million to $96 million, while the additional tax free week will cost about $8 million. Thus, sales tax revenues in 2000 will be $60 million higher than previously forecast as a result of the postponement.

The 2000 cost estimate for the permanent $110 cut reflects both the typical seasonal distribution of clothing sales and the likely substantial postponement of sales from February to March 2000 to take advantage of the exemption.

IBO estimates that the full-year impact of the clothing tax cut on city sales tax revenues will be $255 million in 2001, $262 million in 2002, and $272 million in 2003. These revenue impacts include the cost of the city’s reimbursement of the MTA for half of its sales tax surcharge revenue losses from the clothing exemption, about $3 million in 2000 and $8 million per year thereafter.5

The sales tax revenue forecast is also affected by the state’s utility deregulation. Under deregulation, major New York City customers are free to shop for electricity and Con Edison will transport whatever they purchase over its transmission lines. (The price of transportation, which is a major component of the overall energy cost, remains regulated.)

Electricity purchased from out of state providers, unlike energy supplied by Con Ed itself, is not subject to New York sales taxes, and under current law the energy transportation costs themselves would be tax-exempt if the energy was purchased out of state. However, the state is expected to close this loophole by administrative action so that as of April 1, 2000, Con Ed’s transmission charges will be taxable regardless of the source of the electricity. Although this adjustment has not yet been made, IBO’s sales tax forecast assumes that the loophole will be closed.

Closely following the Mayor’s Office of Management and Budget, IBO estimates that utility deregulation will (after closing the transportation loophole) reduce sales tax revenues by $40 million in 2000, $17 million in 2001, $55 million in 2002, and $71 million in 2003.
**Revenue Forecast.** IBO forecasts a rise in sales tax revenue to $3.3 billion in 2000, a 4.5 percent increase over 1999. The city’s exceptionally strong retail and service expansion would produce even stronger (7.7 percent) sales tax revenue growth in the current fiscal year if not for the permanent clothing tax cut and state utility deregulation.

In 2001, overall economic growth is expected to slacken. The full year cost of the clothing tax cut plus the utility deregulation impact will just offset the more moderate revenue increases generated by household and business spending, resulting in virtually zero net sales tax revenue growth for the year. Revenue growth is expected to average roughly 3.5 percent in 2002 and 2003, bringing annual collections to $3.6 billion in the latter fiscal year. (See Figure 3-6.)

**Other Taxes**

Other taxes will provide over $1.4 billion in revenues annually through 2003. These collections come from a variety of sources (such as taxes on hotel rooms, cigarettes, and utilities), payments in lieu of taxes, and revenues from tax audits. Most audit revenue is received from business taxpayers. Over two-thirds of each year’s roughly $475 million in expected audit revenue comes from Department of Finance audits of corporate taxpayers of the general corporation and banking corporation taxes.

**Non-Tax Revenues**

*Miscellaneous revenues* consist of nearly 300 different non-tax sources. These sources may be either recurring (such as licenses, permits, and fines), or non-recurring (such as airport back rent from the Port Authority). IBO projects that miscellaneous revenues will total $3.0 billion in 2001, about the same as in 2000, but then decline to $2.6 billion in 2003. As shown in Figure 3-7, over one-quarter, or $841 million, of all miscellaneous revenues in 2001 will be attributable to water and sewer charges.

Based on our review of the largest miscellaneous revenue sources, the inclusion of back rent continues to be problematic. Airport rent consists of two factors: prior year rental income and anticipated current year rent receipts. The collection of airport rent has been under arbitration for quite some time and there is little evidence to suggest that this issue will be resolved in the city’s favor. Accordingly, IBO’s revenue forecast entirely excludes contested rental income from past years. Moreover, we estimate that airport rental income will be $7 million in 2001 and each year thereafter.

Beginning this year and continuing indefinitely, the nation’s tobacco companies will pay New York City $200 million to $300 million annually as part of a major legal settlement to reimburse state and local governments for past health care expenditures due to tobacco-related illnesses. Over the next four years, the city’s Tobacco Settlement Asset Securitization Corporation (TSASC) is expected to sell $2.8 billion in bonds backed by this revenue stream to provide funding for the city’s capital program. TSASC will receive the settlement payments, service the tobacco bond debt, and then transfer the residual to the city’s operating budget where it will be categorized as miscellaneous revenue. Because the bonds are being sold in annual installments, debt service requirements will be relatively small at first and then increase gradually. The city expects residual tobacco settlement revenues of $252 million in 2000 and a total of $379 million between 2001 and 2003.
State and federal categorical grants, funds received from the state or federal governments to pay for specific expenditures, account for 30 percent of all funds spent by the city each year. IBO’s projections of these categorical grants are based upon currently enacted legislation and historical trends. We expect categorical grants from the state and federal governments to total $7.5 billion and $4.6 billion, respectively, in 2001.

State grants are forecast to grow at an average annual rate of 3.0 percent through 2003. Four agencies—the Board of Education (BOE), Department of Social Services (DSS), Administration for Children’s Services (ACS), and Department of Mental Health—account for almost 90 percent of state categorical aid. By far the largest share, almost 70 percent (or $5.2 billion), will go to BOE. We project that state grants to the Board will grow at an average annual rate of 3.7 percent through 2003. This forecast reflects continued growth in state educational formula aid, along with increased grants for universal prekindergarten and class size reduction. In contrast, state grants to DSS will decline slightly in 2001, due largely to reductions in welfare caseloads, but are expected to rise in 2002 and 2003.

Unlike state categorical grants, IBO projects that federal grants will decline through 2002, at an average annual rate of 0.2 percent. Over 75 percent of all federal grants are received by DSS, BOE and ACS. Grants to DSS will decline by 7.2 percent in 2001 and continue to decline, at a slower rate, through 2003 due to reductions in welfare caseloads. Starting in 2002, trends in federal and state public assistance grants will begin to diverge as Family Assistance recipients begin to reach the five-year limit and transfer to the non-federally funded Safety Net Assistance program. Between 2001 and 2003 the state share of public assistance costs will increase by $46 million, while the federal share will decrease by $117 million. In contrast, the average annual increase in federal grants to BOE and ACS will be 3.7 percent and 2.3 percent, respectively, over the 2000-2003 period.

All other non-tax revenues will total $1.1 billion in 2001, changing little each year thereafter. The largest component of other non-tax revenues is unrestricted intergovernmental aid, which includes $327 million in per capita state revenue sharing in 2001. Other non-tax revenue sources in 2001 are private categorical grants and inter-fund revenues, $284 million and $281 million, respectively.
Chapter 4. Spending Forecast

Introduction

In this chapter, we forecast spending for all city programs by assuming existing policies continue through 2003.

We have calculated future costs for most programs and agencies by adjusting current spending levels for inflation as well as for any pay raises currently scheduled or anticipated for city workers. For programs with costs driven principally by factors beyond the immediate control of the city—such as public assistance (caseloads) and education (enrollment)—we have developed our own models to predict future costs.

As illustrated in Figure 4-1, IBO projects that spending will increase by an average of 4.2 percent annually over the 2000-2003 period. After adjustments are made for surplus funds used for prepayments, spending growth averages 3.1 percent.

<table>
<thead>
<tr>
<th>Figure 4-1</th>
<th>IBO Spending Projections</th>
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<td>Dollars in millions</td>
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Source: IBO.
Note: Debt service projections and average growth rate do not correct for prepayment of debt; see text for details.
Nearly four-fifths of the city’s budget is used to pay for health and social services, education, uniformed services, and debt service.

**Health and social services** costs account for $10.4 billion, or 26 percent of 2001 spending, after adjusting for prepayments. This includes spending for Medicaid, public assistance, children’s services, health and homeless services. These costs will rise 2.4 percent annually over the 2000 through 2003 period.

Spending by the Department of Social Services is projected to grow 2.1 percent annually. This reflects a growth in Medicaid spending of 4.5 percent annually—from $3.0 billion to $3.5 billion due to continuing increases in long-term care and pharmaceutical costs—offset by slower growth or declines in other services. Public assistance spending declines 3.7 percent annually, from $1.5 billion to $1.3 billion, reflecting the declining caseload. Spending for other services, including those to the elderly, people with AIDS and victims of domestic violence, are projected to grow 2.6 percent annually.

The Administration for Children’s Services (ACS) is responsible for providing foster care, adoption, protective services, child care and child support enforcement services. In addition, ACS administers the federally funded Head Start program. ACS spending is projected to grow 3.0 percent annually, from $2.3 billion to $2.5 billion.

The services provided by the Health and Hospitals Corporation and the Departments of Health and Mental Health include public health programs, mental health services, and comprehensive medical services through 11 city-operated acute care facilities. Spending for these services is expected to increase 2.6 percent annually, from $1.7 billion to $1.9 billion.

The Department of Homeless Services provides food, shelter, clothing, and other services to homeless families and individuals. While the city still operates some facilities, homeless services are increasingly provided through not-for-profit organizations. Spending for these services is expected to increase 3.1 percent annually, from $442 million to $484 million.

**Education** will account for $11.5 billion, or 28 percent of spending in 2001, adjusted for prepayments. Spending by the Board of Education (BOE) will increase 3.7 percent annually, while city spending for the City University of New York (CUNY) will increase 1.4 percent annually over the 2000 through 2003 period.

BOE operates the city’s public school system, educating nearly 1.1 million students in over 1,100 elementary and secondary schools. BOE also funds some transportation and special education costs for pupils enrolled in private and parochial schools. BOE spending growth is attributable to increases in labor costs, the expansion of prekindergarten, the hiring of teachers to reduce class size, and K-12 enrollment that is expected to grow by 3,000 students per year.

The city and state fund six CUNY community colleges and associate degree programs at four CUNY senior colleges. The rest of the CUNY system—four-year degree programs at 11 colleges, plus graduate, law, and medical schools—is almost entirely state-funded.

**Uniformed services** spending will account for $6.1 billion, or 15 percent of spending in 2001, adjusted for prepayments. Spending for these activities will increase at an annual rate of 3.3 percent, due primarily to rising labor costs for police, fire, correction and sanitation workers. However, costs related to the closure of the Fresh Kills landfill drive the annual increase in sanitation spending to 4.5 percent.

**Debt service** (payments of principal and interest on money the city has borrowed) will be 9.5 percent of total spending in 2001, when adjustments are made for prepayments. On this basis, debt service costs grow 7.1 percent annually over the 2000 through 2003 period. As presented in Figure 4-1, without the prepayment adjustments, debt service spending grows 21.7 percent annually over the period.

**All other** costs make up the remaining $8.6 billion, or 21 percent of our 2001 spending forecast. One of the largest components of these costs is fringe benefits to city workers, which will cost $3.6 billion. (That figure excludes fringe benefits to Board of Education...
employees.) In addition, the city will contribute $1.2 billion to employee pensions. Lucrative investment earnings have led to pension savings; pension contributions decline 16 percent annually over the 2000-2003 period. This decline pushes the annual growth in all other costs down to 1.8 percent over the period from the 4.5 percent it would be exclusive of pension costs.

**Health and Social Services**

**Public Assistance**

The city continues to implement local welfare reform initiatives within the context of changes in federal and state welfare laws. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 replaced funding for a number of older welfare programs with the Temporary Assistance for Needy Families (TANF) block grant. It also imposed a five-year lifetime limit on families receiving federal cash benefits and mandated increasingly ambitious work quotas for adult family heads.

New York State’s 1997 welfare law—enacted in response to federal welfare reform—maintained a two-tiered system of public assistance that largely preserved prior benefit levels.

- Family Assistance is a cash benefit available to needy households with minor children. The program is funded with federal TANF funds and contributions from the state and city. Eligibility is limited in most cases to a cumulative total of five years.

- Safety Net Assistance (SNA) provides both cash and non-cash benefits to needy individuals, families reaching the Family Assistance time limit, and others ineligible for Family Assistance. The state and the city evenly share the costs of the program.

While fulfilling the requirements of these new laws, the city has pursued its own welfare reform initiatives. These efforts began in 1995 with programs that were designed to tighten eligibility screening and expand work requirements. More recently, the city has put greater emphasis on front-end diversion—the transformation of Income Support Centers into Job Centers, new job search requirements, and other mechanisms designed to greatly reduce the number of potential recipients who end up on the welfare rolls. Those actually receiving public assistance grants are subject to a policy of universal work, under which few recipients are exempt from a work requirement.

Together with continuing growth in the city’s economy, these local reform initiatives have significantly reduced public assistance caseloads. Between March 1995 and October 1999, public assistance rolls have declined 44 percent, from 1,161,000 to 645,000.

**Caseload Projections.** IBO projects that public assistance caseloads will continue to decline through 2001 and then level off for the remainder of the forecast period. (See Figure 4-2.)

The Family Assistance caseload will decline at a significant pace for the remainder of 2000 and into 2001, largely driven by the continued expansion of Job Centers and front-end diversion. While litigation has temporarily delayed this process, the remainder of the centers are expected to be converted during the next year. Adding to this downward pressure on the caseload is the federal prohibition against using TANF funds for assistance to immigrants arriving in this country after August 22, 1996. Finally, continued economic growth will also contribute to caseload declines. After 2001, IBO expects the downward trend to moderate as the new policies result in a Family Assistance caseload that is smaller but increasingly needy and difficult to place in private employment.

IBO projects that the five-year limit on TANF assistance will cause 53,000 individuals to lose eligibility for Family Assistance in January 2002, assuming that the state exempts the maximum number of households based on hardship. (If the state chooses not to do so, the number of recipients cut off from Family Assistance could total 149,000.) By January 2003 we project that the cumulative total number of individuals losing eligibility due to the five-year limit will reach 120,000, even after applying the state exemption.
IBO expects that the caseload for Safety Net Assistance will follow a different course, with caseloads rising sharply in 2002 and 2003. As was the case for Family Assistance, the continued expansion of front-end diversion is expected to exert downward pressure on the SNA caseload. However, two factors will act to offset this trend. Increasing numbers of newer immigrant families who are ineligible for Family Assistance under the federal law will move onto the SNA rolls. More significantly, beginning in January 2002 the state- and city-funded SNA rolls will expand rapidly as families begin to reach the five-year limit on eligibility for Family Assistance and shift to SNA.

**Spending Forecast.** We forecast that total public assistance spending by New York City will decrease from $1.5 billion in 2000 to $1.3 billion in 2001, driven by the declining caseload. The corresponding city share will decrease from $419 million to $386 million. In later years, while the total cost of providing public assistance is expected to stabilize at $1.3 billion, the city’s share of these costs will start to rise in 2002 as Family Assistance recipients begin to reach the five-year limit and transfer to the non-federally funded SNA program. Between 2001 and 2003, the city’s share of public assistance will increase by $46 million to $432 million.

**Medicaid**

Since its inception over 30 years ago, the Medicaid program has provided medical assistance for individuals and families with low incomes and few resources. Costs are shared by federal, state, and local governments, with NYC’s share totaling almost 20 percent. Many people eligible for Medicaid also receive Family Assistance, Safety Net Assistance, or federal Supplemental Security Income benefits. In New York City, the Human Resources Administration (HRA) serves as the primary administrator for the Medicaid program, although portions of the city’s Medicaid expenditures are reflected in both the HRA and the Health and Hospitals Corporation (HHC) budgets.

New York State and New York City recently completed negotiations with the Health Care Financing Administration (HCFA), the federal agency that administers Medicaid, for permission to implement a mandatory managed care program for much of the non-elderly population. A voluntary program, in place since the early 1990s, enrolled about 380,000 people, or 25 percent of the eligible population. During the Fall of 1999, the city began phasing in the mandatory enrollment, a process that will take several years to complete. While we do not expect managed care to result in significant, if any, Medicaid savings during 2000, savings will increase as enrollment phases in over the next few years. Overall Medicaid program costs should begin to decrease as managed care plans shift the emphasis away from more costly emergency care towards less expensive preventive medicine.

IBO forecasts that Medicaid spending by New York City will total $3.2 billion in 2001, a 4.1 percent increase from 2000. Growth will continue over the financial plan period at an average rate of 4.5 percent annually, reaching $3.5 billion in 2003. The forecast reflects continued high growth in long-term care costs and pharmaceutical expenses. It also assumes that the phase-in of managed care will not have its full impact until 2002. Finally, Medicaid eligibility, which has
declined from its peak of 2.0 million in 1995 to 1.8 million in 1999, is projected to remain at its current level for the next several years.

Figure 4-3 shows IBO’s forecast of total city Medicaid spending through 2003. The graph includes city payments made to HHC for Medicaid services, which reflect the medical services provided by HHC facilities to the city’s Medicaid enrollees. Correspondingly, the HRA portion of the city’s Medicaid budget covers all services provided by non-HHC facilities. The sum of the two reflects the city’s total responsibility for Medicaid spending on behalf of all the city’s Medicaid enrollees.

![Figure 4-3 Growth in Medicaid Spending Increases Steadily](chart)

Sources: IBO; Health and Hospitals Corporation.

**Early Childhood Initiatives.** BOE is gradually implementing initiatives to reduce class sizes to an average of 20 students in kindergarten through grade 3 and to make prekindergarten classes available to all four-year-olds. IBO’s spending forecast assumes that BOE will be able to offer prekindergarten to all eligible children by 2002 and that BOE will achieve the 20 students per class average by 2003. In the current year, BOE is receiving $111 million in state grants for these programs and $61 million in federal aid for class size reduction. Our spending projections include large increases in state and federal aid currently scheduled for these early childhood programs. Should the state and federal governments not deliver the expected aid increases, the city would either have to provide more local funding or scale back some of the goals.

**Pay-As-You-Go Capital.** BOE faces daunting capital needs with three-fifths of its students attending overcrowded schools and many school buildings outdated and in poor condition. School construction and repair is generally funded through the city capital budget but during the current school year BOE has begun funding some capital projects from its operating budget (pay-as-you-go capital). Consistent with the city’s financial plan, IBO’s spending projections include $150 million in pay-as-you-go capital for education in 2000, $70 million in 2001, $75 million in 2002, and $80 million in 2003.

**Recent Spending Trends.** BOE spending has increased rapidly over the past few years, driven by the addition of thousands of teachers (see box on page 29 for details). From 1997 to 2000, spending has grown at an average annual rate of 9.6 percent (see Figure 4-4). Enrollment increases—which averaged nearly 20,000 K-12 students per year from 1990 to 1997—have since moderated, averaging 3,000 students annually. This combination of rapid spending growth and more moderate enrollment growth has boosted per pupil spending from $7,540 in 1997 to $8,814 in 1999 and a projected $9,652 in 2000.

**Spending Forecast.** We estimate that BOE will spend $11.0 billion in 2001 and spending will grow at an average annual rate of 3.7 percent from 2000 to 2003, reaching $11.9 billion in 2003. This projected growth reflects the combined impact of rising labor

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**Education**

**Board of Education**

The Board of Education (BOE) operates the largest public school system in the nation, providing general and special education instruction for 1.1 million students. The city funds 42 percent of the BOE budget while the state contributes 47 percent and the federal government the remaining 11 percent. The Board’s budget has grown sharply in recent years in an effort to raise standards and student achievement. With several major initiatives still being phased in, spending growth is expected to continue.
costs, expansion of prekindergarten, hiring of teachers to reduce class size, and increasing K-12 enrollment, which is expected to continue growing by 3,000 students annually.

With nearly half of the hiring needed for class size reduction expected to be completed by the end of the current year, IBO is projecting much more moderate spending growth in 2001 and beyond than indicated by recent history. There are factors, however, that could easily boost spending at a faster rate. Meeting stricter promotional standards and strengthened Regents graduation requirements may require resources above and beyond levels currently planned. Teacher salaries could rise faster than we anticipate, due to an increasingly tight education labor market. In addition, the pressure to constrain borrowing as the city approaches its debt limit (see page 32) may lead BOE to commit more of its operating budget to capital projects.

City University of New York

CUNY is the largest urban university in the nation with over 190,000 students in degree programs. Over 60,000 of these students attend community colleges that receive significant city support.

**Spending Forecast.** IBO projects that CUNY will spend $425 million in 2001 and spending will rise at an average annual rate of 1.4 percent over the 2000-2003 period. This forecast of slow spending growth is primarily attributable to the city’s decision not to fund wage and salary increases negotiated with unionized community college employees. Accordingly, IBO’s forecast does not include spending growth due to city-funded labor costs. CUNY, however, will have to cover these mandatory costs by securing funding from other sources, raising tuition, cutting services, or increasing productivity.

A major source of uncertainty in IBO’s forecast of CUNY spending is the fiscal impact of new restrictions on senior college admissions. This could shift many students with remedial needs from the senior colleges to the community colleges, thereby increasing the burden on the city.
New Initiatives Drive Teacher Hiring in NYC

Although K-12 enrollment growth has slowed in the last three years, New York City’s public schools are hiring new teachers and other pedagogical staff at a rapid rate. The current increase in BOE hiring is part of a trend that began in earnest in 1998. While some of the recent hiring reflects an effort to simply catch up with the explosive enrollment growth that occurred in the early- and mid-1990s—an effort made possible by recent increases in resources available to the Board—much is attributable to initiatives spurred by state and local pressure to raise student performance.

Since 1997, the Board has undertaken a number of instructional initiatives that have boosted hiring; several of these initiatives are still being phased in. Class size reduction began in the current school year and universal prekindergarten began last year. Other initiatives include Project Arts (which began in 1998), Project Read (1997), Project Smart Schools (1998), and mandatory summer school to prepare students for stricter promotion standards (summer 1999). Overall, full-time pedagogic staff has grown from 80,900 positions in 1997 to 89,200 positions in 1999; IBO expects it to reach 94,500 positions by 2001. This projected teaching staff growth of 17 percent from 1997 to 2001 far outpaces K-12 enrollment growth of 1 percent during that period.

Several initiatives to reduce class sizes account for most of the new teachers being added in the current year. BOE has begun using federal and state funding to move toward a target average class size of 20 in grades K-3. Class sizes are also being lowered to 20 in the fourth and fifth grades in 28 elementary schools that have been taken over directly by the Chancellor because of poor performance. BOE has also allocated $55 million annually, beginning in 2000, to hire teachers to reduce class size and extend the school day for middle and high school students at risk of not meeting promotion standards. IBO estimates that 3,577 teaching positions will be added in 2000 to implement these various initiatives, with a total of 4,421 new positions by the end of 2001.

Universal prekindergarten, now in its second year of phased implementation, has made a smaller but still significant contribution to the growing headcount. Despite the ambitious scale of the initiative, BOE staffing requirements are modest because community-based providers rather than BOE schools are serving the majority of students in the program. Nevertheless, IBO estimates that BOE will add over 500 prekindergarten teachers between 1999 and 2001.

It is likely that teacher headcount will continue to grow faster than enrollment in the future, given the planned continuation of the initiatives discussed above, the need to help students meet new Regents graduation standards, and additional efforts to end social promotion.
Uniformed Services

Police

The city’s financial plan calls for maintaining police staffing at the current (and historically high) level of 40,210 uniformed personnel through 2003. However, the 25 percent build-up in the size of the city’s force since 1990 was funded in large part by dedicated city and federal revenue sources which have either already been eliminated or are scheduled to expire next year. As a result, the city’s plan to maintain police staffing at its current level requires that other general fund revenues be utilized to make up for lost dedicated revenue streams.

The first lost revenue source, a 12.5 percent surcharge on the city’s personal income tax (PIT), was enacted in 1991 (along with a property tax increase) as a key component of the Safe Streets, Safe City initiative. The surcharge was allowed to expire in December 1998. The Safe Streets program included a build-up in the size of the police force as well as a number of other anti-crime efforts. About 38 percent—or $185 million—of the 1998 surcharge revenue was dedicated to a special criminal justice account, and the balance was credited to the city’s general fund with the general stipulation that it be applied to “criminal justice and fire protection services.” The surcharge revenue directly earmarked for criminal justice spending in 1998 was sufficient to fund about 3,700 police officers. Since then, these officers have been funded with other general fund resources.

The second (and soon to expire) revenue source is federal crime bill funding the city has been receiving since 1997 to cover a portion of the salary costs of thousands of uniformed police personnel. Federal funds received by the city for this purpose rose from $23 million in 1997 to a peak of $79 million in 1999, with $63 million in such funding anticipated this year. Beyond 2001, however, these federal funds are scheduled to fall to zero, with the city committed by the terms of the federal grant to dedicate additional local resources to maintain total staffing at 40,210 at least through 2002. The current financial plan calls for utilizing other city general fund revenues to compensate for declining federal funding of police personnel.

Spending Forecast. Assuming no change in the current force size, we estimate that NYPD spending will increase by an average of 3.3 percent annually, rising from $3.0 billion in 2000 to about $3.4 billion in 2003. This increase is due primarily to salary increases we anticipate to result from the upcoming round of collective bargaining. Due to scheduled expiration of federal funding for police officers, the city’s share of total NYPD spending will grow from about 97 percent this year to 99 percent by 2003.

Department of Sanitation

The closure of the city’s only remaining landfill in January 2002 is requiring the Sanitation Department to prepare for waste export outside the city and is a major force in driving the Department’s budget over the next five years. With only 20 percent of the city’s waste stream destined for Fresh Kills in 2001 and none in 2002, the city must enter into expanded multi-year contracts with landfills and other disposal facilities elsewhere. In the current fiscal year, the Department began the export of refuse by truck from Manhattan to several sites in northern New Jersey through the Lincoln and Holland tunnels and across the George Washington Bridge, and from Staten Island to New Jersey. The Department also entered into export contracts for the Bronx in fiscal year 1998 and expanded export more recently in parts of Brooklyn and Queens.

Trash can be exported by truck, barge, or rail. Truck transfer stations within the city allow trash to be unloaded and reloaded onto larger trailer trucks in preparation for export. Each of these alternatives may require: 1) entering into multi-year contracts with private firms operating disposal sites outside the city or loading facilities within city limits; 2) complex evaluation of cost and environmental impacts of alternative scenarios; and 3) extensive political consultation with affected neighborhoods. In general, there is substantial political opposition to each alternative to transporting garbage out of the city limits. There is opposition to using regular garbage trucks because of their traffic impacts. Opposition is also strong to siting additional truck transfer stations, or operating existing ones at higher capacity, as these facilities are currently concentrated in just a few neighborhoods with little tolerance for further traffic, noise and odor problems.
There is greater political support for marine transfer of garbage by barge—the system currently used to dispose of trash at the Fresh Kills landfill. However, no arrangements have yet been made to use marine transfer for export, and such an arrangement would require agreements with barge-fed disposal sites or barge-fed rail loading facilities, or possible upgrading and expansion of the city’s existing marine transfer stations. Rail export is also a possibility from a site in the South Bronx but empty trash trailer containers have to be returned rapidly for reloading if such a site is to operate effectively, and containers may have competing uses by the rail companies that own them. Another site on Staten Island would provide both barge and rail loading capabilities, but political considerations have ruled this out. In summary, it remains unclear whether any solution other than truck export will be found, at least in the near term.

Finally, some receiving jurisdictions for New York City’s refuse have indicated their opposition, especially in Virginia and most recently in New Jersey. While this opposition cannot legally prevent agreements between New York City and disposal site companies, it is one more factor complicating a difficult transition.

**Spending forecast.** Spending is projected to grow 4.5 percent annually, from $852 million in 2000 to $972 million in 2003. This is driven in large part by disposal costs, which will increase rapidly as a result of waste export. Disposal costs are projected to increase 21 percent annually, from $115 million to $201 million. Other Department spending, such as refuse collection and street cleaning, will increase 1.5 percent annually.

**Debt Service**

The city issues bonds to pay for new construction and the physical improvement of schools, roads, and other public facilities. Debt service is the repayment of these borrowed funds.

Three kinds of debt have a direct claim on New York City tax revenues: General Obligation (GO), Municipal Assistance Corporation (MAC), and Transitional Finance Authority (TFA) debt. GO debt is financed by the broad taxing powers of the city government and is subject to a New York State constitutional debt limit. MAC debt was first issued in 1970s, when the city’s access to credit markets was curtailed by the fiscal crisis. More recently, the primary role of MAC has been to service its bond portfolio; the agency no longer issues debt to finance the city’s capital program. MAC debt service is paid from city sales tax collections. The TFA was created in 1997 as an alternative source of capital as the amount of GO debt outstanding approached the debt limit. Unlike debt service for GO and MAC, TFA debt service is not technically paid from the city’s general fund. Its bonds are backed by city personal income taxes, which are collected by the state and made available to the TFA for debt service.

The city excludes TFA debt service and the tax revenues that fund it from the operating budget. This practice presents an incomplete picture of city revenue and spending, and makes comparisons of debt levels and debt service over time more difficult. Accordingly, IBO will continue to include TFA debt in our analysis of the city’s tax-supported debt burden. A more complete accounting would also include borrowing by the city and its subsidiaries funded with other non-tax revenue streams, such as debt being financed by tobacco settlement payments and Water Authority debt.

**Spending Forecast.** Total debt service payments have been absorbing an increasing share of city tax revenues since 1990 and are projected to continue growing faster than taxes through 2003. Debt service trends have been obscured, particularly in recent years, by the use of surpluses to prepay debt service due in the following fiscal year. Prepayments move debt service burdens between fiscal years, increasing the total costs of debt service in some years and lowering them in others. For example, consistent with the city’s traditional practice, IBO assumes that the expected 2000 surplus will be used to prepay $1.4 billion in debt service scheduled for 2001. These impacts have been reversed in Figure 4-6, which shows prepaid debt service in its originally scheduled year.

The rising ratio of debt service to tax revenues—from 11.0 percent in 1990 to a projected 18.0 percent in 2001 and 18.3 percent in 2003—is attributable to
several factors. New borrowing for capital spending rose from an average of $1.1 billion per year in the 1980s to $2.8 billion in the 1990s, an increase of almost 75 percent even after adjusting for inflation. In addition, refinancings of existing debt that initially saved the city an average of $170 million per year over the 1987–1995 period have raised average debt service by $200 million per year from 1996 through 2007. At the same time, tax revenue growth has been constrained over the past decade by the failure of some taxes (especially property tax) to keep pace with the economy, and for the next few years growth will continue to be relatively modest due to the cumulative impact of tax cuts.

The sharpest increase in debt service over the forecast period occurs in 2001, when TFA debt service will double and total debt service, after accounting for prepayments, will reach $3.9 billion, an 11.1 percent increase over 2000.

The ratio of debt service to tax revenues is projected to rise more slowly after 2001, primarily due to the use of a new source of capital financing that is not supported by city tax revenues. Instead, the stream of revenues resulting from the tobacco settlement supports this new borrowing. Tobacco bonds will provide the city with $2.4 billion of capital financing from 2000 to 2003 (see discussion of non-tax revenue on page 21).

**Debt Limit.** In recent years, the rapid increases in debt service have received less attention than the institutional limits on the city’s ability to borrow. The constitutional debt limit is set at 10 percent of the market value of the city’s taxable real estate over the most recent five-year period. A steep run-up in market values doubled the debt limit between 1989 and 1994. This run-up was followed by a precipitous fall—from $55 billion in 1994 to just over $30 billion in 1998—that led to the creation of the TFA, which first issued debt in 1998. The plunge in the debt limit has also led to calls for amending the state constitution with a newly defined debt limit that better reflects the city’s ability to raise revenues from its broad array of taxes. Absent constitutional change, the city’s ability to borrow would increase if the state legislature increased the TFA authorization. Although the TFA’s agreement with its bondholders permits the authority to issue up to $12.0 billion of debt, the state authorized the TFA to issue only $7.5 billion. The state legislation that created the TFA could be amended to add $4.5 billion to the city’s effective capacity to issue debt.

While a new debt limit could ease the institutional obstacles blocking the city’s access to borrowed funds, the increasing share of city revenues demanded by debt service would remain a concern. In his annual report on capital debt and obligations, the City Comptroller recommended reducing the debt burden by making more use of pay-as-you-go financing (using cash rather than debt to finance capital projects). While the question of how much debt is too much remains unresolved, using 18 percent of tax revenues for debt service is troubling to many observers.

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**Figure 4-6**

*Debt Service Rising*

*Debt service as a percentage of tax revenues*

Legend: **MAC** | **GO** | **TFA**

Source: IBO.

Note: Prepaid debt service shown in originally scheduled year.
Supplementary Information on City Labor Costs

**Total Personnel Costs.** Roughly one-half of the city’s budget is used to pay the salaries and fringe benefits of its employees. Salaries account for about three-quarters of personnel costs while fringe benefits (including pensions) make up the remainder. The rate of increase in total personnel costs will be held down, to some extent, because pension contributions are forecast to decrease through 2003. IBO projects that personnel costs will rise at an average annual rate of 2.4 percent over the next several years, reaching $21.3 billion in 2003. Excluding payments made for pensions, personnel costs are expected to grow at an annual rate of 3.5 percent.

**Salaries.** As illustrated in Figure 4-7, the average salary of a city employee, excluding fringe benefits, was stable from 1995 through 1997, but has since begun to rise and will continue to climb through 2003. This trend results from the way collective bargaining agreements covering the 1995-2000 period were structured. No increases in base salaries were included in the first two years but significant raises were provided in the last three years.

In order to develop a realistic measure of the city’s long-term fiscal condition, IBO assumes that city workers will receive raises after existing labor agreements expire in 2000 and 2001. For purposes of this exercise, we have assumed annual increases will equal the projected rate of inflation; however, the actual amount of any raises will probably be different. The cost to the city of adjusting city-funded salaries for inflation is projected to be $254 million in 2001, $558 million in 2002, and $912 million in 2003.

**Overtime.** Overtime costs are affected by many factors including collective bargaining agreements, management initiatives, planned events, and emergencies. Although the city has taken steps to reduce overtime expenditures, management initiatives related to public safety and unforeseen agency needs have resulted in steadily rising overtime expenditures since 1995. Moreover, the city has historically underfunded overtime, resulting in the need to increase overtime allocations during the year by modifying the budget. As illustrated in Figure 4-8, actual overtime expenditures exceeded the adopted levels in each of the last 10 years.
IBO projects that pension costs will total $1.2 billion in 2001, a decrease of 4 percent from 2000. These costs will continue to decline to $948 million in 2002 and $764 million in 2003. This decrease is the result of better than expected earnings of pension investments the city has recognized in recent years coupled with the assumption that these earnings will be used to reduce future pension contributions.

Endnotes

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

2 Because the 14 percent surcharge has already been renewed three times by the state, IBO’s forecast assumes its continuation.

3 The timing of the fiscal impact among the different years is sensitive to when the status of the commuter tax is ultimately decided in court. While we assume there will be legal resolution in the coming months, our estimated fiscal impacts are premised on a scenario in which many refunds related to calendar year 1999 liabilities, especially for out-of-state commuters, are not made until after the end of fiscal year 2000.

4 Employees will receive 1999 year-end bonuses mostly in the December 1999 through February 2000 period. Because a disproportionate number of highly compensated financial service employees are commuters no longer subject to the non-resident PIT, the boost to revenue from bonus money will be less than in previous years.

5 The extent to which clothing sales tax cuts stimulate additional spending and increase other city tax revenues was examined in IBO’s fiscal brief, Would Clothing Sales Tax Cuts Pay for Themselves? (IBO, June 1997). This analysis will be updated in IBO’s report on the 2001 preliminary budget to reflect the changed coverage of the tax cut and the retention of local clothing taxes in surrounding New York counties.

6 The State of New York recently expanded eligibility for Medicaid for uninsured adults as part of the Health Care Reform Act 2000, which will likely increase local government expenditures. However, the magnitude of the impact is not yet clear. Given this uncertainty, no adjustments have been made to the projections to reflect the new legislation.